

E Cooperative approaches to promoting SME participation in trade

The previous sections of this report identified the benefits that SMEs derive from participating in international trade (Section C) and the obstacles they face (Section D). This section discusses existing international cooperative approaches that directly or indirectly facilitate SMEs' participation in trade. These include SME-related initiatives in regional trade agreements (RTAs), in regional institutions (e.g. the African Development Bank) and in multilateral institutions (e.g. the World Bank), as well as in the WTO.



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Some key facts and findings

- Reference to SMEs in RTAs has increased over the years. Almost half of the notified RTAs currently in force include at least one provision relating explicitly to SMEs.
- The importance and scope of SME-related provisions has also increased in recent years. The two most common categories of SME-related provisions are cooperation activities and exemptions for SMEs from certain provisions of the RTA.
- Although SMEs are not always specifically mentioned in WTO Agreements, multilateral rules have the effect of levelling the trading field, alleviating some major constraints faced by SME traders and thereby fostering SME participation in international trade.
- Multilateral rules reduce both the variable and fixed costs of trade that hinder SMEs from entering foreign markets. Since the establishment of the WTO, members have successfully reduced average MFN applied tariffs to an average of 9 per cent, representing a cut of nearly a third since 1998. The SPS and TBT agreements, among other WTO Agreements, include information-related provisions that reduce the fixed costs of accessing foreign markets and thereby help smaller firms.
- WTO rules include a number of flexibilities that, in a similar fashion to the exemptions included in RTAs, address the public policy concerns of governments wishing to support SMEs. They make it easier for a member to exercise its rights when it acts on behalf of SMEs; allow them to continue providing financial contributions to SMEs; give members greater leeway to promote the technological development of their SMEs; and allow members to provide preferential treatment to their SMEs.



This section is organized as follows. Section E.1 seeks to answer why governments intervene to support SMEs and include provisions on SMEs in trade agreements. Section E.2 analyses how RTAs have addressed the issue of SMEs. This is followed, in Section E.3, by a discussion of the activities of international organizations that are active on the SME front. Section E.4 then examines how the issue of SMEs features in WTO agreements, work programmes and technical cooperation activities. Section E.5 concludes.

1. Why support SMEs and seek to cooperate on them in trade agreements?

This section begins by asking two questions. First, why would governments intervene to support their SMEs? Second, what reasons are there for countries to cooperate on SMEs and in particular in the context of trade agreements?

To answer the first question, there are at least two motivations for government intervention and support. One involves the belief that supporting SMEs will improve the distribution of income, although it is fair to point out that some researchers find no evidence that the existence of a large number of SMEs in a given economy alleviates poverty or decreases income inequality (Beck et al., 2005). The second involves the view that certain market failures more adversely affect SMEs and require public intervention.

To take one example of market failure, credit markets are prone to imperfections where lenders do not have good information about borrowers (e.g. asymmetric information), particularly if the enterprises concerned are small and have no track record (van der Schans, 2012). Some lenders try to get around the problem of information asymmetry by imposing collateral requirements on borrowers. However, this is unlikely to work for SMEs that have few assets to begin with. As a result, smaller enterprises struggle to obtain financing to meet their working capital requirements or to expand the scale of their production. Many governments in both developing and developed countries attempt to remedy the consequences of this market failure by establishing credit facilities dedicated to SMEs.¹

Small firms often lack the resources, scale, experience or wherewithal to stay abreast of the latest emerging technologies, manufacturing processes, or business management practices (Ezell and Atkinson, 2011). In principle, the “market” — in this case the business services sector — can provide valuable information and advisory services to SMEs.

However, a number of factors are likely to raise hurdles to the ability of the market to respond. For example, the extent or scale of the needs of an SME may not be known in full by a provider of business services. Alternatively, the SME may not have complete information about the available business services in the market. Other hurdles include adverse selection, presence of public goods, presence of mixed goods (a partly public and partly private good) and externalities (Atherton et al., 2002). These failures justify the government’s provision of “extension services” to their SMEs, to train them on innovation, how to develop new products, and how find new customers and new markets (Ezell and Atkinson, 2011).

Markets may be imperfectly competitive, where a few large enterprises dominate, while small firms occupy the fringe. Ideally, governments should use competition policy tools to curb anti-competitive practices, but some countries, especially developing ones, may not yet have the legislation and institutional capacity to effectively use these instruments.² In cases like these, SME support programmes act as an imperfect substitute for competition policy by tilting the conditions of competition in favour of the smaller enterprises.

A major problem that plagues developing countries is unemployment and underemployment, leaving a large fraction of their labour force not productively utilized. This represents a huge waste of human resources that governments in poor countries may be unable to tackle effectively because they lack the appropriate policy tools. In industrial countries, there is often an array of policy instruments available — from macroeconomic policies to education and skills enhancement programmes — to boost employment. Given that SMEs are a large source of employment, SME support policies act as (second-best) policy responses to acute employment challenges in the face of a scarcity of good policy instruments.

Because SME support programmes respond in part to underlying market failures, the governments concerned have a reason to want to preserve them even if they sign up to international agreements.

Moving on to the second question, at present the literature on trade agreements provides us with at least three explanations for why countries need to cooperate on trade policy. It enables countries to avoid terms-of-trade wars (Bagwell and Staiger, 2003); it provides weak governments with a means to overcome domestic opposition to trade reforms (Maggi and Rodriguez-Clare, 1998); and in some cases it may help solve a coordination problem (Hoekman, 2014). There are papers that look at the implications of firm heterogeneity for trade policy and international trade

cooperation (see Box E.1 for a short survey). This literature can provide some insights into why countries cooperate on SMEs in trade agreements. As shall be documented in Section E.2, more and more regional

trade agreements now include provisions on SMEs. Hopefully, this trend will fuel interest in the question so that trade theorists devote more attention to the issue in the future.

Box E.1: Firm heterogeneity, optimal trade policy and trade agreements

Trade theorists have begun to look at the implications of firm heterogeneity for a country's trade policy (Demidova and Rodriguez-Clare, 2009; Ossa, 2011; Felbermayr et al., 2013; Costinot et al., 2015). Given that firm productivity is correlated with firm size, this literature may provide some insights, albeit indirectly, on the reasons for cooperation on SMEs in trade.

It is useful to summarize the reasons why a welfare-maximizing government might be led to impose a tariff on imports (the *optimal tariff*). In the standard perfect competition and constant returns to scale model of trade, countries impose protection to capture terms-of-trade benefits (Johnson, 1953). If one allows for imperfect competition and increasing returns to scale, as in the new trade theory, welfare-maximizing policy-makers have two additional reasons to want to erect barriers against imports: (i) they can induce additional entry or supply that leads to lower prices in the tariff-imposing country (Venables, 1987), and (ii) they can reduce the wedge between price and marginal cost (the mark-up) created by imperfect competition (Flam and Helpman, 1987). The first effect comes from increasing returns to scale in production so that any perturbation that increases the volume of production in a given country, such as the imposition of a tariff on imports, can lead to *lower* prices. The second effect, the reduction in the mark-up or in the market power held by domestic firms, occurs because the tariff leads to a switch in demand to domestic varieties even though their prices may remain fixed.³

How does the existence of firm heterogeneity affect these various motives to increase the level of protection? To put it simply, one must work out how productivity and selection effects interact with the three motivations for protection (terms of trade, entry and mark-up). Demidova and Rodriguez-Clare (2009) show that, with firm heterogeneity and selection, the mark-up and entry motives lead to a higher optimal tariff. Felbermayr et al. (2013) show that by combining all three motivations, the optimal tariff will be higher in a world where firms are more heterogeneous and self-select than in a world where firms are more similar. Furthermore, the magnitude of the optimal tariff is positively related to a country's relative size as well as to relative average productivity, so small and poor economies set lower optimal tariffs than large or rich ones. Lower transportation costs or smaller fixed market entry costs also induce higher tariffs.

While this discussion offers no explanation for why cooperation in SMEs should be inscribed in trade agreements, one implication that deserves to be highlighted is that the authors see the WTO as even more important in a world characterized by firm heterogeneity.

These answers are obtained in a very specific environment: constant elasticity of substitution utility functions, fixed costs of exporting that are constant across firms, firm-level productivity that has a Pareto distribution and trade taxes that are uniform across firms. Costinot et al. (2015) relax all these assumptions and derive almost the opposite conclusions. The optimal tariff, on average, is lower with firm heterogeneity and selection. Perhaps more strikingly, if a country is allowed to apply firm-specific tariffs, the optimal tariff *schedule* would be one that applies a lower tariff rate on less productive firms, which, given the positive correlation between productivity and firm size, one can assume to be SMEs. This reflects the importing country's need to promote the entry of unproductive foreign producers (since variety increases consumer welfare), who, if they were to face the same tariff, would prefer not to export at all.

The result is intriguing because it suggests that a country would find it optimal to give more favourable treatment to foreign goods produced by less productive or small and medium-sized firms. While the paper's result is confined to tariffs, it might apply more generally to other trade policy instruments and rules.

The answer to the question of whether firm heterogeneity leads to a higher optimal tariff appears to be sensitive to the specification of the trade model. More analytical work is needed in the future to help differentiate robust from non-robust outcomes.

2. SMEs in regional trade agreements

Trade agreements, including RTAs, can benefit SMEs by reducing or eliminating tariff and non-tariff barriers, simplifying customs procedures, promoting electronic commerce (e-commerce), and enhancing the transparency of trade-related domestic regulation. Yet the literature is silent on the different approaches adopted to explicitly address SMEs in RTAs.⁴ This subsection aims to fill this gap by identifying both commonalities and the differences involved in addressing explicitly the issue of SMEs in RTAs.

The following analysis covers the 270 RTAs currently in force that were notified to the WTO between 1957 and May 2016 under Article XXIV (“Territorial Application – Frontier Traffic – Customs Unions and Free Trade Areas”) of the General Agreement on Tariffs and Trade 1994 (GATT 1994), the Enabling Clause (officially called the “Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries” and adopted under the GATT in 1979), Article V (“Economic Integration”) of the General Agreement on Trade in Services (GATS) or the Transparency Mechanism for Regional Trade Agreements.⁵ The main text of the

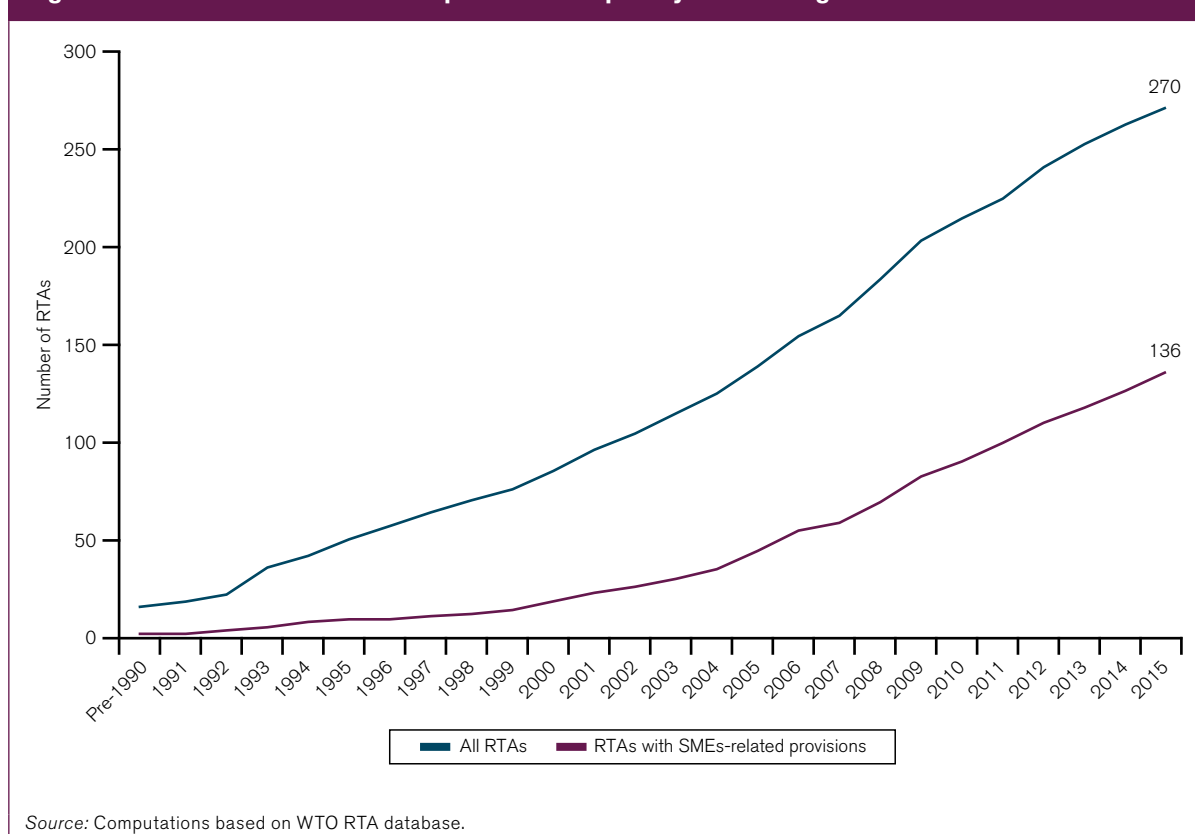
RTAs, but also a number of side documents, such as protocols, annexes, communication letters and other documents associated with the RTAs, have been considered in the analysis.

Unless specified otherwise, SME-related provisions are defined as any provisions mentioning explicitly micro, small and medium enterprises (MSMEs). The following keywords have been used to identify SME-related provisions: small, medium, micro, SME, and start-up. In addition to SME-related provision, there are many provisions in RTAs potentially relevant to SMEs, even though these provisions do not make explicit reference to SMEs. Some of the provisions relevant to SMEs will be discussed in Section E.2(b), which presents the typology of SME-related provisions.

(a) Overview and trends of SME-related provisions

As highlighted in Figure E.1, the number of RTAs with SME-related provisions has increased steadily since the late 1990s and early 2000s. As of May 2016, 136 RTAs, representing half of all the notified RTAs, have included at least one provision explicitly mentioning SMEs. This trend mirrors the expansion of RTAs in the last 25 years, both in terms of number and

Figure E.1: Evolution of RTAs with provisions explicitly mentioning SMEs



scope (WTO, 2011). While only 17 RTAs entered into force between 1970 and 1990, RTAs have proliferated between 1990 and May 2016 with the entry into force of 256 RTAs.

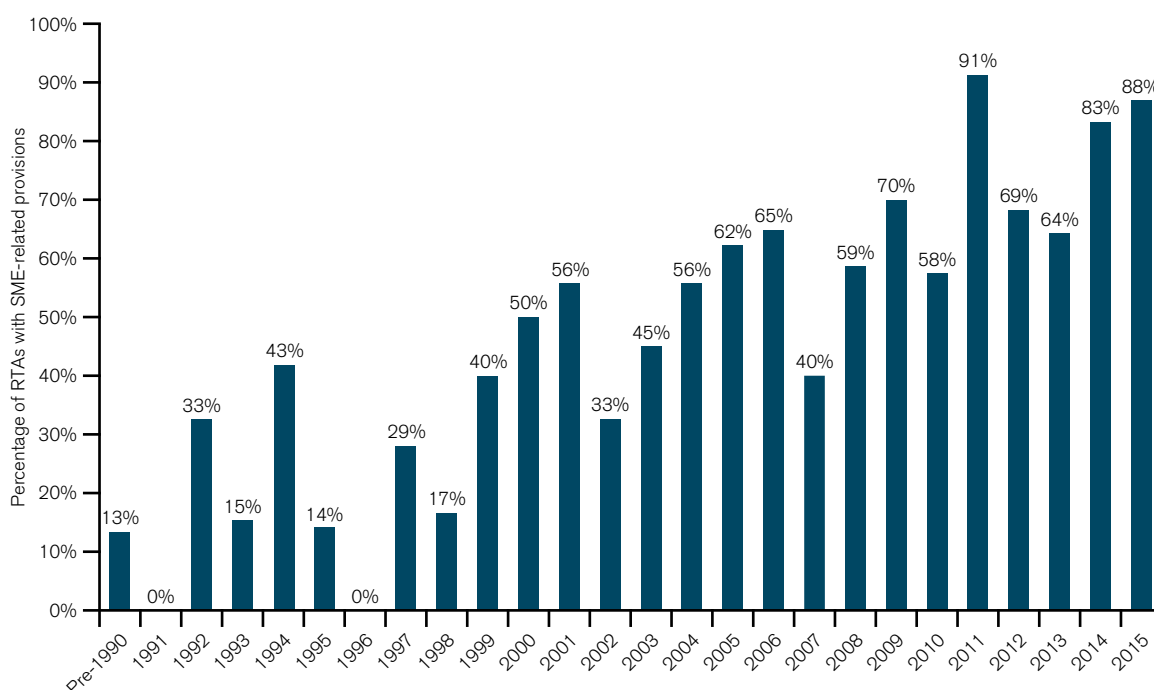
In addition, and as depicted in Figure E.2, the share of RTAs incorporating SME-related provisions has been trending upward to the point where provisions on SMEs are included in almost 80 per cent of all the RTAs that entered into force over the last five years (2011-15). This trend is in line with the growing discussions in the policy agenda of many regional and multilateral forums and organizations of the participation of SMEs in international trade.

As shown in Figure E.3, the evolution of RTAs with SME-related provisions can be characterized by three distinct periods. Prior to 1990, only two RTAs with SME-related provisions were negotiated. The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) is the first RTA to ever include a provision explicitly referring to SMEs. The agreement specifies that Australia and New Zealand's bilateral and regional development assistance measures and programmes may include those which contribute

to investment in industries, including agro-based industries, with a particular emphasis on those of a smaller or medium size. The Cartagena Agreement establishing the Andean Community is the second RTA with SME-related provisions stipulating, *inter alia*, that the Commission and General Secretariat shall consider, in the application of industrial integration programmes and projects, the situation and requirements of small and medium-sized industries.

Between 1990 and 1999, the number of RTAs with SME-related provisions increased slightly, but the number of specific provisions on SMEs remained limited, with a few exceptions, such as the North American Free Trade Agreement (NAFTA) and the Common Market for Eastern and Southern Africa (COMESA). From 2000, the number of RTAs with SME-related provisions has accelerated significantly. This increase in the total number of RTAs with SME-related provisions is driven by the surge in the number of such agreements involving developing countries. As of May 2016, 65 per cent and 31 per cent of the RTAs incorporating SME-related provisions were agreements negotiated, respectively, between developed and developing countries (88 North-South RTAs) and

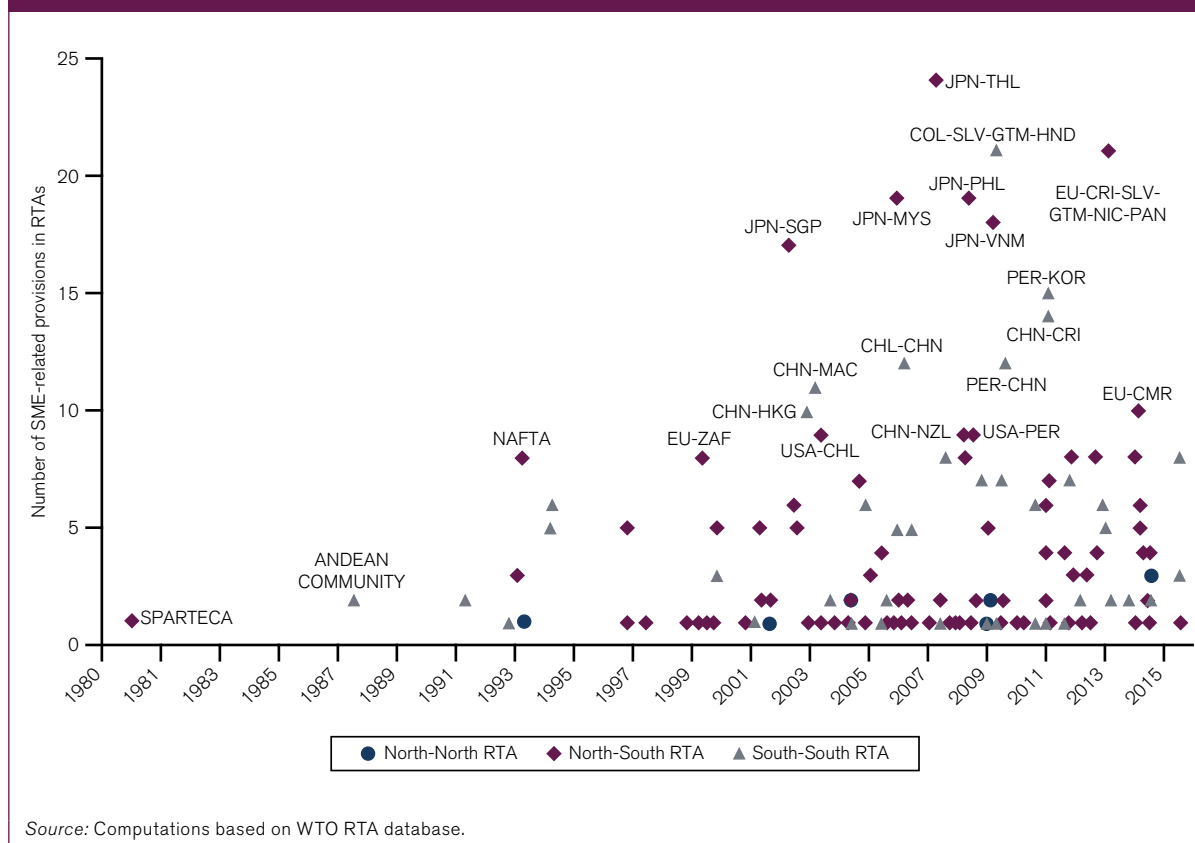
Figure E.2: Percentage of RTAs with provisions explicitly mentioning SMEs



Note: The total number of RTAs with SME-related provisions per year is the sum of RTAs incorporating SME-related provisions that entered into force that year. Figures are not cumulative.

Source: Computations based on WTO RTA database.

Figure E.3: Evolution of the number of SME-related provisions in RTAs



between developing countries (42 South-South RTAs). Only six RTAs negotiated between developed countries incorporate SME-related provisions.

In addition to the rise in the number of RTAs with provisions mentioning explicitly SMEs, the number and level of detail of the SME-related provisions in these agreements has also increased significantly since 2000. The Japan-Thailand economic partnership agreement is currently the agreement with the highest number of SME-related provisions. These provisions are found in the RTA's chapters on intellectual property and cooperation, as well as in the chapter on cooperation in the field of SMEs included in the associated implementing agreement. The RTAs to which Japan is a party with Malaysia, the Philippines, Singapore and Viet Nam also incorporate a relatively high number of provisions on SMEs. Similarly, the free trade agreement between Colombia, El Salvador, Guatemala and Honduras includes detailed SME-related provisions in the chapters on e-commerce, cooperation, administration of the treaty and annexes to the chapters on government procurement and cooperation. More recently, the EU-Central America association agreement also incorporates several provisions on SMEs, including a specific article on cooperation. The RTAs negotiated by the European

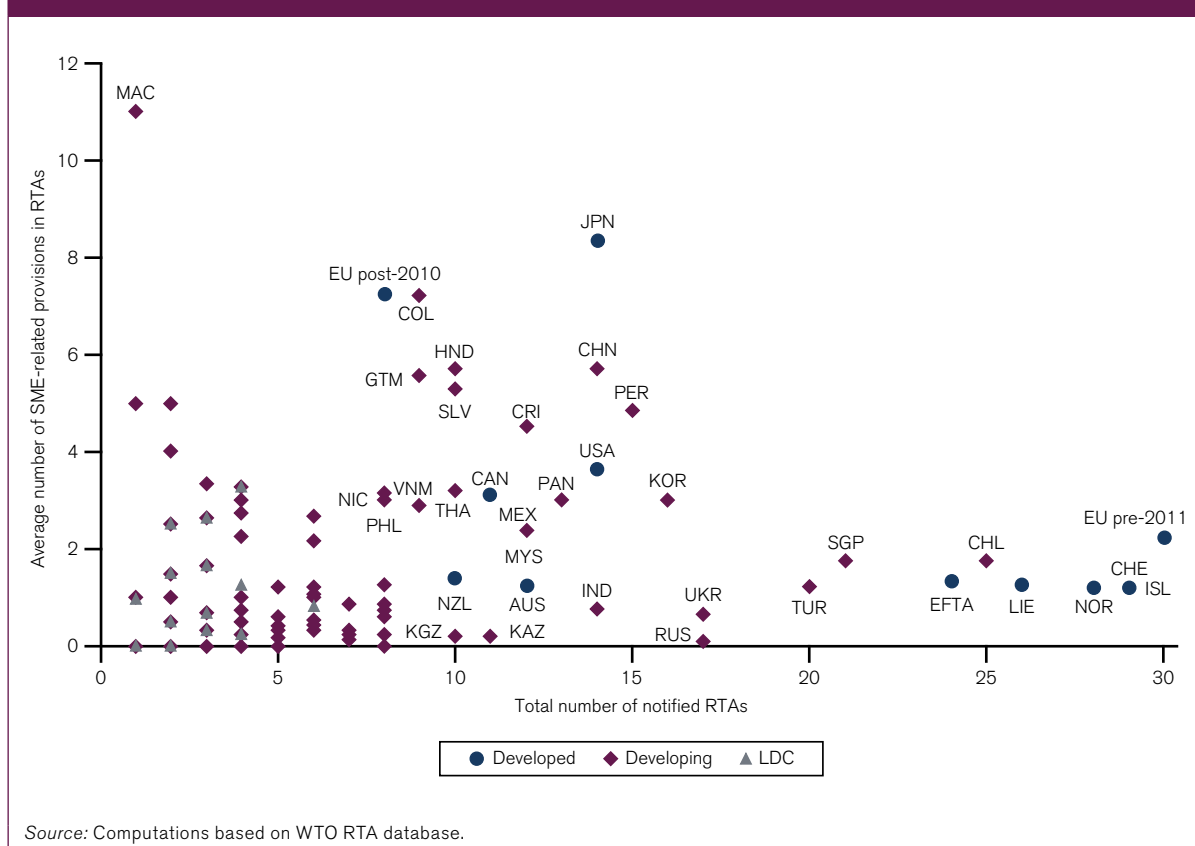
Union with South Africa and Cameroon also contain several SME-related provisions, mainly on cooperation. Other RTAs with various SME-related provisions mainly involve China.

As depicted in Figure E.4, the RTAs negotiated by China, Colombia, El Salvador, Guatemala, Honduras, Japan and Panama have, on average, a higher number of SME-related provisions. The inclusion of SME-related provisions remains, however, a dynamic process. For instance, the RTAs concluded by the European Union prior to 2011 tended to include a limited number of provisions on SMEs, while the most recent agreements to which the European Union is a party incorporate, on average, relatively more SME-related provisions. Ultimately, the decision to include SME-related provisions in RTAs depends highly on the parties negotiating the agreement, as well as on the actual content of these provisions.

(b) Typology of SME-related provisions

RTA provisions are known to be heterogeneous across agreements (WTO, 2011), and SME-related provisions are no exception. Although there is, in recent years, an increasing number of RTAs, namely 38 agreements,

Figure E.4: Number of RTAs with provisions referring to SMEs by country



incorporating specific article(s) on SMEs, the most common structure of SME-related provisions consists of an article referring to an issue or issues that mention SMEs as a particular case. For instance, a large number of cooperation provisions list SMEs, among other themes, as a (potential) area of cooperation. The RTAs to which Japan is a party with Malaysia, the Philippines, Viet Nam, Singapore and Thailand are the only agreements to include a specific chapter on cooperation in SMEs.

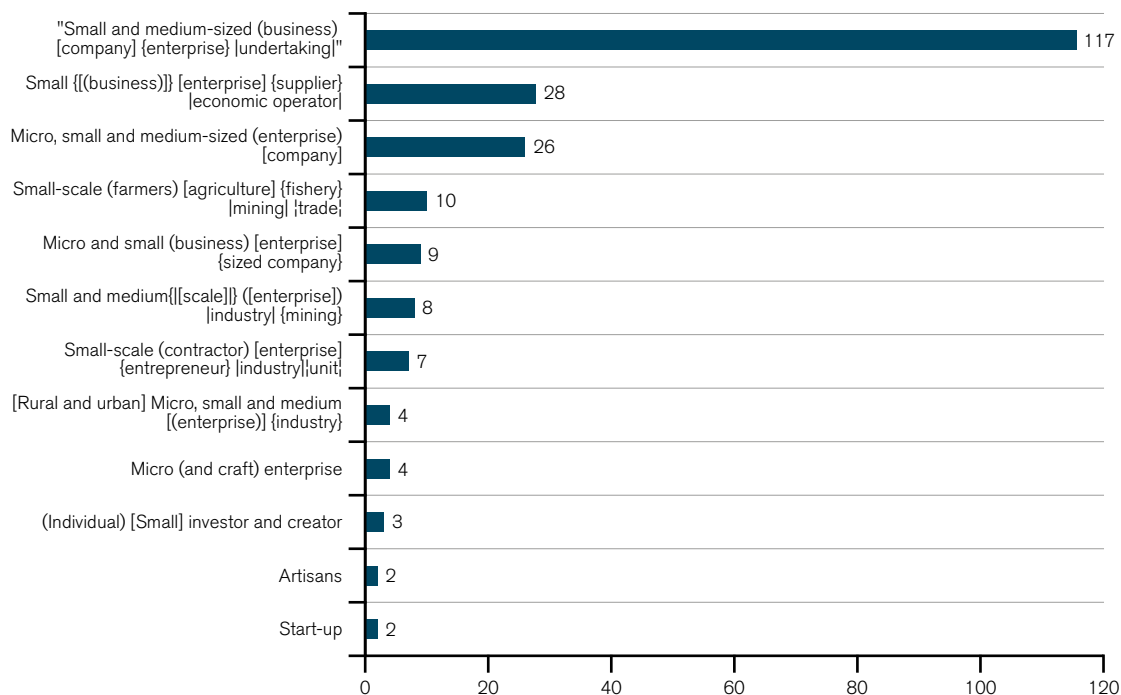
SME-related provisions differ considerably not only in terms of structure and location in the agreement, but also in terms of language, scope and legal commitments. More than 460 different SME-related provisions have been identified. This large number of SME-related provisions is partly explained by the terminology used to identify SMEs. More than 50 different expressions have been devised to refer to SMEs, including artisans, start-up, individual creators and micro enterprises.

As shown in Figure E.5, the scope of most SME-related provisions refers to small and medium-sized enterprises, businesses or companies, although an increasing number of provisions also cover explicitly micro enterprises. In some cases, the terminology used stems from the provision's location in the RTAs. For

instance, the concept of individual or small investors and creators is only mentioned in a specific article on intellectual property of the Japan-Thailand RTA, which commits the parties to stimulate the creation and development of intellectual property by each party's persons, particularly individual inventors and creators and SMEs. In certain cases, the SME-related provisions refer to a specific sector. For instance, the implementing agreement associated with the Japan-Peru economic partnership agreement identifies sustainable development of small-scale agriculture and rural area as a potential area of cooperation.

Despite the high heterogeneity characterizing most SME-related provisions, the comparative analysis of the 136 RTAs with provisions referring explicitly to SMEs allows eight main forms of provisions to be identified. As highlighted in Figure E.6, SME-related provisions range from the recognition of the important role of SMEs to cooperation activities to firmer commitments and exemptions. Cooperation is the most common form of SME-related provisions, incorporated in 92 agreements. The second most common forms of SME-related provisions, found in 57 RTAs, consists of specifying that SMEs or domestic programmes aimed at supporting SMEs are either not covered by or assumed to be consistent with the obligations set forth in the RTA.

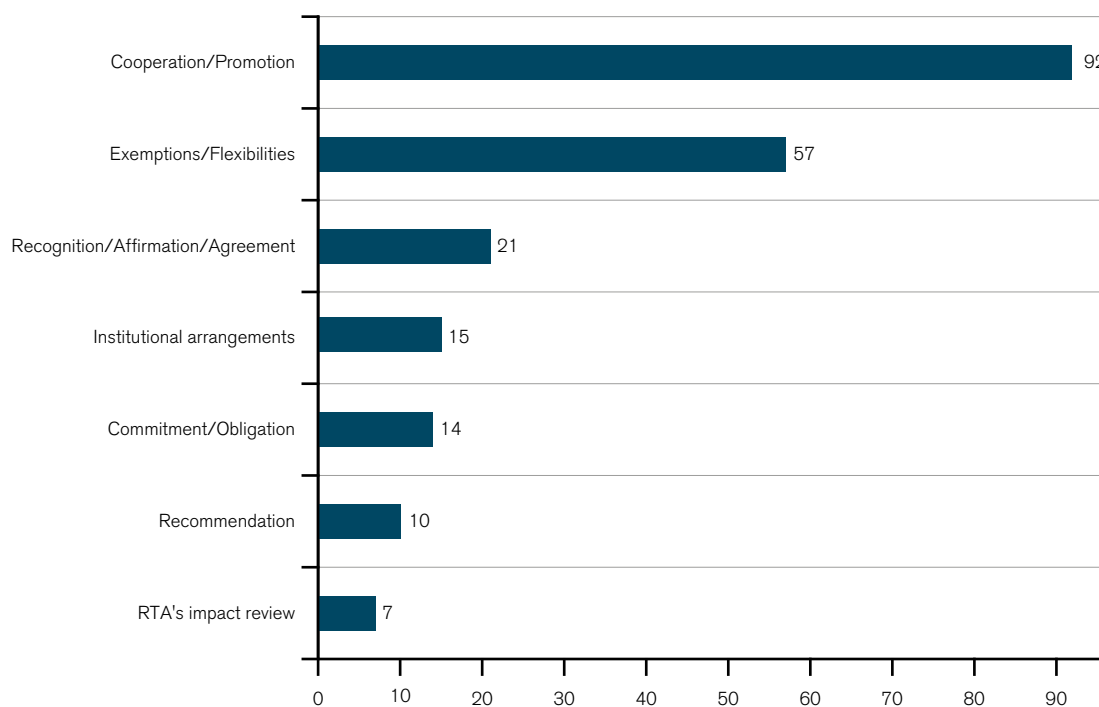
Figure E.5: SME terminology used in RTAs



Note: Total number of RTAs with at least one SME-related provision referring to the respective terminology. Each type of parentheses refers to a different term used. For instance, four RTAs mention micro-enterprise or micro- and craft- enterprise.

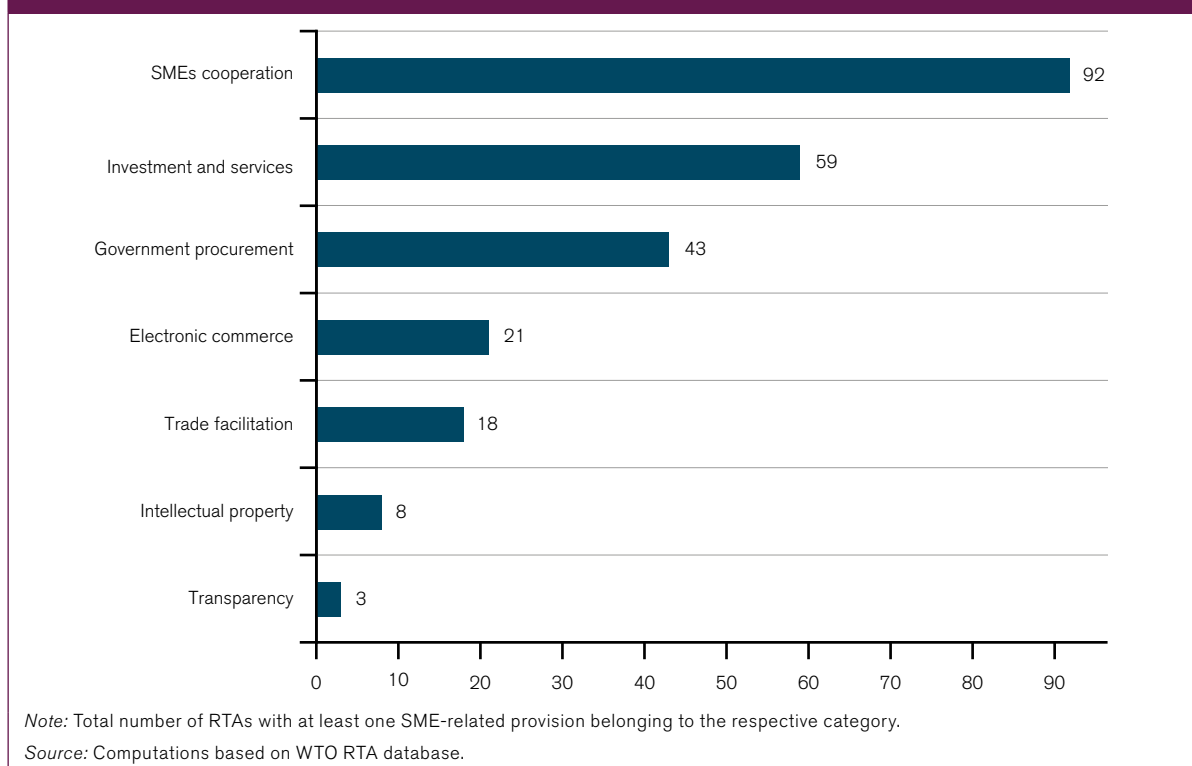
Source: Computations based on WTO RTA database.

Figure E.6: Main forms of SME-related provisions in RTAs



Note: Total number of RTAs with at least one SME-related provision belonging to the respective category.

Source: Computations based on WTO RTA database.

Figure E.7: Main areas of SME-related provisions in RTAs


The remaining forms of SME-related provisions are only incorporated in a limited number of RTAs. Several SME-related provisions, included in 14 RTAs, are formulated in mandatory terms. Some of these provisions, found in the chapters on trade facilitation, transparency and intellectual property, call on the parties to take measures to ensure economic operators, including SMEs, are not negatively affected. SME-related provisions included in four RTAs, aimed at establishing a customs union, tend to be the most far-reaching in supporting SMEs. For instance, the Economic Community of West African States (ECOWAS) specifies that the economic community shall, by stages, ensure the adoption of measures for the integration of the private sectors, particularly the creation of an enabling environment to promote SMEs.

Other SME-related provisions are couched in best endeavour language by encouraging rather than requiring. Certain provisions recognise, affirm or agree on the importance of SMEs. Few provisions are worded as a recommendation.

Finally, a limited number of RTAs establish institutional arrangements related to SMEs, such as a committee, to discuss and oversee the implementation of the agreement's commitments, including cooperative activities. In that context, several RTAs review the possibility for the institutional body to review the RTA's impact on MSMEs, including any resulting benefits.

Some of the different forms of SME-related provisions can be explained by different locations of these provisions in RTAs, including agreements negotiated by the same country. A different location in the agreement usually also implies different areas addressed. As highlighted in Figure E.7, SME-related provisions refer mainly to (1) cooperation on SMEs, followed by (2) services and investment, (3) government procurement, (4) e-commerce, (5) trade facilitation, (6) intellectual property and (7) transparency.

(i) Cooperation on SMEs

Aid for Trade (AfT) cooperation provisions are not only the most common form of SME-related provisions, but are also by far the most heterogeneous type of SME-related provisions across agreements. Ninety-two RTAs include at least one provision on cooperation mentioning SMEs. Part of this high heterogeneity stems from the scope of these cooperation provisions in terms of issues addressed and cooperation form. Certain AfT cooperation provisions address general issues which are not limited to SMEs. Other AfT cooperation provisions address more specific issues, for which SMEs receive a particular focus.

Similarly, some cooperation provisions refer to SMEs in general, while a limited number of provisions apply specifically to SMEs engaged in export activities. For instance, the EU-Central America association

agreement specifies that cooperation and technical assistance on technical barriers to trade may include activities to facilitate the comprehension and compliance with the European Union's requirements, in particular by SMEs. In other provisions, SMEs are only listed as a general area of cooperation without providing any additional details. Conversely, other AfT cooperation provisions are more specific and mention explicitly the topic and/or form of cooperation activities related to SMEs.

Promoting and facilitating investments, including joint ventures, between SMEs of the parties is one of the most frequently covered issues in cooperation provisions. Other issues addressed in cooperative activities include the development of opportunities for business partnerships, alliances and clusters, information networks, innovation, including in some cases technology transfer, and competitiveness. Access to finance for SMEs and the development of financial intermediaries are also the object of cooperation in several RTAs. In terms of cooperation form, the most common cooperation activity consists of exchanging relevant information between the parties, including among SMEs. Other AfT cooperation forms include training, exchanges of experiences, visits and exchanges of professionals, as well as organization of conferences, workshops and trade fairs.

The RTA between the European Union and Central America includes the most detailed provisions on AfT cooperation related to SMEs. The agreement foresees cooperation and technical assistance on SMEs in the context of employment and social protection, services, technical barriers to trade, artisanal goods and organic goods. In addition, a specific article on cooperation on MSMEs identifies a number of cooperation actions, such as the promotion of the productive linkages process, an exchange of experiences and best practices, encouragement of joint investments, partnerships and business networks, the identification and reduction of obstacles to access financial sources, and the creation of new financing mechanisms.

Other RTAs with relatively detailed SME-related provisions on AfT cooperation include the agreement between Colombia and the Northern Triangle (El Salvador, Guatemala, and Honduras), as well as several agreements negotiated by China with Chile, Costa Rica, Hong Kong (China), Macao (China) and Peru. The economic partnership agreements concluded by Japan with Malaysia, Singapore, Thailand and Viet Nam list also various topics and forms of cooperation. These RTAs further establish a joint committee, sub-committee or working group on SMEs in charge of, *inter alia*, reviewing and discussing issues concerning the chapter on cooperation on SMEs, exchanging views

and information on the promotion of SME cooperation, as well as identifying and recommending avenues of further cooperation.

(ii) *Services and investment*

An increasingly large number of RTAs includes provisions on services. While most services commitments in RTAs go beyond those established under the GATS, these RTAs share relatively similar disciplines to those set forth in the GATS. A limited but growing number of RTAs have gone beyond the GATS with provisions on domestic regulation and transparency (WTO, 2011). Small and medium-sized service providers can potentially benefit from increasing market access in sectors in which restrictions have been eliminated.

In addition to these provisions, some of the services commitments undertaken by the parties in 30 RTAs are subject to certain limitations or reservations explicitly related to SMEs set out in the annexes of the parties' services schedules. In many cases, these SME-related reservations are limited to financial services. For instance, the annex to the services chapter of the trade agreement between Canada and the Republic of Korea explains that the measure requiring Korean insurance companies to extend loans to SMEs is not inconsistent with the article on market access for financial institutions. Fishing and mining are other sectors for which a limited number of RTAs include SME-related reservation measures. For instance, the free trade agreement between Chile and the United States specifies that access to small-scale fishing activities shall be subject to a type of registration only granted to Chilean natural persons and foreign natural persons with permanent residency, or to Chilean juridical persons constituted by the aforementioned persons. Similarly, the RTA between Morocco and the United States specifies that the mining of lead, zinc, and barite ores in the Tafilalet and Figuig regions of Morocco is reserved for small-scale miners from that region.

Besides reservation measures, 33 RTAs also incorporate cooperation provisions focused either on investment for SMEs and/or SMEs providing services. As explained above, the level of detail in cooperation provisions differs considerably between agreements. For instance, the EFTA-Egypt RTA specifies that cooperation may include the development of mechanisms for joint investments, in particular with SMEs. The economic partnership agreement between the Caribbean Forum (CARIFORUM) states and the European Union stipulates that the parties agree to cooperate and facilitate support in the development of Internet marketing strategies for SMEs in the tourism services sector.

(iii) Government procurement

Provisions on government procurement have been increasingly covered in RTAs, and access to, and participation in, public procurement markets by SMEs has been identified by many governments as a crucial element in fostering sustainable economic development and prosperity worldwide. From a general point of view, when RTAs contain detailed chapters on government procurement, the RTA procedural rules and disciplines broadly track those of the WTO Agreement on Government Procurement (GPA). As a result, in the area of government procurement, RTAs generally introduce relatively little in the way of “spaghetti-bowl” effects and, overall, are favourable to the proliferation of procurement reforms and common rules (Anderson et al., 2015).

Specific SME-related provisions on government procurement, included in 43 RTAs, range from the recognition of the importance of SMEs’ participation in government procurements, to the exemption of programmes aimed at supporting SMEs from the RTA’s obligations, to cooperation in the establishment of a specific committee on small businesses. Several SME-related provisions on government recognise the importance of the participation of MSMEs in government procurement. A related provision further recognises the importance of business alliances between suppliers, and in particular of SMEs, including the joint participation in tendering procedures.

Several RTAs include cooperation provisions aimed at facilitating access of MSMEs to government procurement market. For instance, the RTA between the Republic of Korea and Peru specifies that the parties shall endeavour to work jointly towards exchanging information and facilitating access for SMEs to government procurement procedures, methods and contracting requirements, focusing on their special needs. A limited number of RTAs, namely two agreements, also establish an institutional body dedicated to SMEs under the government procurement chapter, with the aim of facilitating activities related to the promotion of SMEs’ participation in government procurement opportunities. Under NAFTA and the Colombia-Mexico RTA, a committee on SMEs is in charge, *inter alia*, of facilitating the identification of SMEs interested in becoming trading partners of the other party’s SMEs, as well as developing databases of SMEs in each party’s territory for use by entities of the other party wishing to procure from these SMEs. Instead of establishing a specific institutional body on SMEs, six other RTAs establish a specific committee on government procurements to address any matters pertaining to the implementation of the government procurement chapter, including SMEs.

Furthermore, the annexes to the government procurement chapters of 38 RTAs include provisions explaining that the chapter does not apply to procurement programmes on behalf of SMEs. For instance, the annex listing the government procurement schedules of the trade agreement between Costa Rica and Peru explains that the government procurement chapter does not apply to procurement programmes to support MSMEs. Similarly, most RTAs negotiated by the United States and Canada include at least one provision specifying that the government procurement chapter does not apply to set-asides on behalf of small and minority businesses, where set-asides may consist of any form of preferences to benefit SMEs, such as the exclusive right to provide a specific good and/or service or a price preference.

Several RTAs with a similar provision, to which Colombia is a party, further consider measures conducive to facilitating the transfer of technology and sub-contracting. Other provisions are more specific, such as the article on SMEs in the government procurement chapter of the RTA between the Cooperation Council for the Arab States of the Gulf (GCC) and Singapore, which stipulates that the parties reserve the right to apply a 10 per cent price preference for SMEs in their respective countries.

(iv) E-commerce

Over the last 15 years, provisions on e-commerce have increasingly been incorporated in RTAs, in particular in a specific chapter on e-commerce. The type of issues and commitments covered in RTAs differ substantially across agreements. A moratorium on customs duties on electronic transmissions between the parties, transparency commitments and cooperation activities are among the most common provisions on e-commerce. A limited but increasing number of RTAs also address specific domestic regulation issues, such as regulatory barriers, electronic authentication, online consumer protection, online personal data protection and unsolicited commercial electronic messages (Herman, 2010). Provisions promoting and facilitating the development of e-commerce can potentially help SMEs to reach new customers. Besides these provisions that apply to firms of any size, a limited but increasing number of RTAs also incorporate different provisions explicitly mentioning SMEs in the e-commerce chapter.

SME-related provisions on e-commerce, included in 21 RTAs, refer to facilitating the use of e-commerce by SMEs, or overcoming obstacles encountered by SMEs in the use of e-commerce. Many of these provisions are specific to one or a couple of trade agreements. The most common type of SME-related provisions on e-commerce specifies that the parties recognise the

importance of facilitating the use of e-commerce by MSMEs. The remaining types of SME-related provisions on e-commerce refer to cooperation among the parties.

For instance, the parties to the trade agreement between Singapore and Chinese Taipei recognise the importance of working together to overcome the obstacles encountered by SMEs. A relatively similar provision, included in the RTAs to which Canada is a party with the Republic of Korea and Peru, affirms the importance of working together to facilitate the use of e-commerce by MSMEs. The provision included in the free trade agreement between Canada and Panama is slightly more detailed, stating that the parties recognise the importance of sharing information and experiences on laws, regulations and programmes in order to facilitate the use of e-commerce by MSMEs.

The language of other SME-related provisions on e-commerce is firmer. For instance, the RTA between the Republic of Korea and Peru mentions the parties' commitment to working together to facilitate the use of e-commerce by SMEs. Similarly, the free trade agreements to which Japan is a party with Australia and Switzerland stipulate that the parties shall cooperate to overcome obstacles encountered by SMEs in using e-commerce.

The trade agreement between the European Union, Colombia and Peru is the only agreement that explicitly foresees the possibility for the agreement's trade committee to establish, to the extent necessary and justified, a working group with the aim of recommending mechanisms to assist MSMEs in overcoming obstacles faced by them in the use of e-commerce, among other tasks.

(v) Trade facilitation

The number of RTAs with trade facilitation provisions has not only increased very rapidly since the 1990s, but the coverage of trade facilitation measures has also expanded in the last 10 years. Similar to other areas covered by RTAs, provisions on trade facilitation display important disparities across agreements in terms of language, coverage and levels of commitment (WTO, 2015). Despite the heterogeneity characterizing most provisions on trade facilitation, SMEs can benefit from the reduction in transport costs and delays resulting from the implementation of the RTAs' provisions on SMEs, by making it easier and faster to export, as discussed in Section D.2. The reduction in transaction costs can also potentially make SMEs more competitive in international markets.

In addition to these trade facilitation provisions, which apply indifferently to SMEs or large firms, several

different SME-related provisions on trade facilitation have been included in 18 RTAs, mainly in the trade facilitation chapter. The most common type of SME-related provisions on trade facilitation, found in 10 RTAs, recommends taking into account the interests of SMEs. For instance, eight agreements negotiated by the EFTA states, including with Canada, Hong Kong (China), Serbia and Ukraine, stipulate that the parties shall consult their respective business communities on their needs with regard to the development and implementation of trade facilitation measures, noting that particular attention should be given to the interests of SMEs. In a broader context, the provision in the interim agreement between Cameroon and the European Union stipulates that the customs procedures should be transparent, efficient and simplified in order to reduce costs and increase predictability for economic operators, including SMEs.

Other SME-related provisions on trade facilitation are worded in firmer language. The association agreements to which the European Union is a party with the Republic of Moldova and Ukraine specifies the parties' agreement that their trade and customs legislation, provisions and procedures shall, *inter alia*, aim to reduce costs and increase predictability for economic operators, including SMEs. The provisions on trade facilitation, included in the RTAs negotiated by the European Union with Colombia and Peru, Côte d'Ivoire and the Republic of Moldova, are more specific and stipulates that procedures guaranteeing the right of appeal against customs administrative (actions,) rulings and decisions affecting imports, exports or goods in transit shall be easily accessible, including to SMEs.

The remaining types of SME-related provisions on trade facilitation refer to cooperation. Under the RTA between Colombia and the Northern Triangle, the parties agree to develop information exchange and internship programmes for officials and technicians in the field of trade facilitation as part of the cooperation activities on SMEs. In a different context, the Association of Southeast Asian Nations (ASEAN) Free Trade Area commits its member states to develop and implement a comprehensive ASEAN Trade Facilitation Work Programme. This programme sets out all concrete actions and measures with clear targets and timelines of implementation necessary for creating a consistent, transparent, and predictable environment for international trade transactions that increases trading opportunities and helps businesses, including SMEs, to save time and reduce costs.

(vi) Intellectual property

The number of RTAs with intellectual property provisions has accelerated since the WTO's creation and the entry

into force of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Similar to other types of provisions, the number and type of intellectual property provisions vary widely across RTAs. Although most RTAs contain intellectual property provisions of a general nature, a limited but increasing number of agreements include explicit provisions on specific fields of intellectual property law, such as trademarks, copyrights, patents, and geographical indications (Valdès and McCann, 2014).

Similar to other areas, the first and most common type of SME-related provisions relates to cooperation aimed at stimulating innovation and intellectual property. For instance, the RTA between the Republic of Korea and Peru stipulates that the parties agree to exchange views and information on the legal framework concerning protection and enforcement of intellectual property rights in accordance with their respective laws, regulations, and policies to stimulate the creation and development of intellectual property by persons of each party, particularly SMEs. Other related provisions are couched in slightly firmer language. The economic partnership agreement between the European Union and the CARIFORUM States mentions that research centres, higher-education institutions, and other stakeholders, including MSMEs, located in the parties shall be involved in cooperation on science and technology as appropriate.

The Japan-Thailand economic partnership agreement is the only RTA notified to the WTO to include a specific article on SMEs in the intellectual property chapter. The article on assistance for acquisition of intellectual property rights for SMEs stipulates that each party shall, in accordance with its laws and regulations, take appropriate measures to provide assistance to SMEs for acquisition of intellectual property rights, which may include reduction of official fees.

In addition, the agreement establishes a sub-committee on intellectual property in charge of, *inter alia*, discussing any issues related to intellectual property with a view to enhancing protection of intellectual property and enforcement of intellectual property rights and to promoting the efficient and transparent administration of the intellectual property system, such as the utilization and commercialization of intellectual property rights for SMEs.

(vii) Transparency

In recent years, an increasing number of RTAs have included a dedicated chapter on transparency with provisions that aim to promote transparency and due process in policy-making. Such transparency chapters are often complemented by more specific

transparency commitments included in other chapters, such as technical barriers to trade (TBT) (Molina and Khoroshavina, 2015).

The RTAs to which the European Union is a party with Georgia, the Republic of Korea and Ukraine are the only agreements notified to the WTO to include a specific provision related to SMEs in the transparency chapter. Although the language of this provision included in the article on the transparency chapter's objective differs across the three agreements, it stipulates that the parties shall provide an efficient and predictable regulatory environment for economic operators doing business in their territories, especially small operators, including SMEs.

(c) Upcoming SME-related provisions

RTAs are sometimes viewed as a laboratory enabling countries to devise new provisions and address new issues and challenges. As a matter of fact, several new types of SME-related provisions have been incorporated in recent mega-regional trade agreements that have not yet entered into force and/or not been notified to the WTO.

(i) *The Trans-Pacific Partnership*

As discussed in Section D, access to information remains a challenge for many SMEs. This may explain why the Trans-Pacific Partnership (TPP), negotiated by 12 countries in the Pacific region and yet to come into force,⁶ incorporates several new types of SME-related provisions on transparency in a chapter dedicated to SMEs.

In particular, each party commits to establish or maintain a publicly accessible website containing information regarding the TPP, including a summary of the agreement and explanations of key provisions of particular relevance to SMEs. In addition, the website may provide any other pieces of information that could be useful to any person interested in trading, investing or doing business in its territory, such as customs regulations and procedures; regulations and procedures concerning intellectual property rights; technical regulations, standards, and sanitary and phytosanitary measures relating to importation and exportation; foreign investment regulations; business registration procedures; employment regulations; and taxation information. A committee on SMEs is further established and tasked, *inter alia*, with discussing and exchanging best practices in supporting and assisting SME exporters and facilitating the development of programmes to assist SMEs in participating in and integrating effectively into global supply chains.

The text of the government chapter of the TPP also contains a specific article aimed at facilitating the participation of SMEs in government procurement with many new provisions.⁷ According to the TPP, if a party maintains a measure that provides preferential treatment for SMEs, that party shall ensure that the measure, including the criteria for eligibility, is transparent. The agreement further encourages parties to provide comprehensive procurement-related information via a single electronic portal; make all tender documents available free of charge; conduct procurement by electronic means; and consider the size, design and structure of the procurement to facilitate participation by SMEs.

(ii) Additional Protocol to the Pacific Alliance Framework Agreement

The Additional Protocol to the Pacific Alliance Framework Agreement between Chile, Colombia, Mexico and Peru, which entered into force on 1 May 2016, incorporates in its government procurement chapter a specific article on facilitating the participation of MSMEs. Many of the provisions in this specific article are relatively similar to the ones found in the TPP. For instance, the party maintaining measures providing preferential treatment to domestic MSMEs is committed to ensuring that such measures, including eligibility criteria, are transparent and objective. Another novel and unique SME-related provision further stipulates that each party shall endeavour to reduce measures maintained to give preferential treatment to its MSMEs with respect to MSMEs of the other parties.

(iii) Comprehensive Economic and Trade Agreement between Canada and the European Union

The Comprehensive Economic and Trade Agreement (CETA) between Canada and the European Union includes new types of SME-related provisions on the resolution of investment disputes between investors and states, where the investor is a SME, such as the possibility to hold consultations via videoconference or other means and the possibility of having a sole member of the tribunal hear the claim. The joint committee established under the CETA shall also consider supplemental rules aimed at reducing the financial burden on claimants who are natural persons or SMEs.

(d) Conclusions

Provisions mentioning explicitly SMEs have been incorporated into an increasing number of RTAs. In parallel, the number of detailed SME-related provisions included in a given RTA has tended to increase in recent

years. Most provisions explicitly mentioning SMEs do not follow a specific template.

As a result, SME-related provisions are very heterogeneous in terms of structure, location, language and scope. The two most common categories are, in order of frequency, provisions: (1) cooperation provisions on SMEs in a general or in a specific context, such as e-commerce and government procurement; and (2) exemptions for SMEs and/or programmes supporting SMEs from the RTAs' obligations, related, for instance, to services, investment and government procurements. The remaining types of SME-related provisions are included in a limited number of RTAs and cover-specific issues, such as government procurement, e-commerce, trade facilitation, intellectual property and transparency.

A review of recent mega-regional trade agreements, such as the TPP and the CETA between Canada and the European Union, that have yet to be notified to the WTO, further confirms the dynamic nature of SME-related provisions with new types of provisions on government procurement, transparency and the resolution of investment dispute between investors and states. In this dynamic context, SME-related provisions in RTAs are likely to keep evolving and be increasingly pragmatic.

3. SMEs in other international organizations

Several international organizations are active in the area of SMEs. This subsection discusses their activities and shows how they complement the role of the WTO. The focus is on the following organizations: the International Trade Centre (ITC); the World Bank; UN regional commissions and development banks; the United Nations Conference on Trade and Development (UNCTAD); the Organisation for Economic Co-operation and Development (OECD); the International Chamber of Commerce (ICC); the International Telecommunication Union (ITU); the European Bank for Reconstruction and Development (EBRD); the World SME Forum (WSF); and the Asia-Pacific Economic Cooperation (APEC). SME-related activities by these international organizations are clustered around two major themes of research/action: integration of SMEs in international trade, in particular global value chains (GVCs), and more general SME support initiatives.

(a) Integration of SMEs into international trade

There has been a lot of work and collaboration at the international level to help SMEs to integrate into the

global economy, including through GVC participation. The ITC, which was established in 1964 as a joint agency of the WTO and the United Nations, is “fully dedicated to supporting the internationalization of small and medium-sized enterprises (SMEs)”.⁸ That is, all ITC activities are oriented toward the integration of SMEs into the world economy. Moreover, they naturally complement those WTO-administered multilateral rules, discussed in Section E.3, that have the effect of reducing both the variable and fixed costs of trade, reducing information asymmetries between small and large firms and alleviating some of the major constraints faced by SME traders.

In 2015, the ITC launched a new annual flagship publication focusing on SME competitiveness (ITC, 2015b). Current work in the framework of the 2016 report focuses on standards and regulations, and on how they can be made to work in favour of SME competitiveness. The ITC Trade and Environment Programme (TEP) also supports SMEs in participating in environmental markets and with compliance with environment-related standards.⁹

As stated in ITC (2015a), in the future ITC will continue to support SMEs in order that they may prosper in international trade, as well as benefit from available opportunities such as e-commerce, GVCs and emerging markets. The ITC also intends to develop initiatives to remove barriers to trade and assist SMEs to cope with risks related to international trade. A new African-Indian programme is the model for ITC's programmes targeted to expanding South-South possibilities for SMEs. The ITC is also active on the e-commerce side. A recent publication (ITC, 2016) aims to start public-private dialogue to address e-commerce bottlenecks, especially for small firms in developing countries. Other initiatives relevant for e-commerce by SMEs are detailed in Box E.2.

In the framework of the Turkish presidency of the G20, the OECD and the World Bank (2015) produced a report on the inclusion of SMEs and Low-Income Developing Countries (LIDCs) in GVCs. The report shows two key facts: i) participation in GVCs is heterogeneous and uneven, across and within countries; and ii) SME participation in GVCs is mostly taking place through

Box E.2: ITC e-commerce solutions for SMEs

The ITC, with partners in the private and public sectors, offers training courses and advisory services to help SMEs in developing countries overcome barriers to e-commerce trade (see Section D.4 for a review of these barriers). The approach is modular, being aimed to solve specific challenges. The modules can be distinct or combined and include:

- eMall: Online shop which allows the costs of payment solutions, logistics and marketing to be shared.
- ePayment: Payment modules ready to integrate into e-commerce sites and market places; compliance with foreign exchange rate regulations.
- eLogistics: Access to cost-effective outbound logistics, storage and management of goods delivery within target markets and returns management.
- eTrade: Permit representation services ensuring conformity with legal and fiscal requirements in markets such as the European Union, Japan and the United States.
- eTrust: Internationally recognized qualified digital signature and SSL certificates for SMEs.
- eCRM: Cloud-based solutions and support for sales and customer service to the standards expected by international customers.

Recent examples include support for “Made in Morocco”, an economic interest group comprising more than 300 SMEs, and for IT services in Kenya and Uganda. “Made in Morocco” benefits from an online marketplace (www.made-in-morocco.ma), shared payment solutions, logistics and marketing.

In the case of the IT services sector in Kenya and Uganda, the ITC has elaborated a shared online platform (eMall). The objective is to enable IT services companies to compete more effectively for higher value international business by: i) consolidating the resources of the various small vendors; ii) developing shared marketing approaches; iii) implementing a platform for quality control; iv) promoting direct interaction with potential clients; v) building trust in the target markets; and vi) enabling receipt of international payments.

indirect contribution to exports, rather than through exporting directly. It further argues that policy action through G20 leadership can help to achieve more inclusive GVCs through: i) a holistic approach to reform spanning trade, investment and domestic policies both in G20 nations and in trade partner countries; and ii) investment in expanding the statistical basis and analysis of GVCs and in sharing knowledge on best practices on enabling policies and programmes.

The series of annual reports presented by the World Bank's "Doing Business" programme is also relevant in this area. Some work has been done on the regulations that affect SMEs in particular (World Bank, 2013). In the latest "Doing Business" Report (World Bank, 2015), high importance was given to the issue of trading across borders, including new categories such as trade over land between neighbouring countries and, in particular, regional trade agreements. The World Bank also has several country-specific projects – such as the Trade Promotion and Quality Infrastructure project in Armenia, the Third Export Development Project in Tunisia and the Lao PDR Second Trade Development Facility Project. Among their objectives, they seek to benefit SMEs by improving the trade infrastructure and by enhancing the competitiveness of SMEs.

UN regional commissions have programmes and initiatives aimed at fostering SME internationalization. For instance, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) convened an advisory group meeting on trade facilitation for SMEs in September 2014 as part of a larger project aimed towards developing a guide for paperless trade facilitation for SMEs and building the capacity of national governments to implement paperless systems for cross-border trade and transport facilitation.

The activity of regional development banks is also worth mentioning. The Inter-American Development Bank (IADB) helps businesses with operational and financial support. This includes export promotion, investment attraction, trade facilitation and cross-border integration, support in negotiating and implementing trade agreements, and management of foreign trade (IADB, 2014a). The IADB has also conducted research which concludes that a new set of trade policies along with changes in operational practices of SMEs are required for internationalization (IADB, 2014b). Multiple country-specific projects to help micro firms and SMEs are in place.¹⁰ The African Development Bank (AfDB) seeks to facilitate market access for small farmers and MSMEs (AfDB, 2013). The Asian Development Bank (ADB) has several projects and initiatives to help SMEs in Asian countries. These include different studies on the importance of SMEs and the challenges and

policies of integrating SMEs into GVCs (ADB, 2015). Other initiatives include seminars with other regional banks on SME internationalization,¹¹ as well as specific projects, such as the establishment of an online platform to share information at the regional level on SME exports.¹²

UNCTAD has several initiatives to support trade competitiveness of SMEs. During the eighth session of the Commission on Enterprise, Business Facilitation and Development, on the topic of "Policy options for strengthening SME competitiveness", it was decided to continue work on the export competitiveness, particularly through possible links to international supply chains (UNCTAD, 2004). Joint research with the OECD was conducted on the obstacles that SMEs face in entering GVCs. Among these are: (i) the need to upgrade technology and innovation capacity; (ii) the lack of adequate finance and human capital for this process; (iii) the lack of capabilities to meet standards and certification requirements; (iv) the necessity to better manage intellectual assets, including the protection of intellectual property rights (IPRs) when appropriate; (v) the difficult bargaining position SMEs face with large contractors; and (vi) the need for diversification to reduce dependence on one or a few customers (UNCTAD, 2007). UNCTAD has developed guidelines for SMEs in developing and least-developed countries willing to sell business process services (i.e. offshore) to organizations in the developed world (UNCTAD, 2005).

More recent initiatives include the UNCTAD Entrepreneurship Policy Framework and Implementation Guidance and the Business Linkage Programme, implemented in collaboration with UNCTAD's EMPRETEC network to promote entrepreneurship and SME upgrading (UNCTAD, 2013). Both seek to help policy development and improve the business environment to help SMEs increase their competitiveness. Another important contribution by UNCTAD has focused on e-commerce opportunities for SMEs. A recent report (UNCTAD, 2015) shows that although small enterprises have difficulties in using such services, there are several options available to them. Additionally, it also provides some options for achieving improvements in the area of e-commerce regulation, which might help SMEs overcome the obstacles they face in this area.

The ITU has several key areas of action, such as cybersecurity, broadband access, the digital divide and the Internet, that are relevant to SME connectivity and participation in international markets. The BASIS (Business Action to Support the Information Society) initiative of the ICC also deserves a mention in this context. The purpose of such initiative is to serve as the voice of business in the global discussions on the

information society, with special attention devoted to SMEs (ICC, 2010).

Beyond the joint study with the World Bank under the aegis of the G20 (OECD and World Bank, 2015), the OECD has conducted various studies on the barriers to SME internationalization. The main finding of this research is that multilateral, regional or bilateral agreements can help SMEs overcome trade barriers (Fliess and Busquets, 2006). Moreover, as part of a joint BIAC (Business and Industry Advisory Committee to the OECD)-OECD initiative to facilitate SME access to international markets, several proposals have been made. These include the creation of a BIAC SME Web portal to improve information flows to SMEs and a members-only password-protected website to allow SME-multinational enterprise interaction (OECD, 2008). More recently, the OECD published a report (OECD, 2013) aimed at identifying and suggesting ways to overcome barriers to SME internationalization.

The World SME Forum (WSF), established in 2015 as an outcome of the Turkish G20 presidency, has started working on two separate yet interlinked initiatives that, among their objectives, include SMEs' access to GVCs: i) the creation of a one-stop-shop digital aggregator for SMEs, e-WSF; and ii) a technical assistance programme for SMEs on certification and standards. e-WSF is being designed as an online platform and aggregator targeted at SMEs. It includes an online "GVC Matchmaking Service". The WSF Certification Program will include a comprehensive, country-delivered one-stop-shop endorsement system that leverages existing national, regional and international standards to accelerate the connectivity of SMEs with GVCs.

As discussed in Section D of this report, access to trade finance is one of the major obstacles on the road to SME internationalization. The World Bank, together with the WTO and ICC, as well as other international financial institutions, has some programmes to promote action on trade finance, such as the Global Trade Liquidity Programme (ITC and WTO, 2014). Regional banks such as the AfDB, the ADB and the IADB are also active in this area.

The AfDB seeks to help enterprises wishing to trade secure financing, since they report high difficulties acquiring financing, especially of the long-term type. The ADB established the Trade Finance Program to address the lack of access to trade finance for developing member countries. The Trade Finance Program provides loans and guarantees to commercial bank partners in support of trade, helping banks offer importers and exporters reliable access to trade finance. A similar initiative is the IADB's Trade Finance Facilitation Program (TFFP), created in 2005 to

support Latin American and Caribbean banks wishing to access international trade finance markets by offering technical cooperation, knowledge creation and financial products (guarantees and loans).

(b) Other SME support

As shown in Section A of this report, SMEs especially contribute to their domestic economies in terms of employment. The International Labour Organization (ILO) has as its primary goal the encouragement of decent employment opportunities. Therefore, SMEs are among the topics of ILO interest. The ILO provides advisory services on SME policies, as well as research on the quantitative aspects of job creation. Its Small and Medium Enterprises Unit provides training, support services, advisory services and in-factory counselling on four different areas: i) building entrepreneurship and management skills;¹³ ii) providing access to markets (value chain development); iii) reforming the enabling environment; and iv) productivity and working conditions.¹⁴

The ILO's Job Creation in Small and Medium-Sized Enterprises Recommendation was adopted by the International Labour Conference in 1998. The purpose of this recommendation is to guide members in the design and implementation of policies to promote job creation in SMEs. Its latest report (ILO, 2015) highlights that working conditions tend to be worse in SMEs than in larger enterprises – with significant heterogeneity across sectors. Accordingly, Target 8.3 of the United Nations' new Sustainable Development Goals (SDGs) is related to SMEs and employment. The goal is to "Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services".

Other international organizations also have initiatives that support SMEs in general (i.e., that are not exclusively targeted at internationalization). The EBRD has a Small Business Initiative, which supports SMEs by helping them to acquire financial resources through financial institutions as well as through direct financing, offering business advice, and conducting policy discussions with policy-makers in order to foster a good economic environment for small enterprises. The ICC recently issued a guide (ICC, 2015) to help SMEs fulfil due diligence requirements. The OECD adopted the Bologna charter on SME policies in 2000, with the purpose of fostering SME competitiveness and growth.

The broad mission of the WSF is to help SMEs to achieve sustainable efficiency and competitiveness. Beyond

its internationalization dimension discussed above, the e-WSF initiative broadly aims to increase access for SMEs to skills, training, knowledge, innovation, networks, expertise, information, and to improve their access to finance. The WSF is also conducting research on the impact of global financial regulations on the development and growth of SMEs and has initiated work to strengthen SME credit reporting systems globally. The APEC has a Small and Medium Enterprises Working Group. Its 2013-2016 Strategic Plan provides a roadmap to address critical issues pertaining to the growth of MSMEs in the APEC region, based on three pillars: i) building management capability, entrepreneurship and innovation; ii) financing; and iii) business environment, market access and internationalization.

To conclude, it can be argued that SMEs are not a new issue for the international community. There are multiple undertakings, with a substantial number of these efforts being focused on the internationalization of SMEs. It is hoped that increased coordination among international organizations will reduce unnecessary duplication and make these efforts more complementary with one another.

4. SMEs in the WTO

Section D of this report identified the obstacles SMEs face in increasing their participation in international trade. This part of the report examines how multilateral trade cooperation helps reduce these obstacles. It does so in a number of ways: by reducing both the variable and fixed costs of trade; reducing the information burden of some WTO agreements on SMEs; making it easier for a member to exercise its rights when it acts on behalf of SMEs; allowing members to continue providing financial contributions to SMEs; giving members greater leeway to promote the technological development of their SMEs; allowing members to provide preferential treatment to their SMEs; alleviating major constraints faced by SME traders; and increasing the “supply-side” capacity of SMEs.

(a) WTO agreements help SMEs by reducing the variable and fixed costs of trade and increasing transparency

One of the main findings from Section D is that trade costs, whether they are variable or fixed, adversely affect SMEs more than larger enterprises in their ability to participate in trade. The same applies to lack of transparency about trading rules and regulations. Multilateral cooperation that lowers trade costs and increases transparency should reduce the burden of all trading firms (as well as firms on the verge of exporting) irrespective of size, but the benefits may be felt more by SMEs.

(i) Reducing variable costs of trade

Since the establishment of the WTO more than 20 years ago, its members have successfully reduced tariff barriers to the current average of 9 per cent, which corresponds to a cut of nearly a third since 1998 (see Table E.1). The average applied most-favoured nation (MFN) tariff is 8.1 per cent on non-agriculture goods and 14.9 per cent on agriculture goods.

There is one small blemish in this picture: bound tariffs continue to be set at very high levels. The gap between applied and bound rates creates trade policy uncertainty since it is always possible for a WTO member to increase its applied rate to the bound rate. This policy uncertainty can be a source of trade costs (Osnago et al., 2015) harming all firms, but perhaps SMEs more acutely.¹⁵

Beyond reducing MFN tariffs over the last two decades, many WTO members (both developed and developing) have provided duty-free and quota-free (DFQF) market access to least-developed countries (LDCs).¹⁶ To the extent that these initiatives reduce tariffs faced by enterprises located in LDCs, these reductions in variable trade costs are likely to benefit SMEs more than larger enterprises.

Table E.1: Applied and bound MFN tariffs

Products	Applied MFN		Bound Tariffs	
	Average: 2012-14	Decrease from 1998*	Average duty	Binding coverage
Agriculture	14.9	2.9	55.7	100
Non-agriculture	8.1	4.1	29.6	76.4
All	9.0	3.9	38.8	79.5

*Percentage points.

Sources: World Tariff Profiles, various issues; WTO Integrated Database.

The decision on DFQF treatment for LDC exports was spelled out in the 2005 Hong Kong Ministerial Declaration. Developed countries, and developing countries in a position to do so, are to provide DFQF market access on a lasting basis for all products originating from all LDCs. WTO members that face difficulties in trying to meet this mandate are to provide DFQF market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level.

There are very few studies that assess the causal impact of these decisions on LDC exports. A relatively recent study by Vanzetti and Peters (2012) simulates the effect of more widespread adherence to the DFQF decision by WTO members. It provides evidence that preferential treatment can have significant effects on LDC exports, and presumably also on SME exports from LDCs, although this matter is not directly addressed in the paper. First, Vanzetti and Peters note that about 30 per cent of LDC exports in 2010 already receive preferential treatment, while another 54 per cent were (MFN) duty free (see Figure E.8). The remaining one-sixth of LDC exports faced an average tariff rate of 7 per cent. Vanzetti and Peters use the Global Trade Analysis Project (GTAP) model to simulate the effect of developed countries and some big developing countries (Brazil, China, India and South Africa) providing duty-free treatment to all imports from LDCs. They estimate that it could increase LDC exports by between US\$ 4 billion and US\$ 6 billion, with all the developing regions gaining, although the bulk of these gains are concentrated in two LDCs.

Restrictive rules of origin have sometimes made it difficult for LDCs to take advantage of preferential schemes. So at the WTO's Tenth Ministerial Conference in December 2015, WTO members adopted new

provisions on preferential rules of origin to facilitate least-developed countries' export of goods to both developed and developing countries which offer them preferential access. The provisions provide detailed directions on specific rules-of-origin issues, such as methods for determining when a product qualifies as "made in an LDC", and when inputs from other sources can be cumulated into the consideration of origin. For instance, the provisions call on preference-granting members to consider allowing the use of non-originating materials up to 75 per cent of the final value of the product.

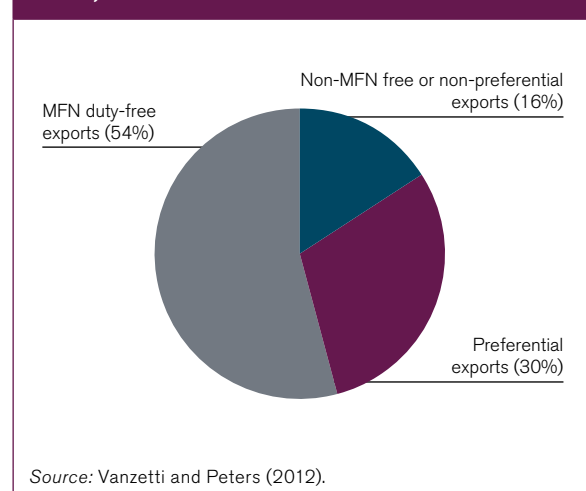
Beyond goods, the WTO has also allowed members who were willing to grant LDC services and services providers preferential access to their markets to do so. At the WTO's Eighth Ministerial Conference in 2011, members adopted a decision allowing WTO members to grant LDC services and services providers preferential access to their markets for 15 years. This was followed in 2013 by a decision to grant a waiver to these members since by granting these preferences they will be departing from their MFN obligations. Subsequently, at the WTO's Tenth Ministerial Conference in 2015, the lifespan of the 2011 decision was extended for an additional four years, until 31 December 2030.

By the end of 2015, the WTO had received a total of 21 notifications of preferential treatment to LDC services and service suppliers on the part of 48 members (counting EU member states individually). In their assessment of the notifications, LDCs noted that a significant number of the sectors and modes of supply in which they had sought preferences were reflected in the notifications. However, there was a sense that more needed to be done to address requests on preferential measures related to Mode 4 (referring to the presence of persons originating in one WTO member in the territory of another for the purpose of providing a service) of the GATS, and on related measures regarding visas, work permits, residence permits and recognition of professional qualifications and accreditation. It bears noting that such measures have been identified in other portions of this report as constituting issues of particular concern for SMEs in their efforts to participate in trade.

(ii) Reducing the fixed costs of trade

Besides reducing variable trade costs, WTO agreements reduce the fixed costs of trade, and by doing so, help smaller firms. This discussion focuses on three WTO agreements but the discussion could apply more broadly to other agreements. In addition, work in existing committees overseeing these agreements on the issue of transparency provides further insights into how SMEs might be benefitted.

Figure E.8: Exports and MFN tariffs facing LDCs, 2010



While it is not yet in force, implementation of the Trade Facilitation Agreement can reduce some of the fixed costs arising from inefficient trade procedures, thereby increasing SME participation in trade. As discussed in Section D, one finds a positive correlation between the minimum size of exporting firms and export times (WTO, 2015). Additionally, SMEs are more likely to export and increase their export shares than larger firms if the length of time needed to export is shortened. SMEs also profit relatively more with trade facilitation improvements that increase the availability of customs information and allow for advance rulings and improve appeal procedures (Fontagné et al., 2016).

The other WTO Agreements to highlight are the Agreement on Technical Barriers to Trade (TBT) and the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures. Governments use TBT and SPS measures to achieve important domestic policy objectives such as the protection of human health, but they can have spillover effects on trade. One possibility is that complying with such measures only increase trade costs and therefore reduces trade opportunities. Another is that such measures – when they address an existing market failure, such as lack of certainty in consumers' minds about the quality or safety of a product – can increase the demand for the product, even if compliance raises costs, thereby increasing trade instead. This ambiguity is reflected in the empirical literature. There is a large body of empirical literature showing that, at the aggregate level, such measures might not reduce trade (Swann et al., 1996; Temple and Urga, 1997; Kox and Nordås, 2007). On the other hand, firm-level studies tend to show that TBT and SPS measures reduce trade both through lower trade volume and market entry, particularly for small firms (Maertens and Swinnen, 2009; Reyes, 2011; Fontagné et al., 2015).

An important point to make is that the TBT and SPS Agreements contain disciplines that limit the trade cost raising effects of these measures. The TBT Agreement stipulates that technical regulations shall not be more trade-restrictive than necessary to fulfil members' policy objective(s). It encourages members to use international standards where these are appropriate. Similarly, the SPS Agreement encourages WTO members to base their measures on international standards, guidelines and recommendations. If they maintain or introduce measures which result in higher standards, there should be scientific justification for them, or they should be based on an appropriate risk assessment.

The importance that the two agreements give to international standards is particularly pertinent to SMEs, as it is likely to be more burdensome for them to

comply with a plethora of different national standards. More generally, in the absence of the disciplines of the TBT and SPS agreements, national authorities would have greater discretion to determine the stringency of technical regulations and SPS measures, which would impose higher fixed costs on trade.

(iii) Increasing transparency

As noted above, standards and regulations also have welfare-enhancing effects, to the extent that they further legitimize policy objectives (such as to protect human health and safety and environment). Nevertheless, despite good intentions, many of these non-tariff measures may be opaque and inefficient in achieving otherwise legitimate objectives (WTO, 2012). Problems may arise in implementation, for example: the regulation may be unclear, giving rise to uncertainty for suppliers/producers; the impact may be different, affect smaller firms more than larger ones; or compliance may be tricky to assess and verify. These are typical concerns that are regularly discussed in the WTO's TBT and SPS Committees. Whether in isolation or combined, factors such as these may create unnecessary costs and cause friction in international trade. Two anecdotal examples flowing from work at the Committee level follow.

In the TBT Committee the potential impact on SMEs of the European Union's regulation on the "Registration, Evaluation, Authorisation and Restriction of Chemicals" (REACH) was discussed at length. Several members said that SMEs exporting chemicals to the European Union would have difficulty complying with the complex, burdensome, costly chemical registration rules in light of their financial and human resource capacity limitations. The requirement for importers – including SMEs – to maintain a representative in the EU market (the so-called "Only Representative" provision) was especially prohibitive for SMEs, since they lacked the means to find appropriate representatives.

SMEs were also disadvantaged in terms of participation in bodies established to share REACH compliance costs between firms (in substance information exchange forums).¹⁷ The European Union undertook a review of REACH in 2013, and, subsequently, reduced registration fees for SMEs and launched a technical assistance and outreach programme to engage with SMEs on this specific regulation.¹⁸

On the SPS side, some members raised concerns about an EU regulation affecting trade in "novel foods". The potential adverse impacts of this new regulation on SMEs in developing countries was highlighted, including with respect to the amount of information needed and the cost implications for small-scale farmers and exporters in undertaking the required

scientific studies. Revisions to the regulation were introduced and, in December 2013, a new regulation on novel foods was adopted. The proposed new regulation focused on easing market access for traditional foods, including those produced by small producers through simplification of approval procedures. The European Union also undertook several other initiatives aimed at helping firms comply with the regulation, including SMEs, e.g. the preparation of a Novel Food Catalogue, a document indicating how interested operators could establish whether a food or food ingredient had a history of consumption in the European Union.¹⁹

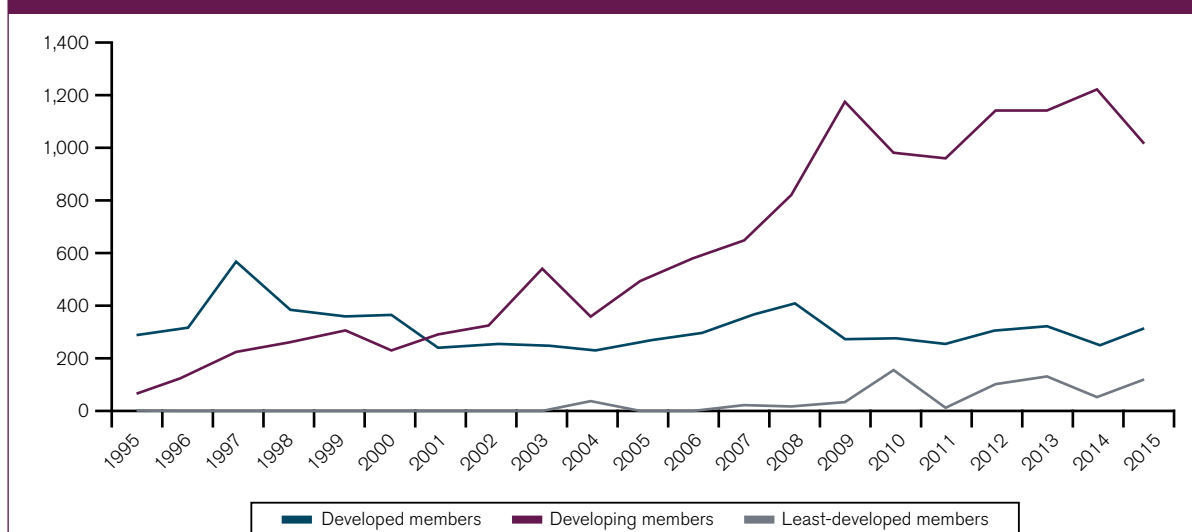
Obstacles arising from standards and regulations are particularly pernicious for small firms. For example, smaller firms may lack the necessary resources: i) to seek information about foreign regulations that may affect their trade (see enquiry points below); ii) to engage with trading partners with the aim of ensuring that new regulations do not unnecessarily affect their exports; iii) to engage in standard-setting activities at home or in an international contexts to ensure that standards being developed take into account their commercial interests; or finally iv) to comply: smaller firms may simply lack the capacity (human and/or financial) to adapt to regulations (irrespective of their legitimacy). In short, small firms may often be left in the dark, may not have a collective/coherent voice in international settings or trade fora – and are more likely to end up as standards-takers rather than makers.

Aside from actually complying with the standards and regulations, SMEs also face a heavy burden in *demonstrating* compliance with regulations and standards, through conformity assessment procedures

such as testing and certification. Indeed, a growing number of concerns in the TBT Committee are related to these types of procedures – rather than the underlying requirements themselves. In a submission to the TBT Committee, Chinese Taipei presented the results of a survey highlighting issues faced by SMEs from conformity assessment procedures in foreign markets, including lack of information and uncertainties over the time and costs to complete the procedures, which imposes extra costs on SME exporters who in many cases use a rapid turnover rate of goods to remain competitive.²⁰

Both the WTO SPS and TBT Committees have put much emphasis on developing procedures that enable all members to make full use of the transparency disciplines contained in their respective agreements. These provisions are essentially about enabling members, through “notifications”, to become aware of regulations in the pipeline before they enter into force. Indeed, lack of information about regulatory barriers – or uncertainty about their effects – is the main reason measures are raised for discussion in the SPS or TBT Committees in the first place. Receiving information about new regulations or standards at an early stage, before they are finalized and adopted, gives trading partners an opportunity to provide comments either bilaterally or in the Committee, and to receive feedback from stakeholders. This dialogue can assist in improving the quality of draft regulations and avoiding potential unnecessary trade costs further down the road. The submission of TBT notifications, for instance, has increased steadily since 1995 with a growing proportion of notifications coming from developing countries, while those from developed countries have remained relatively stable (see Figure E.9).²¹

Figure E.9: New TBT Committee notifications by development status, 1995-2015



Source: WTO official document G/TBT/38/Rev.1, Chart 7, p.8 (24 March 2016).

While large firms may invest in human resources to gather information about TBT/SPS measures (dedicated regulatory affairs staff), SMEs lack the resources to do so. Both the TBT and SPS Agreements require members to establish Enquiry Points – to provide information and answer questions from other members and interested parties on proposed or adopted TBT or SPS measures. In this manner, the services provided by TBT and SPS Enquiry Points help to level the playing field for SMEs in terms of access to information about TBT and SPS measures.

Recently there has been a push to further enhance the reach of information on standards and regulations through an “Alert System for SPS and TBT Notifications”. This stems directly from a mandate given to members in the TBT Committee at the end of 2015.²² The Alert System (detailed in Box E.3) will be a publicly available and self-subscribing service aimed at providing timely access to SPS and TBT notifications of particular interest to users, based on criteria such as product coverage or notifying members. It will help public and private stakeholders to track, consult and comment on measures that are being developed and/or adapt as necessary to changing regulatory conditions. It is particularly aimed at ensuring a reliable and sustainable source of information for developing countries and LDCs.

The mechanism, which will be launched in November 2016, is a joint effort between the WTO, the data provider, the United Nations Department for Economic and Social Affairs (UN DESA), which was responsible for the initial design and pilot, and ITC, which will host and manage the service.

It is worth mentioning that transparency obligations are included in most WTO agreements, and that the SPS and the TBT Agreements are not the only ones requiring members to establish enquiry points. Article 3.1 of the Trade Facilitation Agreement, for instance, mandates members to “establish or maintain [within its available resources] one or more enquiry points to answer reasonable enquiries of governments, traders, and other interested parties on matters covered by paragraph 1.1” (procedures, rules, duties, fees and charges and other provisions related to importation, exportation and transit). In addition, the enquiry points shall provide forms and documents required for importation, exportation, and transit procedures if requested by an interested party. As it was argued in Section D.2 with reference to the results of Fontagné et al. (2016), small exporting firms profit relatively more than large firms from these trade facilitation improvements relating to information availability.²³

Box E.3: Alert system for WTO SPS and TBT notifications

The significant increase in the number of SPS and TBT notifications submitted by WTO members, especially developing countries, in recent years has been a welcome development in terms of the transparency and availability of information on standards and regulations. However, this has also posed a new challenge: that of monitoring and tracking this information, and reacting in a timely fashion to the evolving regulatory landscape. Therefore, there has recently been a push to improve the awareness of information on regulations through an alert system for WTO SPS and TBT notifications. As argued in Section C.3(a), this stems directly from a mandate given to the WTO Secretariat in the TBT Committee at the end of 2015. At the same time, in its work focusing on institutional capacity building in LDCs, UN DESA has identified access to relevant trade-related information as one of the challenges faced by LDCs and has launched an initiative to facilitate dissemination of SPS and TBT notifications. The two organizations have now joined forces and also reached out to ITC, which already offers a series of online information tools on trade, in particular for the benefit of SMEs. While some members have already developed their own alert systems, a global system, drawing on the expertise of the three agencies, will ensure reliability of data and sustainability while avoiding unnecessary duplication of effort, especially for developing countries and LDCs.

The notification alert system (to be launched in November 2016) will be a publicly available and self-subscribing service, whereby users will be able to receive email (eventually SMS) alerts regarding SPS and TBT notifications covering particular products or markets of interest to them. In addition, it will offer an Enquiry Point Management Tool to facilitate domestic as well as international information sharing and discussion. The system is expected to help public and private stakeholders, in particular SMEs, to track, consult and comment on measures that are being developed and/or adapt as necessary to changing regulatory conditions. When accompanied by complementary efforts with regards to coordination and capacity building, it may constitute a significant contribution to the UN's Sustainable Development Goals (SDGs), for example Goal 17, objective 11 on significantly increasing the exports of developing countries, in particular with a view to doubling LDCs' share of global exports.

(b) The role of other WTO agreements, plurilateral agreements and work programmes

The special situation of SMEs is acknowledged and addressed in a number of WTO agreements, plurilateral agreement and work programmes. This section describes the relevant provisions in the agreements or work programmes and explains the context or difficulty being dealt with. Although there is some danger involved in attempting to categorize the provisions and work programmes that have a bearing on SMEs, it also has some value as it enhances our understanding of how the WTO tries to alleviate the difficulties faced by SMEs.

- WTO agreements often impose information requirements on members that trickle down to the enterprise level. Some provisions in WTO agreements (e.g. the Anti-dumping Agreement) reduce the burden of these requirements for SMEs.
- Some provisions make it easier for a member to make use of its rights under a WTO agreement (e.g. the Anti-dumping Agreement) when it acts on behalf of SMEs.
- Under certain specified conditions, WTO agreements allow members to provide financial contributions to SMEs (e.g. the Agreement on Subsidies and Countervailing Measures (SCM)).
- Some provisions in WTO Agreements give members greater leeway to promote the technological development of their SMEs (e.g. the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)).
- Some plurilateral agreements (e.g. Government Procurement (GPA)) allow members to provide preferential treatment to their SMEs.
- Some WTO work programmes (e.g. electronic commerce, small economies) have a prominent SME focus examining how best SMEs might take advantage of e-commerce or connect to GVCs.
- Some WTO initiatives, such as that on trade finance, alleviate a major constraint faced by SME traders in LDCs and developing countries.
- Finally, many of the WTO's capacity-building efforts benefit SMEs in poor countries by enhancing their productive capacity or helping them to connect to markets.

While this report is able to identify and highlight these provisions and work programmes, it is not in a position

to evaluate the effectiveness of these provisions in assisting SMEs. However, given the interest by policy-makers on the subject of SMEs and trade, further analytical work along these lines would be welcome.

(i) *Anti-dumping*

The Anti-dumping Agreement recognizes how size may affect enterprises' ability to obtain recourse to anti-dumping when they are injured by dumped imports or, in the case where they are the targets of an anti-dumping investigation, when they are burdened by informational requirements of investigators.

It is likely that an industry populated by a host of small firms ("fragmented industry") will have greater difficulty in obtaining anti-dumping protection than an industry that is composed of a few large enterprises. Not only will the cost of organizing be much higher in the former case, but firms are likely to be burdened by a free rider problem. No individual firm will want to take the lead since even in the best case scenario, that its initiative leads to a successful anti-dumping duty applied to foreign imports, the benefits of anti-dumping protection will accrue to every other rival domestic firm. Every firm will prefer to take no action and free ride on the initiative taken by another firm.

Another difficulty that is likely to be encountered by a fragmented industry in initiating an anti-dumping investigation is the requirement for national authorities to have determined that the application for an investigation has been made by the "domestic industry". From an informational perspective, such a determination is easier to make when the domestic industry is made up of a few large firms than when it is made up of a large number of small firms. While there is probably very little that the Anti-dumping Agreement can do to remedy the free rider problem, at least on this second point, the Agreement allows national authorities to determine support or opposition to an investigation through the use of (statistically valid) sampling techniques,²⁴ which will reduce the hurdle for firms in a fragmented industry.

Article 5.6 of the Anti-dumping Agreement allows national authorities to initiate an anti-dumping investigation even in the absence of a written application from domestic industry under "special circumstances". Although the Anti-dumping Agreement does not clarify the nature of these special circumstances, the negotiating history of the Anti-dumping Agreement suggests that one of those situations is precisely when the domestic industry is highly fragmented.²⁵

Where exporters are the subjects of an anti-dumping investigation, information will be required from them by investigating authorities. They are also entitled to

present evidence to authorities which they consider relevant to the investigation. The information and evidentiary burden of an investigation may weigh more heavily on small exporters. The Anti-dumping Agreement thus provides for authorities to “take due account of any difficulties experienced by interested parties, in particular small companies, in supplying information requested, and shall provide any assistance practicable”.²⁶

(ii) *Subsidies and countervailing measures*

Many governments have programmes that support their SME sector, including through the provision of subsidies. Under the Subsidies and Countervailing Measures (SCM) Agreement, subsidies that are not specific are exempt from being subject to countervailing duties imposed by other members, or from being challenged at the WTO (provided they are not contingent on export performance or the use of domestic over imported goods). A subsidy is not considered specific if (i) there are objective criteria or conditions governing the

eligibility for and amount of a subsidy and (ii) eligibility to receive the subsidy is automatic.

The SCM Agreement clarifies that “objective criteria or conditions mean criteria or conditions which are neutral, which do not favour certain enterprises over others, and which are economic in nature and horizontal in application, such as *number of employees or size of enterprise*” (italics added).²⁷ This would suggest that SME support programmes which meet the stipulations specified in the footnote – neutral, economic in nature, and horizontal in application – and for which support would then be automatic on meeting the stipulations, will generally be exempt from countervailing duties imposed by other members, and also from the disciplines of the SCM Agreement.²⁸

The issue of SMEs has also surfaced in the Doha Round negotiations on WTO rules. Box E.4 provides some details of how exemptions for SMEs are being sought in certain areas of the current rules negotiations on fishery subsidies.

Box E.4: Fishery subsidies and SMEs

At the WTO's Fourth Ministerial Conference, which was held in Doha, Qatar in 2001, WTO members agreed on negotiations to clarify and improve WTO disciplines on fisheries subsidies. Subsequently, at the WTO's Sixth Ministerial Conference, held in Hong Kong, China, in 2005, members came to a broad agreement on strengthening those disciplines, including through a prohibition of certain forms of fisheries subsidies that contribute to overcapacity and overfishing.

The scope of the prohibitions of subsidies would be modulated by general exceptions, access to which would be conditional upon compliance with certain fisheries management provisions. For developing members, in addition to the general exceptions, there would be special and differential treatment, consisting of a sliding scale of further exceptions from particular prohibitions, calibrated to the nature, scale and geographic scope of the activities involved. As with general exceptions, access to most special and differential treatment exceptions would be conditional upon implementing certain fisheries management obligations.

One type of fishery subsidy that has been highlighted for possible exemption from prohibition is that benefiting the artisanal or small-scale fisheries of members. While there appears to be general support for the idea, members are divided on whether the exemption should apply to the artisanal or small-scale fisheries of *all* members or only to those of developing country members.

Advocates of exemption from any prohibition argue that regardless of the development status of a member, small-scale or artisanal fisheries tend to be conducted by individuals who are economically and socially disadvantaged and who, due to their small scale, have little or no possibility to contribute to global overcapacity or overfishing.

Others, however, see no justification for such an exception for developed members, considering that their artisanal and small-scale fisheries are much wealthier and better equipped than the artisanal and small-scale fisheries of developing countries. These members take the position that there are no clear descriptions or criteria for identifying small-scale fisheries of developed members, nor any convincing reasons why those fisheries need subsidization. Their view therefore is that any exceptions for subsidies to artisanal and small-scale fisheries should be strictly limited to the special and differential treatment provisions.

Box E.4: Fishery subsidies and SMEs (continued)

A somewhat related issue that has been raised in several proposals is a *de minimis* general exception, with a higher threshold for developing members, possibly differentiated according to their size and/or share of global capture. Under this approach, members would be able to provide subsidies of any type, up to the threshold (expressed either in absolute terms or as a percentage of total catch value or some other indicator). Advocates of this approach argue that it would be a simple, easily administered way to address the concerns of developed as well as developing members in respect of their artisanal or small-scale fisheries, without having to grapple with the difficult-to-resolve definitional issues.

Source: Communication from the Chairman of the Negotiating Group on Rules, WTO official document number TN/RL/W/254, dated 21 April 2011.

(iii) Agreement on Trade-Related Intellectual Property Rights (TRIPS)

Even in the case of OECD countries, evidence suggests that SMEs are not always able to use the intellectual property (IP) system effectively (WIPO, 2010). There appear to be a number of reasons for this: they have limited knowledge of the system, they have high costs, and they lack the legal, business and technical know-how to leverage their IP assets into a successful business plan (WIPO, 2010).

The situation for SMEs in developing countries is likely to be even more challenging. This may explain why many WTO members, whether developed or developing

often have programmes that try to assist SMEs better access the intellectual property system. Article 8 of the TRIPS Agreement allows WTO members “to promote the public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of [the] Agreement”.

Discussions at a number of meetings of the TRIPS Council, the WTO body responsible for monitoring the operation of the TRIPS Agreement, provide a rich vein of information about the many IP-related initiatives taken by WTO members to support their SMEs.²⁹ Table E.2 provides several examples of the initiatives described by the members.

Table E.2: IP-related initiatives to support SMEs

WTO member	IP-related programmes for SMEs
Chile	<p>A new law had been introduced on research and development (R&D), which provided for tax incentives to enhance the competitiveness of Chilean SMEs, with a view to encouraging development and the use of new technologies. Under that law, the cost of the resources used by SMEs for R&D might be reduced by 35 per cent through tax benefits.</p> <p>Start-Up Chile encourages high-potential entrepreneurs with companies in the start-up phase to come to Chile and use the country as a platform for international business. In 2010, the programme, then in its pilot phase, brought the first 22 start-ups to Chile from 14 countries, providing each of them with US\$ 40,000 of capital and a one-year visa to develop their projects in the country for six months.</p>
Republic of Korea	<p>The Republic of Korea IP Office had provided a 70 per cent reduction in fees to SMEs. In addition, various measures had been implemented in Korea aimed at simplifying the requirements for the filing of evidentiary documents of each application for SMEs and extending their validity to a maximum of four years.</p> <p>IP-related consulting for SMEs.</p> <p>Assistance for SMEs to develop their brands.</p> <p>Customized support for patent training for SMEs.</p>

Table E.2: IP-related initiatives to support SMEs (continued)	
WTO member	IP-related programmes for SMEs
Chinese Taipei	<p>The Intellectual Property Management System provides consultation services to SMEs, such as experience-sharing sessions, workshops, training courses, and the like.</p> <p>An IP service platform for SMEs called the Innovative SMEs IP Value Project had been established. The platform is dedicated to sharing IP consultation methods, enlarging SMEs' knowledge and capacity, and enhancing the quality of their IP decisions. Tailor-made IP consultations and diagnoses were also provided to individual SMEs, with a view to strengthening their patent deployment in the R&D phase, shortening the R&D process.</p>
United States	<p>Under the America Invents Act, which was signed into law in 2012, a <i>pro bono</i> programme assists financially under-resourced independent inventors and small businesses.</p> <p>The "Startup America" initiative of the US administration aims to:</p> <ul style="list-style-type: none"> ▪ expand access to capital for high-growth start-ups; ▪ expand entrepreneurship education and mentorship programmes; ▪ strengthen commercialization of federally-funded research and development which can generate innovative start-ups; ▪ identify and remove unnecessary barriers to high-growth start-ups; and ▪ expand collaboration between large companies and start-ups.

Another measure that some members have taken is to charge SMEs much lower fees than larger enterprises for filing patent applications and other services provided by their patent offices. The information contained in Table E.3, while far from being comprehensive, shows which WTO members have provided such assistance to their SMEs. This assistance lowers the costs faced by SMEs of applying for intellectual property protection for their inventions. The discounts can be quite substantial – in the order of 50 per cent for "small" enterprises and as much as 75 per cent for enterprises considered "micro".

(iv) Services

A host of issues have been identified by WTO members, in submissions and in oral interventions, as posing problems to SMEs' services exports. The issues most commonly cited include discriminatory and non-transparent regulatory frameworks, insufficient information about regulations, commercial presence requirements, lack of recognition of qualifications, difficulties in the movement of personnel, onerous licensing requirements, uncertainties regarding applicable laws, limited access to payment mechanisms, lack of clarity regarding rules

Table E.3: Special patent filing fees for SMEs of selected WTO members		
Country	Special patent fees for SMEs	Links
Argentina	Yes, for renewal SMEs get discount	http://www.inpi.gov.ar/index.php?id=107&criteria=2
Brazil	Yes, discount for microenterprises	http://www.inpi.gov.br/arquivos/patentes.pdf
Canada	Yes, discount for small entities	http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr00142.html?Open&wt_src=cipo-patent-main
France	Yes, discount for SMEs	https://www.inpi.fr/fr/services-et-prestations/aides-aux-pme-et-aux-centres-de-recherche
India	Yes, distinction for small firms	http://ipindia.nic.in/ipr/patent/patent_FormsFees/Fees.pdf
United States	Yes, special fees for small and micro enterprises	http://www.uspto.gov/learning-and-resources/fees-and-payment/uspto-fee-schedule

for the electronic delivery of services, and difficulties in obtaining access to much-needed supporting services such as the Internet, legal services, advertising and accounting. As such, it emerges that members' observations regarding obstacles and challenges to SMEs in services trade are largely consistent with those identified in economic research, surveys and other material cited in Section D of this report.

Throughout the early years of the Doha Development Agenda negotiations, SME-related issues in relation to trade in services were often raised by members. There were also voices, especially from developing countries, advocating negotiating approaches that took into account the size of the supplier as well as the type of economy involved; and approaches such as providing preferential treatment for SMEs from developing countries. Further discussion surfaced occasionally between 2001 and 2005. Some delegations cautioned that negotiating perspectives based on firm size, for example, that might discriminate between enterprises of different sizes, might hinder competition and the efficient allocation of resources. More recently, in 2011 and 2012, the Swiss Delegation tabled submissions on the role of SMEs in the Swiss services economy and on the electronic delivery of services by SME exporters. Turkey also shared information on trade by its SMEs. However, the focus of services discussions increasingly turned to proposals that the GATS should have a mechanism to extend preferential treatment to LDCs, similar to the enabling clause of the GATT. The two topics were not mutually exclusive as many of the ultimate beneficiaries of such a mechanism would likely be SMEs active in or hoping to enter export markets for services.

Classification talks to improve the certainty of market access undertakings

The GATS Committee on Specific Commitments deals with, among other things, classification and scheduling issues that might enhance the clarity and predictability of members' schedules of commitments of market access and national treatment undertakings on services trade.

For some time, the GATS Committee on Specific Commitments has considered the issue of "new services". Background information provided by the Secretariat to assist members in their discussion contained, for example, an illustrative list of services identified by members in their previous discussions as not being explicitly referred to in the GATS classification system. In many cases such examples are information technology (IT) services or IT-enabled services that have become tradable, or more easily tradable than in the past, by virtue of new technologies. Further, in a few

cases, such services can be linked to activities such as business process outsourcing services, wherein SMEs have often successfully entered global value chains in recent years.

The GATS classification system did not necessarily attain a level of specificity that would permit members to clearly indicate sectors in their schedules where such activities might benefit from commitments. Call centre services and cloud computing were among some of the examples discussed. Despite the importance of more adequately capturing some such services in the classification most often used for scheduling, members expressed divergent views. Some delegations suggested that few services were actually "new" because most could fit somewhere within existing classification categories. Other delegations worried about the implication of such an approach for a possible backward re-interpretation of existing GATS commitments.

Meanwhile, some governments, such as those participating in a plurilateral negotiating group on cross-border supply, led by India, have tried to identify specific activities within the GATS classification system, as well as some more updated versions, which would be likely candidates for outsourcing to SMEs in developing countries. Similar efforts were conducted to identify services subject to request in the context of the LDC waiver.

Ongoing work on GATS rules

SME-related issues have also been raised in the Working Party on GATS Rules, which addresses the possibility of completing "unfinished" GATS rules in the areas of safeguards, subsidies and government procurement. In statements promoting the desirability of an emergency safeguard mechanism (ESM) in services trade, delegations from ASEAN economies cited potential examples whereby the viability of SMEs in retail trade might be threatened by the sudden entry of large retail competitors taking advantage of GATS commitments under Mode 3 (commercial presence); foreign chains might then replace small independent stores, causing injury to the small businesses.

According to the proponents, an emergency safeguard mechanism would provide breathing space for the SME suppliers to adapt and survive. Other delegations remained unconvinced of the need for safeguard action to address what they considered to be mostly a structural problem for which, if necessary, other instruments might be available.

(v) Work programme on e-commerce

When the WTO launched its work programme on e-commerce in 1998, ministers agreed to a

provisional moratorium on customs duties on electronic transmissions and directed the WTO General Council to define the work. Shortly thereafter, the General Council circulated a background note on e-commerce and WTO agreements and designated issues to be examined by the WTO Councils for trade in goods, services and intellectual property rights, as well as the Committee on Trade and Development. The work programme has continued since that time, most recently extended by the Ministerial Decision taken in Nairobi in December 2015, which also maintained the moratorium on customs duties.

Since the inception of the work programme, development was clearly among the issues designated for discussion and, in that context, the relevance to SMEs did not go unheeded. SMEs were first explicitly cited at the ministerial level as an issue for discussion in the Decision on Electronic Commerce of the Seventh WTO Ministerial Conference in 2009 (i.e. to extend the moratorium on import duties on electronic transmissions until the Eighth Ministerial Conference).

Although no formal conclusions have yet been issued by the bodies conducting the work programme, an emerging consensus was that the provisions of their respective agreements appear to be technology-neutral, hence, applying to trade in all its forms, including trade via the Internet. There has also been broad recognition of the importance of the work on e-commerce for SMEs in various bodies, particularly the Committee on Trade and Development (CTD) and the Services Council.

With the reinvigoration of the Work Programme in 2011, services discussions on the subject resumed. During this period, members submitted some new material for consideration under the discussions. These included, for example, possible ICT trade principles, the role of SMEs, the evolution of cloud computing and mobile apps, licensing practices, consumer protection and authentication. In particular, Switzerland made a submission of the experience of SMEs and their activities related to e-commerce in Switzerland.³⁰ Among its findings are that, the larger the company, the more it sells via the Internet. SMEs and large companies face the same obstacles to cross-border e-commerce, which is lack of knowledge about the foreign market (consumer preferences, language, regulatory environment, etc.). However, larger companies are better in acquiring the required knowledge.

The Council for Trade in Services considered a variety of submissions made by members over the course of 2015, including one that aimed to increase focus on SMEs. In that submission, China proposed that the Council embark on a structured information-sharing

exercise on topics relevant to the work programme, and suggested that challenges to SME participation in e-commerce was a topic that such an exercise could cover. China's proposal was subsequently accepted and, by the end of the year, interventions on were contributed by China and Nigeria covering their countries' progress in e-commerce, including by SMEs.

On other issues, members reverted to a US communication on cross-border information flows, localization requirements, privacy protection and cloud computing, which aimed at fostering a dialogue and information-sharing exercise on these topics. As noted in Section D, some of these topics, such as cloud computing and localization requirements, can be relevant to reducing trade costs incurred by SMEs as they seek to employ new technologies to increase their participation in trade.

In 2015, the IP-related issues discussed by the Council for TRIPS included latest technologies and their uses, and how IPRs can promote innovation in IT technologies. Accordingly, one of the recurring agenda items of the TRIPS Council is "IP and Innovation". In particular, a meeting focusing on this topic discussed "entrepreneurialism and new technologies". Under this item, members shared experiences and detailed examples of SMEs and start-up enterprises in the area of new and mobile technologies to illustrate the role that IP played in bringing innovation to the market. The focus lay, in particular, on start-ups commercializing mobile technologies and apps, including the benefits these can have for developing countries.

Other topics of interest managed by the Council for TRIPS, including discussion that took place in 2015, included the transfer of technology to developing countries and overseeing technical assistance to developing countries.

At the April 2012 meeting of the CTD, members discussed the 2011 Ministerial Decision on E-commerce, which instructed members to "emphasize and reinvigorate the development dimension in the Work Programme, particularly through the CTD, and to examine and monitor development-related issues such as technical assistance, capacity building, and the facilitation of access to electronic commerce by micro, small and medium-sized enterprises, including small producers and suppliers, of developing countries and particularly least-developed members". In July 2012, Ecuador and Cuba presented a paper titled "Terms of Reference: Workshop on E-commerce, Development and Small and Medium-sized Enterprises". In February 2013, the Secretariat and the CTD produced a background note in response to this request for a workshop. The note focused on the relationship between e-commerce

development and SMEs, and on how some SMEs have used e-commerce to promote, market, service and sell their products nationally and internationally.

At the conference on E-commerce, Development and SMEs organized by the CTD in April 2013, it was highlighted that international organizations can promote and address some e-commerce issues, for example issues relating to technical assistance and capacity building, taking into account country-specific needs. It was also suggested that international organizations, including the WTO and the ITC, could help disseminate knowledge and understanding and explain the issues and challenges, and which models and approaches have worked best.

At the CTD's meetings held in 2014, the Chair asked members to consider how to address some of the issues emerging in the discussions on e-commerce, such as how to enhance economic and development opportunities, with special consideration of the situation in developing countries, particularly in LDC members and least-connected countries. Members were also asked to continue to examine opportunities and challenges for access to e-commerce by micro, small and medium-sized enterprises, including small producers and suppliers.

(vi) Trade finance

As noted in Section D, lack of access to finance tends to fall disproportionately on SMEs and these credit constraints are particularly reflected in access to trade

finance. The WTO has been working to keep finance flowing for trade. Special attention has been devoted to the difficulties faced by traders in LDCs and developing countries where firms are generally small.

In 2011, the WTO Director-General and the President of the World Bank, along with the heads of multilateral development banks, drew the attention of the international community to trade finance difficulties, an important concern among SMEs in low-income countries. The main thrust of this initiative was to support multilateral development banks in establishing a global network of trade finance facilitation programmes. All in all, multilateral trade finance facilitation programmes helped facilitate over US\$ 30 billion in trade in low-income countries in 2014 (see Table E.4).³¹ Almost one-third of the International Finance Corporation's total operations took place in sub-Saharan Africa, and the ADB's risk-mitigation support mainly caters to the poorest regions in Asia, such as Bangladesh, Nepal, Pakistan, Sri Lanka, Uzbekistan and Viet Nam.

Despite these efforts, over half of trade finance requests by SMEs are rejected, against just 7 per cent for multinational companies (DiCaprio et al., 2015). SMEs in developing countries face even greater challenges in accessing trade finance. The estimated value of unmet demand for trade finance in Africa was US\$ 120 billion in the year 2012 (AfDB, 2014) and US\$ 700 billion in developing Asia (DiCaprio et al., 2015).

In an effort to mitigate these problems, the WTO Director-General issued a call in April 2016 for action

Table E.4: Overview of the main multilateral development bank trade facilitation programmes

	European Bank for Reconstruction and Development	International Finance Corporation	Inter-American Development Bank	Asian Development Bank
Programme title	Trade Facilitation Programme	Global Trade Finance Program (GTFP)	Trade Finance Facilitation Program (TFFP)	Trade Finance Program
Number of countries in operation	23	96	21	18
Programme commencement	1999	2005	2005	2004
Number of transactions since commencement (year ending 31 December 2012)	15,508	31,600	4,457	8,338
Value of transactions in 2013	€ 1.2 billion	US\$ 22 billion	US\$ 1.2 billion	US\$ 4 billion
Number of confirming banks	800+	1,100	297	124
Claims to date	2 – no losses	zero	zero	zero

Source: ICC (2014), p. 75.

to help close the gaps in the availability of trade finance that affect the trade prospects of small and medium-sized enterprises (SMEs), particularly in Africa and Asia. Among the additional steps that the Director-General encouraged multilateral lending agencies, the private sector and financial regulators to take are:

- enhancing existing trade finance facilitation programmes to reduce the financing gap by US\$ 50 billion;
- reducing the knowledge gap in local banking sectors for handling trade finance instruments by training at least 5,000 professionals over the next five years;
- maintaining an open dialogue with trade finance regulators to ensure that trade and development considerations are fully reflected in the implementation of regulations; and
- improving monitoring of trade finance provision to identify and respond to gaps, particularly relating to any future financial crises.

(vii) *Government procurement*

The WTO Agreement on Government Procurement (GPA) is a plurilateral instrument regulating the conduct of international trade in government procurement markets. The GPA was recently renegotiated and the revised Agreement came into force in April 2014. The GPA intends to bring more competition, transparency and procedural fairness in the procurement markets it covers (as specified in the annexes to its Appendix I). The GPA also serves broader purposes of promoting good governance, the efficient and effective management of public resources, and the attainment of best value for money in national procurement systems.

In its approach, the GPA encourages the widest possible participation in procurement markets and is therefore designed to help governments attract the best possible suppliers offering their goods and services at the most competitive prices. It aims to help governments achieve the best value for money, and suppliers to gain access to markets that were previously closed to them, whether because of formal reasons such as discriminatory policies, or practical obstacles, such as a lack of transparency regarding opportunities and conditions for participation.

The GPA's role in facilitating the integration of SMEs into procurement markets is important in two respects (Nicholas and Müller, 2016). First, the GPA, like RTAs, ultimately derives its *raison d'être* from its usefulness in facilitating private sector suppliers' access to procurement markets abroad. In that regard,

SMEs contribute to rendering it effective, as SMEs represent a large majority of firms worldwide. Second, the GPA is part of, and is derived from, an emerging standard of international best practices in government procurement, and seeks to increase good governance and the efficiency of public procurement systems for the benefit of governments and their citizens. In order for these goals to be achieved, and to increase the effectiveness of procurement systems worldwide, the barrier-reducing measures that the GPA proposes need to work in tandem with SME support measures. While the GPA does not contain specific provisions on the issue as part of its core provisions, the Committee on Government Procurement has adopted a Decision establishing a Work Programme on SMEs.³²

This Decision recognizes the importance of facilitating SME participation in government procurement and the need to avoid introducing or continuing discriminatory measures that distort open procurement. The overall objective of the Work Programme is to review measures and policies for SMEs that parties to the Decision may use to assist, promote or facilitate participation by SMEs in government procurement, and to prepare a report of the results of the review.

The Decision also contains a number of important elements. One is transparency, as it requires parties maintaining specific provisions on SMEs in their Appendix I schedules to notify such measures and policies to the Committee on Government Procurement. A second element of the SME Work Programme involves the conduct of an SME survey to collect information on the measures and policies used to assist, promote, encourage or facilitate participation by SMEs in government procurement. The SME survey will be used by parties to the GPA to identify the measures and policies that they consider to be best practices for promoting and facilitating the participation of SMEs in government procurement. Parties to the GPA will be encouraged (i) to adopt the best practices identified in the assessment of the survey and (ii) to review the other remaining measures with a view to either eliminating them or applying them to the SMEs of the other parties to the Agreement.

The Committee on Government Procurement initiated its work on the Work Programme on SMEs in June 2014 and several dedicated discussions have taken place since then. The great majority of the parties to the GPA have provided their responses to the SME survey, and a compilation of all responses received was circulated to the parties in February 2016. The Work Programme is expected to be an important focus for the Committee in 2016 and subsequently.

As a whole, the GPA encourages SME participation and related measures in a number of ways. First, it is helpful

in identifying measures by which the general features of procurement legislation and systems relating to transparency, integrity and competition may be improved. These “level the playing field” for all potential suppliers, and can be expected to remove obstacles to participation, of particular relevance to SMEs, as a first step. Important synergies therefore exist between SME policies and the objectives, rules and principles of the GPA.

The GPA actively encourages measures related to transparency, openness and integrity necessary in order for SMEs to overcome barriers to participation in public procurement: in this regard, SMEs are very similar to international suppliers, whose participation in procurement markets SME policies and the GPA are designed to facilitate. Consequently, the goals and specific procedural rules established by SME policies and the GPA, in encouraging broad participation and competition in procurement markets, are fully compatible with the goal to favour the inclusion of SMEs in the supplier base of governments by such means.

The GPA also provides flexibility for parties to implement specific measures relating to procurement practices, which can be taken in the application of general rules in order to facilitate SME participation. Examples include the disaggregation of demand, the appropriate use of framework agreements and e-procurement systems, the creation of opportunities for subcontracting and joint bidding, the prompt payment of suppliers, and the provision of training. Such measures may be needed to overcome potential barriers to SME participation that may persist despite a generally open and transparent system.

In this regard, the basic approach of the GPA is to leave options for each government to decide on, as long as general principles of transparency and non-discrimination are complied with. The choices and solutions adopted can have a significant impact on SME procurement and on the efficiency of the procurement system as a whole, and therefore need to be reflected upon. While the text of the GPA, as binding legal instrument, carefully carves out policy space in this regard, the Work Programme on SMEs established by the GPA Committee permits related policy discussions.

The third area of interaction concerns preferential measures or programmes designed to give SMEs privileged access to procurement contracts. In that regard, some parties have scheduled targeted exceptions to the non-discrimination requirements and other provisions of the GPA in their Appendix I schedules.

(viii) Development

No explicit references to SMEs are to be found in Part IV of the GATT, on “Trade and Development”. However,

the development discussions and activities in the WTO have unavoidably had a prominent SME focus.

As discussed above, SMEs in developing countries were a main focus of work in 2013 when the WTO's Committee on Trade and Development (CTD) examined links and challenges for SMEs in the area of e-commerce. A wide variety of challenges linked to infrastructure, skills-building and the services sectors were identified. They were seen as crucial elements for governments to address in order to help SMEs take advantage of this new and growing technology.

SMEs were one of the subjects examined in the CTD's discussions of non-tariff measures in the Work Programme on Small Economies. Here, the focus was on how industrial and agricultural products from businesses in small economies can meet the technical regulations and sanitary measures required in key developed country markets. Work in this area has continued in 2016 with a focus not only on how small businesses can meet international and private standards, but on how they can use such standards to integrate into and move up global value chains in both goods and services.

The WTO, in collaboration with other agencies, has several capacity-building initiatives designed to assist developing countries and LDCs overcome their constraints and take advantage of trading opportunities. Strengthening productive capacity and helping exporters access or increase their presence in foreign markets are some of the main aims of the AfT initiative. For LDCs, a specific programme exists in the form of the Enhanced Integrated Framework (EIF), which helps governments mainstream trade into their development strategies. A third initiative is the Standards and Trade Development Facility (STDF), which helps exporters to meet SPS standards in their fruit and vegetable, spices and livestock sectors.

Each of these initiatives underscores the wide array of assistance efforts available to governments, and through them to SMEs and the private sector in general, so that they can realise benefits from trading and development opportunities. These are further discussed below.

Aside from examining issues related to AfT support for SMEs, governments also negotiate new multilateral agreements which make it easier for small businesses to export, especially from LDCs. As discussed earlier, these include the duty-free and quota-free initiative, the Ministerial Decision on Preferential Rules of Origin Requirements for Least-Developed Countries, concluded at the Tenth Ministerial Conference in 2015, and the services waiver which allows developed and

developing countries to grant preferences to LDC services providers, thereby giving them greater access to their markets.

Work programme on small economies

During the Fourth Ministerial Conference in Doha in 2001, members agreed to a work programme on issues relating to the trade of small economies. The objective of this programme is to frame responses to the trade-related issues identified, for the fuller integration of small, vulnerable economies into the multilateral trading system.

At the Ninth Ministerial Conference in 2013, WTO members instructed the WTO Secretariat to provide relevant information and factual analysis for discussion among members in the CTD's Dedicated Session on, among other things, the challenges and opportunities experienced by small economies when linking into global value chains for trade in goods and services.

In October 2014, the ITC and the WTO issued a joint communication note on the constraints that SMEs face in engaging in international trade, notably those highlighted by SMEs in LDCs, and reviewed how AfT is addressing these obstacles. Discussion focused on the fact that development finance institutions and AfT alone cannot bridge the SME funding gap or address all of the trade-related constraints of SME. The joint note recalled the need for close collaboration with partner country governments and with the private sector, both in implementation and in finding long-term solutions to market failures.

The joint ITC-WTO workshop on AfT and SME competitiveness, held in October 2014, was the first of a series of workshops foreseen by the 2014-15 AfT Work Programme. It built on the joint ITC-WTO background note and dealt specifically with the issue of the integration of SMEs into GVCs.

At the CTD Dedicated Session in May 2015, the WTO issued a background note on the challenges and opportunities experienced by small economies when linking into GVCs in trade in goods and services. This background note highlighted challenges faced by SMEs in small economies, such as access to finance, workforce skills, market information and small markets that prevent them from growing. Several challenges faced by small economies point to the important role of WTO-related initiatives and policies, such as AfT and trade facilitation.

(ix) Capacity building

The WTO seeks to ensure that all its members effectively participate and benefit from world trade.

One of its challenges is to get the many existing development assistance mechanisms to work together more effectively to help developing and LDC members. In that sense, the WTO has a catalytic role to play – ensuring that the agencies responsible for development understand the trade needs of WTO members, and encouraging them to deliver solutions.

The following subsection will provide SME case studies or stories falling under the umbrellas of AfT, the EIF, and the STDF, all of which help SMEs increase their supply-side capacity.

Aid for Trade (AfT)

The Aid for Trade initiative helps developing countries, especially LDCs, to improve their trade capacities when engaging with global markets. It is part of overall Official Development Assistance (ODA) targeted at trade-related programmes and projects. It includes technical assistance, infrastructure and adjustment assistance. The initiative has raised awareness among LDCs, developing countries and donors about the positive role that trade can play in promoting economic growth and development. Box E.5 provides a case study of a project targeting micro enterprises in Jamaica.

The Enhanced Integrated Framework (EIF)

The EIF is a multi-donor programme, involving the WTO, International Monetary Fund (IMF), ITC, UNCTAD, United Nations Development Programme (UNDP) and World Bank, which helps LDCs play a more active role in the global trading system. It operates in 48 of the world's poorest economies, as well as three which have graduated from LDC status, across Asia, the Pacific, Africa and the Americas. It is supported by a multi-donor trust fund with a funding target of US\$ 250 million.

Its Diagnostic Trade Integration Study (DTIS) helps LDCs identify, prioritize and address constraints to competitiveness, growth potential or supply chain weaknesses. These constraints include those faced by SMEs, such as access to logistic infrastructures and services, finance, technologies and skills. Box E.6 highlights two projects that show how the EIF has been addressing these SME constraints in Burkina Faso and Zambia.

The Standards and Trade Development Facility (STDF)

The STDF was established in 2002 by the WTO, the Food and Agriculture Organization of the United Nations (FAO), the World Organisation for Animal Health (OIE), the World Bank and the World Health Organization (WHO) to support SPS capacity-building

Box E.5: Productive integration of micro enterprises in the Jamaican craft and agro-processing sectors

Micro and small enterprises in Jamaica account for 80 per cent of all businesses and 36 per cent of employment. In both the agro-processing and craft sectors, some micro enterprises are engaged in export, acting as the suppliers to larger enterprises. The government sees these sectors as having great potential for economic development. It was for this reason that a project was developed targeting the agro-processing and craft sectors and launched in 2006 to help them become more competitive and sell more products abroad.

The specific objective of the project was to implement an integrated programme for 14 groups of micro enterprises in the craft and agro-processing subsectors, utilizing a sustainable model of productive integration. The target group comprised community-based organizations or informal groups, often operating at a subsistence level and cooperatively producing and selling a range of agro-processing products (jams, jellies, confectionary, fermented foodstuffs) and craft items (made of wood, straw and natural fibres). The project sought to work with producers to address challenges that inhibited the groups from operating efficiently and profitably. These included product design, product development, business management and marketing.

At the conclusion of the project in 2011, the technical assistance provided resulted in 14 improved products and the introduction of three new products. Three groups from the community have improved significantly the quality and standards of their products. These producers are now producing goods which are commercially marketable. Most of the remaining groups are working towards having their products ready for the market. Finally, all of the groups have increased their level of sales.

Box E.6: Small-scale sesame value chain in Burkina Faso, and honey and beekeepers in Zambia

The EIF project in Burkina Faso seeks to bring improvements to the sesame sector and its actors, many of whom are small-scale operators, by setting up inter-professional organizations, increasing the technical capabilities of producers, and facilitating access to financing. It also seeks to contribute to the growth of the sesame export revenues and improve the incomes of rural farmers, producers and entrepreneurs who are involved in the sesame value chain. The sesame project strongly emphasizes employment of female farmers, who represent 43 per cent of the sector.

The project has allowed Burkinabe sesame operators to explore market opportunities and develop business relationships with countries from Africa, the Americas, Asia, Europe and the Middle East. It has improved the crop yield of more than 5,000 producers and extension agents, leading to an increase in sesame yield per hectare of from 521 kg in 2012 to 602 kg in 2014, and a more than three-fold expansion in sesame seed production between 2012 and 2014. The capacity of 102 female stakeholders to comply with SPS measures has been improved. In addition, seven SMEs were helped to develop their business plans for 2014 and 2015, and meetings were organized during 2015 with local financial institutions and sesame sector stakeholders to discuss issues related to access to finance.

In the EIF project in Zambia, which commenced in January 2013, training was provided to more than 5,000 small-scale honey producers across the country, with a focus on young people and women. This has enabled them to be linked with the main buyers of bee products. In addition, the project has facilitated the construction of bulking centres used for storage and as selling points, which have significantly reduced transaction costs and improved honey marketing and productivity. The honey and beekeeping project also looks at the investments possible in eco-friendly business solutions for rural households, with the potential to build their ability to trade while managing the forest environment, and to stimulate and increase yields of various crops, trees and plants through bee pollination. So far the project has increased the production capacity of beekeepers from 500 tonnes of honey to 753 tonnes.

in developing countries. It offers project grant financing up to a maximum of US\$ 1 million.

Over the years, it has evolved from being a financing mechanism to a coordination and knowledge platform.

By bringing together the SPS expertise and skills of its founding partners and other organizations and donors, the STDF provides a unique forum to raise awareness, exchange information, identify and disseminate good practice, encourage collaboration and synergies, and

generally enhance the effectiveness of SPS capacity-building. Recent examples of topics addressed by the STDF include: (i) assessment and prioritization of SPS needs; (ii) public-private partnerships to build SPS capacity; and (iii) enhancing the effectiveness and efficiency of SPS border controls, in the broader context of trade facilitation. Results of this and other STDF work are summarized in short practical briefing notes highlighting recommendations and lessons learned, including for SMEs.

As an example, based on regional research in Southeast Asia and Southern Africa and other projects, the STDF issued a briefing note in 2015 that identified good practices to improve the implementation of SPS controls and reduce trade costs.³³ Simplifying SPS procedures may also entice more small-scale traders to utilize formal channels, which may have additional health benefits. In October 2015, Zambia reported to the WTO SPS Committee on how some of the findings and recommendations of the STDF work are being implemented, and that benefits included increased participation of Zambian SMEs and small traders in international trade and more support for integration into global agro value chains.

Box E.7 gives an example of a SME-focused project in the cocoa sector in Southeast Asia.

5. Conclusions

This section has documented the multiple layers of international cooperation directed at SME trade participation. The overarching conclusion is that SMEs figure prominently in multilateral and preferential trade agreements and in the work programmes of international organizations.

The analysis of 269 RTAs currently in force and notified to the WTO as of March 2016 suggests that almost half of all the notified RTAs (133 agreements) incorporate at least one provision mentioning explicitly SMEs, mostly couched in best endeavour language. In parallel, the number of detailed SMEs-related provisions included in a given RTA has tended to increase in recent years. A limited but increasing number of agreements incorporate specific provisions in dedicated articles or even chapters on SMEs. If the Trans-Pacific Partnership and EU-Canada Comprehensive Economic and Trade Agreement are any indication, the language and forms of SMEs-related provisions in RTAs are likely to continue to evolve and become more pragmatic.

The most common category of SMEs-related provisions is that which promotes cooperation on SMEs in general or in a specific context, such as e-commerce and government procurement. Provisions exempting

Box E.7: CocoaSafe: SPS capacity-building and knowledge-sharing in the cocoa sector in Southeast Asia

The production and export of cocoa provides a livelihood for thousands of smallholder farmers in Southeast Asia. In Indonesia, the third-largest producer and exporter of cocoa in the world, 500,000 smallholder farmers account for approximately 87 per cent of cocoa production. However, producers face three main problems. First, most of the cocoa beans produced in Southeast Asia are of a moderate grade. Second, the productivity of smallholder farmers is typically low. Third, these SMEs tend not to implement the best production practices. As a result cocoa beans can be contaminated during the production process as well as during the drying, storage and processing procedures.

Ensuring continued access by Southeast Asian cocoa producers to high-value markets such as the European Union, Japan and the United States requires them to minimize contamination of cocoa beans and comply with an increasing number of food safety and SPS measures. To help them achieve these goals, the STDF, along with a number of partner organizations, established the CocoaSafe project. The project promotes good agricultural and manufacturing practices and other best practices at all stages of the cocoa value chain, so that high-quality cocoa beans, which comply with food safety and international SPS standards, are produced. In addition, the safety of farmers is also expected to improve thanks to the provision of training in how to handle produce, apply chemicals more safely and integrate better storage practices.

Added to this is the expectation that, by developing the knowledge base and capacity of producers, even other non-producer SME stakeholders along the value chain, such as agriculture dealers, will benefit from the project's training programme because their ability to offer effective advice to farmers and to sell targeted inputs to farmers will be improved. In Indonesia, for instance, facilitators are providing training events for small processors, while project experts from Malaysia are supporting medium-scale processors and traders in Indonesia. The experience and knowledge gained from this cocoa project can be applied to support SMEs operating in other commodity sectors, such as coffee and rice.

measures relating to SMEs and/or programmes supporting SMEs with regard to RTA obligations are the second most common. This is not surprising, given that SMEs are more adversely affected by trade costs and market failures than larger firms. Many governments, particularly in developing countries, may lack the appropriate policy tools to correct these market failures. Instead, SME support programmes are used as second-best policy tools to remedy market failures. Consequently, governments prefer to preserve these programmes even as they sign international agreements.

Although SMEs are not always specifically mentioned in WTO Agreements, multilateral rules have the effect of levelling the trading field, alleviating some major constraints faced by SME traders and thereby fostering SME participation in international trade. Multilateral rules reduce both the variable and fixed costs of trade that hinder SMEs from entering foreign markets, and they help reduce the information burden of some WTO Agreements on SMEs. The WTO's work in the area of capacity building, which tries to expand the trading opportunities of its developing country members, has a prominent SME component.

WTO rules also include a number of flexibilities that, in a similar fashion to the exemptions included in RTAs, address the public policy concerns of governments wishing to support SMEs. They make it easier for a member to exercise its rights when it acts on behalf of SMEs. They allow members to continue providing financial contributions to SMEs. They give members greater leeway to promote the technological development of their SMEs. They allow members to provide preferential treatment to their SMEs.

There are a number of areas in which cooperation at the multilateral level could contribute to unlock SMEs' trading potential.

One area where there is progress to be made is that of transparency. This report has shown that transparency would be of particular benefit to SMEs.³⁴ While almost every WTO Agreement includes transparency provisions, their objective is not necessarily to inform SMEs. Providing relevant information to firms in the private sector and SMEs in particular is the responsibility of the ITC (see Section E.3). There are, however, a number of areas in which changes in the transparency mechanisms could help SMEs participate in trade. The Alert System for SPS and TBT Notifications discussed in this section is one example of an important step in the direction of increased transparency, notably on standards and regulations, with the potential to foster SME trade participation. The Alert System could be further improved by specifically facilitating the

involvement of small firms in tracking, consulting and commenting on draft regulations of interest.

Also, transparency procedures could be further enhanced. Currently, only draft technical regulations and standards that are not based on international standards have to be notified. The SPS and TBT Committees have recommended notifying even those regulations that are based on international standards. Members could agree to move in this direction, and also to notify their final regulations.

Moreover, as argued in this section, various WTO Agreements include the obligation to provide information on relevant measures through enquiry points. There is already a *de facto* expansion in the use of enquiry points. Domestic enquiry points, for instance, are more and more used by home firms (large and small) to obtain market access information, i.e. enquiry points are progressively becoming repositories of information about export markets. This is useful for firms, in particular SMEs, wanting to diversify across export destinations. Instead of seeking information from each enquiry point in the targeted export market, they can collect all this information from their own country's enquiry point.

A second area for improvement is cooperation among international organizations that deal with SMEs, and in particular, with their participation in trade. The WTO Director-General's initiative of April 2016 – aimed at enhancing existing trade finance facilitation programmes to reduce the financing gap that particularly affects SMEs – is a prime example of how the WTO can serve as a catalyst for enhanced inter-agency cooperation. Other such examples are the aforementioned Alert System for SPS and TBT Notifications, involving the WTO and UN DESA; the EIF, involving the WTO, IMF, ITC, UNCTAD, UNDP and World Bank; and the STDF, involving the WTO, FAO, OIE, World Bank and WHO.

Even in areas where there are no formal collaboration arrangements or joint work programmes, increased coordination among international organizations is desirable to reduce unnecessary duplication and make efforts more complementary with one another. For instance, in e-commerce, which has the potential to greatly increase SME participation, there is a natural division of labour between the WTO and the ITC. The former is a forum for national governments to negotiate commitments based on the basic principles of non-discrimination. The latter is directly engaged with the business sector, in particular with SMEs in developing countries.

Finally, further research would be welcome in at least two areas. First, it is important to better understand how

SMEs could benefit more from technical assistance aimed at fostering their internationalization. Second, studies are needed to analyse the effectiveness of the provisions related to SMEs in RTAs and WTO

agreements, in other words, to determine what provisions work and what provisions do not. The outcome of this research would be invaluable to policy-makers and to trade negotiators.

Endnotes

- 1 One should emphasize that both developing and developed countries offer targeted financing assistance to their SMEs. To take an example of an industrial country, the UK Government has a range of policies for increasing the supply of finance to SMEs and addressing the market failures preventing some viable SMEs from raising finance. One such facility is the Enterprise Capital Funds, which are commercially managed venture capital funds that provide equity finance to high growth potential SMEs initially seeking up to £2m of finance. See van der Schans (2012).
- 2 Consider the case of the Philippines which just established its competition authority in January 2016. See <http://www.wsj.com/articles/philippines-hopes-to-unleash-its-entrepreneurial-upstarts-1460574000>.
- 3 This effect requires a much more extended explanation which can be found in Flam and Helpman (1987) or in Helpman and Krugman (1989).
- 4 The only exception is a recent study by Cernat and Lodrant (Cernat and Lodrant, 2016) analysing SME-related provisions in 28 regional trade agreements negotiated by the European Union and the United States between 1990 and 2014.
- 5 The WTO's RTA database (<http://rtais.wto.org>) contains detailed information on all the RTAs notified to the GATT/WTO. As of May 2016, some 629 notifications of RTAs (counting goods, services and accessions separately) have been received by the GATT/WTO. Of these, 423 are in force. These WTO figures correspond to 458 physical RTAs (counting goods, services and accessions together), of which 270 are currently in force. Accessions to an existing RTA are excluded from the analysis in this report.
- 6 The parties to the TPP are Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam.
- 7 The TPP's government procurement chapter is closely aligned with the GPA (Anderson and Pelletier, 2016).
- 8 See <http://www.intracen.org/itc/about>.
- 9 See <http://www.intracen.org/itc/projects/trade-and-environment>.
- 10 An example is the export promotion programme in Argentina (2011). One of its goals was to develop export promotion instruments for SMEs.
- 11 The ADBI-IDB (Asian Development Bank Institute-Inter-American Development Bank) 2015 Latin America/Caribbean and Asia/Pacific Economics and Business Association (LAEBA) Seminar on SME Internationalization, for instance, took place in Tokyo in January 2015.
- 12 See <http://www.adb.org/projects/48342-001/main>.
- 13 Start and Improve your Business (SIYB); Women's Entrepreneurship Development (WED); Know your Business (KYB).
- 14 Sustaining Competitive and Responsible Enterprisers (SCORE).
- 15 The authors also provide estimates of the *ad valorem* tariff equivalent of the uncertainty created by the gap between applied and bound rates.
- 16 According to Annex F of the Hong Kong Ministerial Declaration, "developed-country Members ... and developing-country Members declaring themselves in a position to do so ... shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level".
- 17 A SIEF is a forum to share data and other information on a given substance.
- 18 The REACH regulation was discussed over several years in the TBT Committee – from 2003 till 2014. For more detail on the latest exchanges see for example G/TBT/M/61 (5 February 2014) paras 2.44-2.48.
- 19 For more detail see WTO official documents G/SPS/GEN/733; G/SPS/GEN/735; G/SPS/R/69 and G/SPS/R/74.
- 20 See WTO official documents G/TBT/417/Rev.1 and RD/TBT/123.
- 21 As of March 2016, a total of 45,000 SPS and TBT notifications has been received.
- 22 Seventh Triennial Review of the Operation and Implementation of the Agreement on Technical Barriers to Trade (G/TBT/37, para. 5.12.d).
- 23 The establishment of enquiry points is also a requirement of the Agreement on Preshipment Inspection (Article 7). Article III of the GATS also includes the obligation on all members to maintain one or more enquiry points.
- 24 Article 5.4 and footnote 13 of the Anti-dumping Agreement.
- 25 See GATT SCM/162 of 19 February 1993.
- 26 Article 6.13 of the Anti-dumping Agreement.
- 27 Footnote 2 of the SCM Agreement.
- 28 As discussed at the beginning of Section E, some market failures disproportionately impact SMEs and may provide an economic justification for this provision in the SCM Agreement.
- 29 See WTO documents IP/C/M/71 and IP/C/M/72.

- 30 See WTO documents S/C/W/340 and S/C/W/345.
- 31 Trade finance facilitation programmes carry a maximum "limit" of guarantees and financing for trade that each institution is willing to extend at any point in time. However, these guarantees and direct financing only apply to short-term trade transactions with typical maturities of 60 to 90 days. Hence, within a year the value of trade transactions financed and guaranteed by these institutions is larger than the overall limit, since, for example, guarantees for 90-day transactions can be used four times per annum (90 days X 4 = 360 days).
- 32 See GPA/113, Annex C of Appendix 2, pp. 439-441.
- 33 The note, as well as the reports and other relevant documentation, is available on the STDF website: <http://www.standardsfacility.org/facilitating-safe-trade>.
- 34 Note that transparency is no free lunch – in the sense that not every domestic constituency is likely to benefit from it (see WTO, 2012, subsection E.4).