

TRADING FORWARD

A SMALL BUSINESS PLAN FOR
THE WORLD TRADE ORGANISATION



Published: October 2019

 @fsb_policy

fsb.org.uk

45 fsb⁸⁸
YEARS OF SUPPORTING
SMALL BUSINESSES
1974 - 2019

ACKNOWLEDGEMENTS

This report was authored by Oliver Hateley, Senior EU & International Affairs Advisor, with support from Martin McTague, Advocacy & Policy Chairman, and Chris Walker, Chairman for International Trade. Special thanks to FSB's media, public affairs and policy teams in Westminster, Scotland, Wales and Northern Ireland, in particular the project team responsible for delivering the report: Sonali Parekh, Head of Policy, James Sibley, Deputy Head of EU & International Affairs, David Hale, Senior Public Affairs Advisor and Jordan Bhatt, Media Advisor. The report was designed by Cactus Design – a small business based in Wales.

WHO WE ARE

The Federation of Small Businesses (FSB) is the UK's leading business organisation representing small businesses. Established over 40 years ago to help our members succeed in business, we are a non-profit making and non-party political organisation that is led by our members, for our members. Our mission is to help smaller businesses achieve their ambitions. As experts in business, we offer our members a wide range of vital business services, including advice, financial expertise, support and a powerful voice in Government. FSB is also the UK's leading business campaigner, focused on delivering change that supports smaller businesses to grow and succeed.

ABOUT FSB'S SMALL BUSINESS PLAN FOR THE WTO

This document is FSB's Small Business Plan for the World Trade Organisation.¹ It should inform all members of the WTO, trade negotiators, and international organisations in the field of trade policy, on the best way to deliver for micro, small and medium enterprises across the globe and work towards a trading system that helps small firms seize the opportunities presented by trade through:

- Placing small firms at the heart of international trade
- Equipping small firms with the tools to succeed
- Making the WTO fit for small firms

If WTO members and the WTO as an institution adopt our recommendations contained in this Small Business Plan, we can help deliver for micro, small and medium enterprises, not only in the UK, but across the globe.

¹ Note that this document is directed to all members of the World Trade Organisation for the purposes of the upcoming Ministerial Conference and Informal Working Group on MSMEs. Therefore, it should not be associated with EU Exit.

CONTENTS

Foreword	5
Introduction	6
Recommendations	7
Placing small firms at the heart of international trade	9
Thinking small first when designing & negotiating international trade policy	9
Embedding the interests of small businesses within trade agreements	10
Improving utilisation rates of trade agreements amongst smaller firms	10
Reducing trade costs that disproportionately impact small firms	11
Equipping small firms with the tools to succeed	12
Improving access to information	12
Filling the trade finance gap	13
Export support	14
What small firms want from the WTO – Beyond MC12	15
Fully fledged SME committee & work programme	15
Inclusion of MSME specific information in trade policy review mechanisms	16
Updating the multilateral rulebook to reflect the modern era	16

TRADING FORWARD

A Small Business Plan for the World Trade Organisation



21%

of smaller businesses in the UK export directly

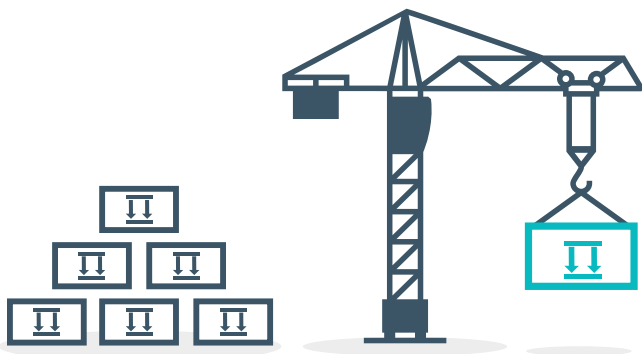
16%

of small business export indirectly as part of global supply chains



Only **19%**

of UK exporting small firms use preferential terms of market access available to them under existing free trade agreements outside of the EU



23%

of average value of export consignments outside of the EU are between £10,000 - £50,000 per annum



42%

of all small business owners in the UK say that credit availability is very poor

Key barriers to trade



Poor access to information



Difficulties obtaining trade finance



Lack of tailored export support

FOREWORD

The current multilateral trading system and the World Trade Organisation (WTO) are under threat. With increased protectionism, imposition of non-tariff barriers, and uncertainty in today's global marketplace, there is a need, now more than ever, for national governments to resort back to an open and free trade environment and reform the world trading system to ensure that it works for all, including micro, small and medium enterprises (MSMEs).

The informal working group on MSMEs has led the way in exploring how WTO members can use their collective expertise to address some of the key challenges facing small firms across the globe: from access to information issues to trade facilitation. This is an initiative we strongly support and we would urge other members of the WTO to join this group in order to champion the interests of small firms across the globe, and indeed all WTO members to engage with the micro and small business agenda for their economies.

With the twelfth ministerial conference (MC12) less than a year away, it is time for WTO members to take the work of the informal working group to the next level, through the adoption of a comprehensive work programme for MSMEs. This work programme should contain a mixture of recommendations to both members and the World Trade Organisation, alongside key benchmarks to be reviewed on a five-year basis in order to make international trade optimal for MSMEs.

At FSB, our mission is to help the 5.6 million vibrant small businesses and self-employed in the UK achieve their ambitions. These entrepreneurs are the heart of our economy, and on their behalf and their counterparts around the world, we are proud to present our Small Business Plan for the World Trade Organisation. Around 1 in 5 of FSB's members export, and our research shows that this could be doubled if the right strategic support is put in place. This can be at the UK level, but also at the global level.

Whether a small business is based in the UK, Nigeria or India, they provide jobs, create growth, combat poverty and underpin their local community. However, these entrepreneurs also face similar problems, especially when they try to expand or trade across borders, such as: delivery problems, poor access to the information required to enter new markets, difficulties obtaining the necessary trade finance, and difficulties with other non-tariff measures. This plan addresses these long-term systemic global issues, which need to be addressed.

Building upon the ongoing work of the Informal Working Group on Micro, Small & Medium Enterprises (MSMEs), our Small Business Plan offers a way for WTO members and the WTO as an institution to deliver for micro, small and medium enterprises across the globe. It is a guide to members of the WTO and the informal working group to help to:

- Place small firms at the heart of international trade
- Equip small firms with the tools to succeed
- Make the WTO fit for small business

If WTO members and the WTO as an institution adopt our calls for action in this Small Business Plan, it will help deliver for micro, small and medium enterprises across the globe, working towards a trading system that helps small firms seize the opportunities presented by trade.



Mike Cherry OBE,
National Chairman, Federation of Small Businesses

INTRODUCTION

Micro, small and medium enterprises (MSMEs) are essential to the current and future prosperity of the global economy. They not only create the majority of jobs, act as a vital source of competition in markets, but also help spread productivity-enhancing innovations throughout the economy and within the global value chains in which they operate.

The United Kingdom has 5.6 million small businesses and self-employed, providing 60 per cent of private sectors jobs and 47 per cent of turnover. Whereas in the context of the global economy, MSMEs represent 95 per cent of all companies across the globe and account for 60 per cent of the world's total employment. However, the role performed by MSMEs in their national economies of WTO members is not paralleled by their share of international trade.²

Participation of MSMEs in international trade is limited due to a variety of reasons. Firstly, small businesses operate under significant constraints that do not affect larger businesses in the same way: lack of time, lack of capital, and lack of technical and human resources.

For example, small firms do not have access to an in-house legal team to help them navigate the various local tax rules and regulations in countries they export goods or services to, nor do they have a dedicated export manager to deal with the complex and onerous requirements associated with customs compliance.

As a result, small business owners are riding the wave of trial and error and contending with a range of issues that impact their existing export journey or deter them from trading internationally. These include, but are not limited to: acquiring trade finance, accessing the necessary information, and foreign exchange fluctuations. Moreover, as the digital revolution disrupts international trade and creates new opportunities, trade barriers are also getting increasingly complex.

Many countries around the world have noticed the discrepancy between their MSME-dominated economies and the profile of their exporters, and many have started to act to try and adjust this balance through different methods of designing trade agreements and disseminating their benefits. Yet more needs to be done so that the desire to go global to trade overseas becomes a natural part of a typical lifecycle of a business in that country.

Given the clear disparity between the role of MSMEs in domestic and global markets, as well as the potential gains and benefits of increased trade of MSMEs for developing and developed countries alike, it is time for national governments, trade negotiators and international institutions to think small first when devising international trade policy and providing the necessary domestic support mechanisms.

The WTO is the ideal institution through which to achieve this change. As a member-driven organisation, the WTO brings together countries from around the world to identify mutual problems and agree joint solutions. Whether through a multilateral agreement or through unilateral commitments undertaken by members, the WTO is a unique forum for members to drive the MSME agenda forwards. With institutional reform firmly on the agenda, there is an unparalleled opportunity for the WTO and its members to put in place the policies and institutional frameworks that will make trade truly work for even the smallest of businesses.

² World Trade Organisation, Joint Ministerial Statement - Declaration on the Establishment of a WTO Informal Work Programme for MSMEs, December 2017, p1, . https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=240862,240867,240868,240870,240871,240899,240875,240874,240878,240877&CurrentCatalogueIdIndex=2&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True

RECOMMENDATIONS

1. Placing small firms at the heart of international trade

WTO members should:

- Endeavour to promote the sharing of best practices on embedding the interests of small firms in the development of trade and domestic policy.
- Examine and work together to reduce the burdens imposed on small businesses by the rules of origin and associated requirements.
- Endeavour to exchange best practice on small business chapters within the WTO's committee on regional trade agreements, including examining how any future agreements impact the participation of MSMEs.
- Endeavour to conduct awareness raising campaigns amongst small firms located in their countries of the benefits of any free trade agreement and provide sufficient support to encourage uptake.
- Endeavour to ensure that any future free trade agreements contain a comprehensive small business chapter.
- Endeavour to undertake a thorough analysis of the impact of existing de minimis thresholds on small firms, as well as work towards a global de minimis threshold of £1,000 (or equivalent in national currency).
- Exchange best practice and cooperate within the relevant international fora to minimise the amount of wet ink (move to paperless) and documentation requirements for small firms at the border.
- Endeavour to examine how to simplify commodity codes and ensure that it keeps up with the latest technological developments.
- Commit to establishing or maintaining a single window for customs, which enables traders to submit documentation and/or data requirements for importation, exportation, or transit of goods through a single-entry point to the participating authorities or agencies.

The WTO should:

- Adopt a think small first approach and apply an SME lens during the negotiation or revision of any future multilateral or plurilateral rules.
- Ensure that any future or update to the existing multilateral framework contains a dedicated small business chapter.

2. Equipping small firms with the tools to succeed

WTO members should:

- Exchange best practice on how to ensure that trade finance programmes are available and accessible to small firms of all sizes – with a particular emphasis on micro-businesses.
- Examine supporting alternative forms of finance such as lending platforms and crowd investment to plug trade finance gaps.
- Endeavour to design domestic banking regulations that incentivise lending to small businesses.
- Commit to supporting the Global Trade Help Desk in order to facilitate access for MSMEs to the relevant information. This includes integrating this help desk within national government websites and raising awareness of this portal domestically.
- Exchange best practice on export support mechanisms to help more small firms on their export journey.

The WTO should:

- Ensure the Global Trade Help Desk remains up-to-date and engage in an awareness raising campaign with the representatives of the private sector. Moreover, it is essential that this database remains user-friendly and as accessible as possible for small firms.

3. What small firms want from the WTO – beyond MC12

WTO members should:

- Join the MSME initiative in order to upgrade the work of the committee to a multilateral one. Should this multilateral SME committee come to fruition, it should act as a cross-cutting committee designed to filter MSME specific issues in relevant existing committees, including applying an SME lens to the work of other committees, and act as the forum for best practice for MSMEs in international trade.
- Adopt a comprehensive MSME work programme, which is accompanied by key performance indicators to guide members to improve MSME participation in international trade.
- Work together to update the multilateral rulebook by bringing the ongoing plurilateral initiatives, at a later stage, within the multilateral framework.
- Further intensify efforts within the plurilaterals, especially on the rules on electronic commerce given the fast-paced and constantly changing environment in the sector.
- Include MSME specific information within their Trade Policy Review Mechanisms to further increase transparency and enable the sharing of best practices to further MSME participation.
- Further empower the WTO Secretariat to assist countries with limited resources to enable them to include this MSME information to ensure (where possible) a unified approach to Trade Policy Reviews.

PLACING SMALL FIRMS AT THE HEART OF INTERNATIONAL TRADE

Trade is an essential tool to create prosperity, employment and social development. The economic and social gains from trade are also spread across global supply chains. It is important to remember that smaller businesses are also involved in trade. Whether that be via direct exports (currently 21% of smaller businesses in the UK), or indirectly as part of a global value chain (16%),³ trade is a vitally important driver for smaller businesses, as it enables them to diversify their markets, reach new customers, grow and become more competitive.

However, countries and their trade negotiators need to do more to help small businesses benefit from and contribute to world trade. The statistics from developed and developing countries alike show that large companies tend to export much more than small ones. From embedding the interests of small businesses within trade agreements to addressing and reducing those trade costs disproportionately impacting small firms, it is time to place small firms at the heart of the international trade agenda.

Thinking small first when designing & negotiating international trade policy

To truly increase the participation of MSMEs in international markets, trade negotiators and national governments need to ensure that trade policy is crafted with small businesses in mind: from the initial scoping exercise through to the implementation and enforcement. This is true for any agreement – be that multilateral, bi-lateral or regional.

Several trading regions⁴ and nations⁵ have underlined the importance of ensuring that trade is inclusive, including for small businesses. Yet, it is equally important that this intention is turned into key outcomes for small firms. Trade policy needs to be crafted in a way that ensures the interests of small firms are represented and considered. This means undertaking thorough impact assessments, public consultations, outreach activities to businesses throughout rural communities and structured stakeholder engagement with small business representative organisations.

There are also a number of approaches used by nations and trading blocs to embed the interests of small firms into domestic policy. For example, the Small Business Act entrenches the EU's think small first principle in the policymaking process.⁶ Whereas Canada applies a Small Business Lens Checklist that provides a list of SME considerations to ensure that policymakers encourage consultation at the earliest stages of policy and programme development. These are only a few examples of the different approaches used by governments and all WTO members can draw inspiration from them.

Moreover, initiatives that harness the use of technology to promote wider participation, such as the MSME ideas exchange platform, launched at the 11th World Chambers Congress, should be actively encouraged.

Recommendations

- WTO members should endeavour to promote the sharing of best practices on embedding the interests of small firms in the development of trade and domestic policy.
- The WTO should look to adopt a think small first approach and apply an SME lens during the negotiation or revision of any future multilateral or plurilateral rules.

³ Federation of Small Businesses (FSB), Keep Trade Easy: What Small Firms Want from Brexit, March 2017, p11, https://www.fsb.org.uk/docs/default-source/fsb-org-uk/keep-trade-easy_-what-small-firms-want-from-brex-21-march-2017.pdf?sfvrsn=0

⁴ European Commission, Trade for All: Towards a More Responsible Trade & Investment Policy, October 2015, https://trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153846.pdf

⁵ New Zealand, Foreign Affairs & Trade, Trade for All Agenda, 2018, <https://www.mfat.govt.nz/en/trade/nz-trade-policy/trade-for-all-agenda/>

⁶ European Commission, A Small Business Act for Europe, June 2008, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52008DC0394>

Embedding the interests of small businesses within trade agreements

Free trade agreements (FTAs) help facilitate trade through the market liberalisation of goods and services, trade facilitation, and more increasingly via regulatory cooperation. Provisions contained in these agreements can help to reduce those barriers that raise a small firm's fixed cost, as well as work to address capacity constraints of small firms in order to generate trade incentives. These provisions can range from reducing duplicative conformity assessments for products to helping small firms bridge the gap in information requirements. More recently, various countries, whether regionally or bi-laterally, are concluding free trade agreements with a dedicated small business chapter.

To ensure that small business interests are explicitly considered in all future trade agreements, whether that be bi-laterally, regionally, or multilaterally, a dedicated small business chapter should be envisioned by WTO members. Using examples of best practice amongst the WTO membership (USMCA,⁷ EUJEP, CPTPP), this chapter should help small firms take advantage of access to new lucrative markets through the inclusion of provisions and help small firms overcome information asymmetries.

Moreover, this chapter could formalise and structure engagement with small firms through the creation of SME contact points, an SME Committee and dialogue, composed of business and government officials, to oversee awareness raising activities concerning the benefits of any agreement, to foster best practice, and further examine how SME participation can be improved.

Recommendations

- WTO members should endeavour to ensure that any future free trade agreements contain a comprehensive small business chapter.
- WTO members should endeavour to exchange best practice on small business chapters within the WTO's committee on regional trade agreements, including examining how any future agreements impact the participation of MSMEs.
- The WTO should ensure that any future or update to the existing multilateral framework contains a dedicated small business chapter.

Improving utilisation rates of trade agreements amongst smaller firms

Free trade agreements can be a useful tool in facilitating trade and reducing costs arising from trade barriers. However, this is only the case if small firms are effectively able to utilise them to their advantage. Our research suggests that only 19 per cent of UK small businesses exporting to the rest of the world (outside the EU single market) make use of preferential terms of market access available to them in free trade agreements.⁸ This can be due to a lack of awareness. But it can also be that the administrative cost and burden of qualifying for preferential terms outweighs the benefits for smaller firms with limited resources, resulting in many preferring to pay most-favoured nation tariffs.

Utilising preference under rules of origin can, in particular, lead to an increased administrative burden. Small businesses struggle with the most complex rules of origin stipulations, like diagonal cumulation,⁹ and often do not understand them. Moreover, even where a smaller business uses an intermediary, irrespective of whether this is on the basis of direct or indirect representation, the legal liability for the selection and applicability of the correct rule to claim preference rests with the small business.

Recommendations

- WTO members should examine and work together to reduce the burdens imposed on small businesses by the rules of origin and associated requirements.
- WTO members should endeavour to conduct awareness raising campaigns amongst small firms located in their countries of the benefits of any free trade agreement and provide sufficient support to encourage uptake.

⁷ Signed by the United States, Mexico and Canada on November 30, 2018. However, the agreement has yet to be ratified.

⁸ FSB Customs Survey, 2018, <https://www.fsb.org.uk/media-centre/press-releases/finally-a-brex-it-blueprint-but-much-more-work-to-do>

⁹ European Commission, https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/common-provisions_en#diagonal_cumulation

Reducing trade costs that disproportionately impact small firms

Unlike their larger counterparts, small firms have limited technical, financial and human resources at their disposal. This means they are less resilient to regulatory changes, have less resource to adapt, are less able to absorb the costs of administrative requirements, and cannot spread these costs across a larger cost base.¹⁰ Thus, costs associated with customs, like duties, taxes and formal customs procedures have a greater and arguably discriminatory effect on smaller businesses.

Our research shows that regardless of the different shipping terms that small businesses select, such as free on board (FOB) and cost, insurance and freight (CIF), the highest proportion (23%) of average value export consignments from small businesses in the UK to the rest of the world (outside the EU single market) fall within the category of being valued at between £10,000-£50,000 per annum.¹¹ Whereas the majority of average export consignments to the countries within the EU customs union were at or below £1,000.

Even at the lower end of this scale (£10,000), on a one consignment per month (£833) basis over a twelve-month period, a significant proportion of small business export consignments would fall above the majority of de minimis thresholds worldwide, which currently range between \$2 to \$800.

Therefore, if a small firm ships a single consignment per month worth £833, the fixed costs involved with shipping, trade and information compliance costs, such as researching relevant customs schedules, will be considerably higher on this individual shipment in comparison to a larger company that ships 10,000 of the same consignment. As a result, the majority of existing custom regimes are more favourable to those larger companies that ship in large trade volumes, with the dedicated staff to comply with trade rules.

Moreover, linked to de minimis, is the documentation overload small firms have to contend with when exporting. For example, the current requirement for small business exporters to trade to some markets, such as having to send six copies of a commercial invoice, certificate of origin, the information about the goods, the tariff code classification, is a significant administrative burden. Even with other people supporting small firms like freight forwarders or customs brokers, most of this information would still have to be supplied by the small business.¹²

This means more time is spent on filling in paperwork and less time on exporting, creating jobs and servicing customers. Releasing smaller firms from these administrative burdens to focus on growth could provide a significant boost to the number of small exporters worldwide, as well as the volumes of goods that they trade.

One particular method to reduce the burden for small firms is to streamline the procedures associated with moving and selling goods cross-border through the establishment of a single window for customs. This means creating a single-entry point where companies can submit all documentation or data requirements for importation, exportation, or transit of goods to the participating authorities or agencies.

Recommendations

- WTO members should endeavour to undertake a thorough analysis of the impact of existing de minimis thresholds on small firms, as well as work towards a global de minimis threshold of £1,000 (or equivalent in national currency).
- WTO members should exchange best practice and cooperate within the relevant international fora to minimise the amount of wet ink (move to paperless) and documentation requirements for small firms at the border.
- WTO members should endeavour to examine how to simplify commodity codes and ensure that it keeps up with the latest technological developments.
- WTO members should commit to establishing or maintaining a single window, which enables traders to submit documentation and/or data requirements for importation, exportation, or transit of goods through a single-entry point to the participating authorities or agencies.

¹⁰ Federation of Small Businesses (FSB), Regulation Returned – What Small Firms Want from Brexit, July 2017, p24, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-regulation-returned-report.pdf?sfvrsn=0>

¹¹ FSB Customs analysis, August 2018

¹² FSB Customs Analysis, August 2018

EQUIPPING SMALL FIRMS WITH THE TOOLS TO SUCCEED

Small firms that export tend to experience faster growth, see higher revenues and be more innovative, and have a longer lifecycle than their non-exporting counterparts.¹³ Countries and policymakers should never underestimate the importance of supporting micro, small and medium-sized firms to export, especially as they make up 95 per cent of all companies across the globe.

In addition to reducing trade costs, improving utilisation of formal trade agreements, and placing small firms at the heart of international trade policy, small firms also need to be equipped with the right tools, at the right time, to start or further their export journey.

This includes increasing the availability of trade finance, improving access to information, and providing the right ecosystem of support to help small firms address those specific constraints that prevent them from competing with their larger counterparts. Change is needed, and small businesses need this change now so they can start exporting, or approach new markets.

Improving access to information

Information concerning foreign markets, conditions of market access, or compliance with local regulation is a significant impediment to small firms. As noted above, evidence shows that only a small proportion (19%) of exporting UK small firms exporting to the rest of the world (outside the EU single market) are utilising preferential terms of market access within free trade agreements (FTAs). Therefore, it logically follows that many are often not exporting under FTA provisions even though they might be available. This is consistent with the view that the lack of knowledge is a persistent problem for small businesses.

Existing FSB research highlights considerable challenges for existing small business exporters, lapsed exporters and those considering exporting. These issues include having access to the required information to export, such as market knowledge, overall costs involved, and local regulation, standards, licensing, and tariffs or taxes.¹⁴

Moreover, those small firms considering exporting are more likely to mention challenges that can be classified as a knowledge gap barrier.¹⁵ This means having access to the required information poses a fundamental challenge for businesses in the early stage of their export journey and should not be underestimated. Thus, actions or tools that help to plug this information gap and encourage information exchange are key to benefiting actual or prospective MSME traders.

Recommendations

- WTO members should commit to supporting the Global Trade Help Desk in order to facilitate access for MSMEs to the relevant information. This includes integrating this help desk within national government websites and raising awareness of this portal domestically.
- The WTO should seek to ensure this Global Trade Help Desk remains up-to-date, engages in an awareness raising campaign with the representatives of the private sector, and that this database remains user-friendly and as accessible as possible for small firms.

¹³ Federation of Small Businesses (FSB), Spotlight on Innovation: How Government Can Unlock Small Business Productivity, July 2018, p38, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/innovation-report-final.pdf?sfvrsn=0>

¹⁴ Federation of Small Businesses (FSB), Destination Export – The Small Business Export Landscape, July 2016, p40, <https://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-destination-export-report-2016.pdf>

¹⁵ Ibid

Filling the trade finance gap

Following the global financial crisis in 2008, the borrowing climate for small firms has changed dramatically. While bank lending continues to dominate, the process of searching for suitable finance has become more complex and varied. There is evidence that the poor conditions for lending at a macroeconomic level is being exacerbated by bank branch closures, with many smaller businesses believing credit is relatively scarce.

In accordance with our own research, 42 per cent of all small business owners in the UK say that credit availability is very poor (19%) or quite poor (23%). Just 24 per cent feel credit is readily available. These numbers improved between 2012 and 2016, but have weakened in the past two years (2017-2018).

Smaller businesses that do wish to access external finance face a number of challenges. Security requirements, based on the probability of default, can rule out many younger businesses from accessing traditional debt finance. In the last 10 years, the supply of external finance has improved, although many small business owners would argue that this does not reflect their personal experience. According to FSB's research, only 13 per cent of UK small businesses say they have applied for new credit in the past quarter. However, of those that did, 58 per cent have had their credit application approved, and a further 12 per cent say they are awaiting a decision.¹⁶ This suggests an issue with appetite for finance, which can be tackled by each national Government, especially regards to finance targeted and packaged to boost exporting.

More specifically, in terms of trade finance, anecdotal evidence suggests that the demand for trade finance from small firms is on the rise. Whilst there is significant potential to double the number of small firms participating in international trade, small and micro-businesses generally fall foul of the high requirements needed to meet government-backed bank delegation schemes and trade finance mechanisms, meaning they are unable to obtain the finance needed to start or grow their export business. Thus, providing effective, targeted and tailored financial support to current small business exporters and those considering exporting will be vital to improving small business participation.

Recommendations

- WTO members should exchange best practice on how to ensure that trade finance programmes are available and accessible to small firms of all sizes – with a particular emphasis on micro-businesses.
- WTO members should examine supporting alternative forms of finance such as lending platforms and crowd investment to plug trade finance gaps.
- WTO members should endeavour to design domestic banking regulations that incentivise lending to small businesses.

¹⁶ Federation of Small Businesses (FSB). Going for Growth – Helping Small Firms Flourish through Access to Finance, November 2018, p5, <https://www.fsb.org.uk/docs/default-source/fsb-org-uk/going-for-growth-final.pdf?sfvrsn=0>

Export support

Many small business owners want to grow their businesses, to invest, to employ more people and to export. The most ambitious want to grow from being a small business to one with an international presence – and often they cannot do this alone. Therefore, national governments play a fundamental role in supporting small firms in starting or bolstering their export journey.

Effective support requires a thorough understanding of the small business export landscape. To date, much of the body of research on small business exports has focused on those that are currently exporting. This is valuable for identifying the conditions and characteristics that lead some small firms to export, in order to develop support that enables others also to succeed. Understanding these challenges faced by exporting small firms also means that these can be better addressed.

However, it is not sufficient to focus only on current exporters, but also examine lapsed exporters and those considering exporting. Support and, crucially, the messaging to encourage small firms to seek support, needs to reflect the different drivers, mindsets and capabilities underpinning these three groups (Considerers, Lapsers, and Current Exporters). The differences exist not only between small businesses that currently export and those that do not, but also between small firms that have export experience and those with no export experience. Existing FSB research has shown that there are significant gaps between considerers and both lapsers and exporters with regard to knowledge of and access to support services – for instance 1 in 5 considerers do not know where to go for support.¹⁷

Recommendations

- WTO members should exchange best practice on export support mechanisms to help more small firms on their export journey.

¹⁷ Federation of Small Businesses (FSB), Destination Export – The Small Business Export Landscape, July 2016, p40, <https://www.fsb.org.uk/docs/default-source/Publications/reports/fsb-destination-export-report-2016.pdf>

WHAT SMALL FIRMS WANT FROM THE WTO – BEYOND MC12

Currently, the World Trade Organisation and the wider trading system is facing an existential crisis, with pressure on all three of the WTO's key functions: administering WTO trade agreements, providing a forum for trade negotiations and handling trade disputes.

As noted above, our research suggests that only 19 per cent of UK small businesses exporting to the rest of the world (outside the EU single market) make use of preferential terms of market access available to them in free trade agreements. Thus, outside the EU single market, a significant proportion of small firms are trading with the rest of the world on WTO terms.

Therefore, small businesses have a real stake in ensuring the WTO, its functions, and rulebook are equipped for the modern era. Moreover, small firms see the opportunity in this reform debate to adapt and build on WTO activity to make its work fit for the global, and growing, small business community.

Fully fledged SME Committee & work programme

The Informal Working Group on MSMEs, under the leadership of Ambassador José Luis Cancela of Uruguay, has made huge strides to ensure that MSMEs are being given due consideration at the World Trade Organisation and has put in considerable efforts to engage not only with other WTO members and international organisations, but also the private sector. FSB strongly supports this ongoing work and would urge other WTO members not taking part in the initiative to join in order to make it a multilateral one.

If this group becomes multilateral, we would also call for the creation of a formalised committee, which continues its existing work, but also acts as a cross-cutting group to filter specific MSMEs issues to the other relevant committees, such as the Agriculture Committee or Committee on Trade Facilitation, and review the work of the other committees by applying an SME lens checklist (discussed above).

Additionally, in order to structure the work and push members to deliver tangible outcomes and ensure greater MSME participation, members should adopt a dedicated MSME work programme, which is reviewed every five years. This programme should be accompanied by key performance indicators for members to work towards and help focus the minds of members on issues such as access to trade finance, capacity building amongst MSMEs in relation to customs, improving access to information, and utilisation of FTAs by MSMEs.

Recommendations

- WTO members, currently outside the MSME initiative, should consider joining in order to upgrade the work of the committee to a multilateral one.
- Should this multilateral SME committee come to fruition, it should act as a cross-cutting committee designed to filter MSME specific issues in relevant existing committees, including applying an SME lens to the work of other committees, and act as the forum for best practice for MSMEs in international trade.
- WTO members should adopt a comprehensive MSME work programme, which is accompanied by key performance indicators to guide members to improve MSME participation in international trade.

Inclusion of MSME specific information in trade policy review mechanisms

The Trade Policy Review Mechanism (TPRM) is a method used to improve adherence by all Members to rules, disciplines and commitments made under Multilateral Agreements and, where applicable, the Plurilateral Agreements, as well as to increase transparency of the various trade policies and practices of Members.¹⁸ This includes a regular collective appreciation and evaluation of the full range of individual Members' trade policies and practices and their impact on the functioning of the multilateral trading system.¹⁹

Information could include, as highlighted by Canada and Brazil,²⁰ background information and breakdown on MSMEs in each country, on initiatives and policies designed to address MSME related considerations, and MSME targeted programs, policies or initiatives to promote the participation of MSMEs domestically and internationally. Moreover, in our view, where WTO members require assistance due to limited technical resources, the WTO secretariat could step up to further assist these members.

Recommendations

- WTO members should include MSME specific information within their Trade Policy Review Mechanisms to further increase transparency and enable the sharing of best practices to further MSME participation.
- The WTO Secretariat should be empowered to further assist those countries with limited resources to enable them to include this information to ensure (where possible) a unified approach to TPRs.

Updating the multilateral rulebook to reflect the modern era

The WTO, unlike other international organisations and supranational bodies, is a member-driven and consensus-based organisation. This means that any decision requires a consensus amongst the one-hundred and sixty-four-member countries within its membership. However, gaining consensus among such an economically and geographically diverse mixture of countries, especially on the complex issues facing world trade today, like digital trade, is a colossal task.

Other than the Trade Facilitation Agreement,²¹ the WTO has been paralysed in its rule-making ability, resulting in a situation whereby the trade rule-book has been unable to keep up and address many of the modern challenges facing today's trading landscape, such as digital trade and other areas like unfair competition from subsidised state-owned enterprises, and even sustainability. It has even created a situation whereby businesses are operating under a patchwork of rules in specific fields, such as digital trade, which can hinder the participation of small firms.

Therefore, FSB welcomes the ambition and openness of some WTO members to lead the way and launch plurilateral initiatives and negotiations on domestic regulation, electronic commerce, and investment facilitation, whilst ensuring that each initiative remains inclusive and open for all members to join. However, we would also call on those members not taking part in the initiative to consider joining, even at a later stage, to ensure that such agreements become part of the multilateral rulebook, especially as they touch upon essential and modern issues.

Recommendations

- Those WTO members outside the existing plurilateral initiatives should consider joining each initiative, now or at a later stage, in order to make any agreement of multilateral stature.
- WTO members involved in each plurilateral initiative should intensify their efforts with a view to reach an agreement, especially on the rules on electronic commerce given the fast-paced and constantly changing environment in the sector.

18 World Trade Organisation, Trade Policy Review Mechanism, April 1994, https://www.wto.org/english/docs_e/legal_e/29-tprm.pdf

19 *ibid*

20 World Trade Organisation, Informal Working Group on MSMEs, Communication from Brazil, Canada, Argentina and Uruguay, February 2019, https://docs.wto.org/dol2fe/Pages/FE_Search/DDFDocuments/251600/q/Jobs/GC/212R1.pdf

21 World Trade Organisation, Trade Facilitation Agreement, February 2017, https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm



© Federation of Small Businesses

fsb.org.uk

 [federationofsmallbusinesses](https://www.facebook.com/federationofsmallbusinesses)

 [@fsb_policy](https://twitter.com/fsb_policy)

 [@fsb_uk](https://www.instagram.com/fsb_uk)

If you require this document in an alternative format please email:
accessability@fsb.org.uk

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior permission of FSB. While every effort has been made to ensure the accuracy of the facts and data contained in this publication, no responsibility can be accepted by FSB for errors or omissions or their consequences. Articles that appear in the report are written in general terms only. They are not intended to be a comprehensive statement of the issues raised and should not be relied upon for any specific purposes. Readers should seek appropriate professional advice regarding the application to their specific circumstances of the issues raised in any article.

This report can be downloaded from FSB website at www.fsb.org.uk