

## **Making Trade Facilitation Practical for MSMEs**



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Micro Small and Medium-Enterprises (MSMEs) are coined as the engines of growth, innovation, and employment creation in the Greater Caribbean. They are one of the major pillars of development through their substantial contribution to poverty reduction, social empowerment, and income distribution. MSMEs in the region account for most of the economic activity; 99% of enterprises, 60% of jobs and 25% of GDP[1]. They are also pivotal in countries fulfilling close to 60% of the Sustainable Development Goals.

In a globalized world, where international trade is rapidly expanding and developing, MSMEs must acquire the tools necessary for internationalization. The benefits of increasing MSMEs participation in international trade (internationalization) are multiform and crucial in closing the development gaps within the region. MSME internationalization can lead to economic growth, job-creation and aid in increasing and diversifying exports in the region. A key component of MSMEs internationalization is ensuring efficiency in the process of moving goods (customs process) which is critical for the success of international trade transactions. This is where Trade facilitation, supported by the WTO Trade Facilitation Agreement (TFA), becomes important in supporting the internationalization of MSMEs. The TFA aims to reduce the overall cost of global trade by improving the efficacy of customs procedures and MSMEs needs to capitalize on this to improve their global foot print.

The TFA is vital in supporting internationalization since MSMEs face unique constraints in doing business in the international market. MSMEs tend to incur higher costs of trading due to their limited capacity for dealing with complicated administrative and regulatory procedures associated with trade. These constraints, include the lack of access to information requirements; burdensome, complexed border procedures and requirements and the high cost associated with customs and compliance. MSMEs, due to their smaller size, are vulnerable to inefficient border agency administrative systems and procedures. Making these administrative regulations and procedures less costly and complex for MSMEs encourages and supports them in exploring new markets and increasing their participation in international trade.

Further the TFA makes it easier and less complicated for MSMEs to increase their participation in international trade by reducing the administrative cost and time of the cross-border movement of goods. Publication and Availability of Information (Article 1 of the TFA), addresses MSMEs constraint in accessing information on requirements. Availing border requirements reduces the time MSMEs take for locating information as a result of better access. Having online access removes the need for physical presence and additional costs for MSMEs accessing customs information. It also ensures that MSMEs can access clarity and guidelines for unfamiliar processes and documents. Ultimately, this contributes to the internationalization of MSMEs by reducing time and cost of administration. With this information, MSMEs can be better prepared for clearing imports and exports, reducing the possibility of delays and additional fees. MSMEs can explore new markets for exports with easy access to foreign information which would also aid in effective planning and transactions.

Release and Clearance of Goods (Article 7) and Formalities Connected with Importation, Exportation and Transit (Article 10) mitigates MSMEs constraints with burdensome border agency procedures. Reforming and optimizing border agencies procedures, is beneficial to MSMEs as the quick movement of goods, removes the costs that may be incurred by delays and other handling costs. MSMEs are able to predict the possible timelines for clearing goods for import and export which contributes to effective planning and cost reduction. It encourages continuous updates and adjustments to border requirements and procedures, which can ensure that the process of moving goods is always easy and relevant to suit the needs of MSMEs. The implementation of standardized documents requirements and conformity to international standards such as quality packaging is beneficial to MSMEs in two ways. Firstly, it makes the administrative process simpler, cost effective, and aligned with foreign agencies to ensure compliance and ease of business in exploring export opportunities. Secondly, it increases the competitiveness and quality of the goods exported by MSMEs.

Very important to supporting Trade Facilitation for MSMEs is technological transformation. The TFA underpins the importance of technology throughout the provisions. The use of technologies supports the TFA in simplifying MSME cross-border movement of goods and provides a nexus for harmonization through alignment of various border agencies within a country and with other border agencies from other countries. For instance, electronic payment platforms, that ensures MSMEs payments are received and processed and the single window which centralizes all documents and requirements into a single access point.

However, trade remains paper intensive, posing challenges for MSMEs. The employment of technologies is a gateway to internationalization. Blockchain technologies, for example, is an available technology with powerful tools to support MSME internationalization. Its features can be used to support trade facilitation for MSMEs. This technology can improve border processes by reducing the time and cost of administrative procedures and eliminating intermediaries that incur costly delays for MSMEs. It makes it easier for MSMEs to interact with border agencies. Blockchains increases transparency and predictability by displaying all the transactions completed and indicating where possible discrepancies may be. There are many other technologies available for MSMEs. It is important that MSMEs begin leveraging new technologies for development and increasing participation in global and regional value chains.

Trade facilitation is key to improving the Greater Caribbean trading system and increasing the individual trade capacities of countries within the region. It is made possible with the support of innovative technologies. The benefits of the TFA are largely dependent on the implementation models that each country adopts. Therefore, trade facilitation reform policies within the Greater Caribbean must be modified to support the inclusion of MSMEs, in building capacity and infrastructures that encourages internationalization. MSMEs must be supported and empowered as

these businesses continue to support the economic development of the Greater Caribbean.

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[1] MSME Financing Instruments in Latin America and the Caribbean During COVID-19 | Publications (iadb.org)