The Silver Bullet for Fueling Small Business Exports in the Ecommerce Era:

A Plurilateral on De Minimis

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April 2017

I. Introduction

Governments around the world are awakening to the power of ecommerce to catalyze entrepreneurship, exports and job-creation, especially among micro, small, and mid-size enterprises (MSMEs). However, several frictions remain for small businesses to be able to take advantage of the new trade opportunities opened by ecommerce, such as inadequate Internet connectivity, poorly functioning online payments, and lack of solid regulatory frameworks. In addition, cross-border ecommerce, when defined as online buying and selling of products that are subsequently physically shipped, still involves moving products from one country to another, requiring fluid logistics, transport systems, and customs clearance. Studies time and again show that arcane customs procedures are a particularly significant constraint for small ecommerce sellers businesses to export their products to customer around the world.

The silver bullet to undoing these concerns and fueling MSME trade is for governments to raise de minimis levels – the maximum value of an import that is exempt from customs duties, taxes, and formal customs procedures. There is no shortage of empirical studies that show that low de minimis is self-defeating for applying governments: often the collection costs of taxes and duties on low-value items cost more than the actual amounts collected. Nor is there a lack of econometric studies showing that higher de minimis levels would in practically every economy streamline customs clearance, increase welfare, lower MSMEs’ trade compliance costs, and boost trade in low-value items.

What is more, low de minimis levels can also be considered discriminatory. Large local retailers enjoy a greater speed and lower cost to market than do distant foreign online sellers, and, unlike foreign retailers, consume local resources, such as water, sewage, roads, and infrastructure. It is thus only fair that they, rather than far-flung small foreign retailers, be taxed.

Yet de minimis levels have remained largely unchanged with the exception of the United States and the Philippines, both of which raised their de minimis in 2016. In fact, some governments are sliding backward, essentially lowering or abolishing de minimis altogether. The reason for this remarkable resistance to increasing de minimis is that governments see it as a bad deal and unilateral disarmament with considerable financial and political costs – loss of tax revenue and political backlash from domestic retailers.

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This report pioneers in turning this lousy equation around, proposing e vehicle for governments to secure new economic as well as political gains from raising their *de minimis* rates: a plurilateral agreement on *de minimis*. The agreements is to be negotiated among a coalition of countries that want to free their MSME exporters from frictions in their key export markets. Each member government commits to ratcheting up its *de minimis* level over a period of 5-7 years to $1,000, in exchange to a similar commitment from the other members. In other words, each member government gives a little market access at the lower rungs of trade in order to gain a lot more foreign market access for its own country’s MSMEs in return. The mechanics are exactly the same as governs tariff reduction in a trade agreement.

This report sets out concrete steps to get a *de minimis* plurilateral negotiation started, and a pathway to multilateralize the agreement over time. This report is not purported to be another econometric analysis on the impact of *de minimis*; several have been performed and they consistently show that increasing *de minimis* levels would fuel the implementing countries’ trade and consumer welfare. Rather, this is a policy roadmap to solve a major problem to small business exporters worldwide.

This paper sets out concrete steps to get a *de minimis* plurilateral negotiation started. The next section discusses the rise of MSME trade, while section three turns to the extent of trade in low-value items in various world regions. Section four focuses on the gains from raising *de minimis* levels. Section five puts forth the structure of the plurilateral; section six concludes.

II. New Face of World Trade: Small Businesses

While overall global merchandise trade has stagnated over the past few years, cross-border ecommerce has been on a tear. According to Alizila, cross-border ecommerce is growing at almost 30 percent per annum to reach $1 trillion in 2020.¹ The figure is likely ten-fold if cross-border B2B ecommerce, which is harder to measure, is added.

Not only is ecommerce emerging as an engine of world trade; it has become the leading driver of small business trade worldwide. Research shows that by using online platforms, even the smallest companies become visible to international buyers and poised to export and import and scale their sales. For example, a survey by Suominen (2017) covering companies of all sizes from 15 developing economies shows that in every size category, companies with online sales are much likelier to export than small companies or companies that do not have online sales (figure 1).²
Figure 1 – % of Companies that Export, by Company Size and Online Activity


This finding is echoed by a Boston Consulting Group survey of 3,250 SMEs in 11 countries (Brazil, China, India, Kenya, Mexico, South Africa, South Korea, Turkey, Ukraine, and two advanced economies, France and Sweden), where small and mid-size enterprises that are heavy web users are almost 50 percent likelier to sell products and services outside of their countries (figure 2).

Figure 2 – MSMEs’ Sales Reach by Market, by Level of Web Use

Online sellers also tend to be more diversified geographically: some 63 percent of online sellers export to two or more markets, while only a third of offline sellers do, whereas surveyed companies that neither buy nor sell online typically export to only one foreign market (figure 3). Companies with online sales also typically secure a larger share of their revenues from exports than companies that do not buy or sell online.

![Figure 3 - Number of Markets Companies Sell Into, by Company's Online Sales Activity](image)


eBay’s data on eBay Commercial Sellers (US$10,000 or more in annual sales) attests to the power of global ecommerce platforms to enable micro and small businesses to export. For example, in Chile, 100 percent of eBay Commercial Sellers export, as opposed to only 18 percent of offline brick-and-mortar companies that export. These online sellers also export on average to 28 different markets, as opposed to 1-2 markets that the median exporters sell to (figure 4).

These data are very similar across a diverse range of markets, such as France, the United States, Jordan, Peru, China, Korea, Thailand, South Africa, and many others. Remarkably, some 80 percent of the eBay Commercial Sellers that are first-time exporters survive in the export game after the first year, well above the third for offline exporters that survive past the first export year.

Similarly, Chinese companies selling on Alibaba are found to reach up to 98 export destinations and sell more products than their peers in the offline market. Moreover, companies selling on eBay and Alibaba are younger and have smaller market shares than the average exporter in the offline economy.
Many online sellers start to export because they are discovered online by a foreign buyer. Ecommerce sites also enable buyers to gain confidence in the sellers: platforms’ star ratings systems, customer reviews, and payment tools give the buyer a sense of trust, the lubricant of trade that in the “offline” economy tends to take multiple transactions between buyer and seller to build. While results are mixed, some studies suggest that a common language between buyers and sellers is less important online than in traditional, offline trade.

These trends imply that a company no more has to scale in the domestic markets so as to be large enough to cover the fixed cost associated with starting to export. Today, online platforms lower these fixed entry costs to a point where millions of small business can be “born global.”

Of course, ecommerce is not only about exports: it also enables MSMEs to source a wider variety of parts and components at lower cost, and thus increase their productivity and competitiveness. In the BCG study, heavy web user MSMEs were 63 percent likelier to source products and services from farther afield than were light or medium web users: the web tools them to shop around for the best deal (figure 5).
MSMEs’ online trade has significant economic benefits. As data has become more available, analysts have found that companies that sell online increase their exports, variety of products exported, and productivity. For example, Vietnamese companies that used the Internet were found to have 1.9 percentage point higher productivity growth in subsequent years than their offline peers; those that sold online grew by additional 1.7 percent faster (figure 6).\(^5\)

These results echo the numerous econometric studies that attest to the impact of the Internet on trade. For example, Riker (2014) finds that growth in broadband use in 2000-11 increased trade-to-GDP ratio by 4.2 percentage points on average in a broad sample of countries.\(^6\) A U.S. International Trade Commission study finds that the Internet reduces trade costs for U.S. imports and exports of digitally intensive goods and services by 26 percent on average.\(^7\)

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**Figure 5 – MSMEs’ Purchasing Reach by Market, by Level of Web Use**

![Chart showing MSMEs' purchasing reach by market and level of web use.](chart)


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III. How Much Trade Is There in Low-Value Items?

Ecommerce has changed the face of world trade, with MSMEs rising as the emerging engine of trade. But how about trade transactions? How much trade is there in low-value items in different countries?

The simplest way to start understanding the extent of trade in low-value items is to analyze trade in parcels shipped through postal systems. Cross-border parcel flows have grown explosively in the past few years. Data from Universal Postal Union show that the tonnage of international parcel shipments have grown by a total of 73 percent in 2011-15 (figure 7). In terms of the direction of flows, particularly exports of parcels from Asia-Pacific Economic Cooperation forum (APEC) and the European Union (EU) have grown as a share of global flows, likely due to Chinese, U.S., and European outbound shipments.
Figure 7 – Growth in Tonnage of Cross-Border Parcel Flows in 2011-15, Selected Regions and Directions (Index where World in 2011 = 100)

Source: UPU.

UPU data lacks the value of shipments; only known are weight and volume. To fill this gap, we leverage data from industry and other sources to estimate the share of shipments in low-value items in 55 countries in distinct value ranges. By far, the largest number of shipments in every region is below $100; less than 20 percent falls in the $101-$1,000 range (figure 8).

Figure 8 – Distribution of Shipments from 55 Economies in 2015, by Value Category

The growth of low-value shipments is strong across the board. The highest growth rates have tended to be in cross-border shipments valued at less than $100 – they doubled in 2011-15 for NAFTA economies and Latin American countries, including growing by an average of 312 percent for Pacific Alliance countries (Chile, Colombia, Mexico, and Peru). Growth was also robust in ASEAN and APEC (figure 9). The pace of growth of shipments in this range is almost 30-fold the growth of global trade, which grew at below three percent annually during the period. Shipments in the other low-value ranges have also grown explosively.

**Figure 9 – Growth of Low-Value Shipments in 55 Economies and in East Asian Economies in 2011-2015, by Value Category**

Source: Author on the basis of preliminary data estimates and interviews with industry representatives.

Behind these patterns are very small shipments. The average parcel import was $46 in 2015 in eight APEC economies in 2015, down from $54 in 2011 (figure 10). The median cross-border transaction is even less, or $9, in these economies. Size of inbound shipments is especially small in Latin America, $31 on average.
Figure 10 – Size of Average and Median Shipments in 2011-15, Selected Economies

One reason for the explosive growth of shipments in the smallest value range categories may be that *de minimis* levels around the world are most permissive of imports in that value range. That is, growth of shipments in other value categories may in part have been “frozen out” – never been made because of complex trade regulations that kick in above *de minimis* levels. Most countries have very low *de minimis* values. Canada’s *de minimis* is $15, Mexico’s $50, India’s $170, and European Union’s about $150 (150 Euro) (figure 11). This means that the vast number of shipments in the $201-$500 and $501-$1,000 categories analyzed above are not eligible for *de minimis* treatment in most parts of the world.

Figure 11 – *De Minimis* Levels, Selected Economies

Source: Author on the basis of preliminary data and interviews with industry representatives.

Source: Global Express Association, April 2016.
IV. Impact of Increased De Minimis Levels

Ecommerce has changed the face of world trade. A growing share of exporters and importers are small businesses and individuals selling and buying small, low-value shipments. When shipments are small, the fixed costs involved with shipping, trade compliance, and other factors can more easily usurp profits than when companies ship in bulk. After all, the fixed trade compliance costs for a (typically smaller) business that ships 1 unit of an item worth, say, $700 are proportionally considerably higher than they are for a (typically larger) business that ships 10,000 units of the same item.

There are, after all, considerable “hassle factors” involved. When shipping goods above the de minimis threshold, sellers and buyers spend time researching the relevant customs schedules, understanding rules of origin as applicable, filling out paperwork, dealing with a customs broker, and collecting the goods and paying customs duty upon delivery. One study of European companies found that businesses with fewer than 250 employees shoulder 30-45 percent higher transaction costs per consignment than do larger firms.8

Trade compliance costs and duties and charges can be seen as especially problematic in ecommerce because of online sellers’ diversified export market portfolios: such sellers juggle multiple national trade compliance regimes at once. At the same time, small businesses stuck in the maze of trade rules and taxes are probably less likely to be able to hire a broker or freight forwarder that would handle trade compliance for them.

A key way to stimulate MSMEs’ online trade is easing the costs on entities sending and receiving these items. This is an area where most governments, with the exception of the United States and the Philippines, have done precious little. Customs regimes around the world have been tailored to the patterns of “traditional” trade: large trade volumes shipped by large and mid-size companies with staff trained to comply with trade rules. Customs regimes are not optimized for trade among small businesses and individuals – transactions where countless of small shipments are sent and/or received by parties with limited trade compliance capabilities and high fixed costs per shipment.

While governments around the world have fashioned so-called trusted trader and authorized economic operator programs to fast-track low-risk companies’ trade, these programs’ criteria are extremely challenging for small businesses, let alone for individuals as importers of record. This problem also affects large companies, given that many of them now sell online to individuals and small businesses. There, in short, is a mismatch between today’s customs regimes and tomorrow’s trade – and one that will not be corrected by the Trade Facilitation Agreement.

One solution to this conundrum proposed in Suominen (2015) is a “Trusted eTrader” program specific to small ecommerce exporters that relies of Big Data on the patterns of small business trade.9 While this is a politically viable proposal, it can be harder to scale quickly. The alternative method for fueling trade in low-value shipments is increasing de minimis levels worldwide.
Raising de minimis levels would reduce the markups and taxes paid by domestic consumers and companies. However, low de minimis rates have not stayed in governments’ books by ignorance or accident. They reflect political economy dynamics – customs and finance ministries’ imperatives to find sources of revenue in the insipid global economy, and entrenched interests of traditional domestic retailers fearful of foreign online competitors. Yet as with tariff liberalization, the gains from raising customs duty de minimis levels outweigh the losses, for at least four reasons:

- **Lowered compliance costs for MSMEs.** In online trade, the importer of record is often an individual consumer or small business, and the exporter is increasingly a small business. These actors have much more limited capabilities and knowledge about customs regulations than do large corporations. This is reflected in survey data. For example, in a 2010 U.S. International Trade Commission survey of 2,349 U.S. SMEs and 500 large firms, almost 50 percent of SMEs and 30 percent of large companies said customs procedures pose “a major burden”.\(^{10}\) A U.S. ITC survey of 3,466 companies in digitally-intensive industries, 48 percent of SMEs viewed customs requirements as an obstacle of varying degrees.\(^{11}\) Suominen (2017ab) finds that developing country online sellers seeking to export tend to be particularly hampered due to onerous market access rules and customs procedures.\(^{12}\) These findings suggest that small business trade, and trade in low value items, is highly sensitive to the costs of trading across borders. Increased de minimis thresholds would shift the needle for small business exporters, first and foremost.

- **Savings in duty and tax collection.** Economists’ favorite argument for increasing de minimis rates is that processing and inspecting low-value items is inefficient: costs more than the revenue secured from that activity.\(^{13}\) After all, the ratio of collection costs to revenues is high for low-value items.\(^{14}\) This is a timely concern in that the explosive growth in low-value shipments represents a significant additional workload for customs for a limited amount revenue. This is particularly the case as tariffs have come down.

- **Lowered costs of goods for domestic consumers and companies.** Studies cited above show time and again that a higher de minimis would benefit consumers and companies who buy foreign goods and face markups due to duties and delays at the border. However, the dynamic gains can be even more significant, even if they are harder to calculate. For example, businesses that become able to secure duty-free inputs with minimal delays grow more competitive, while consumers able to purchase goods at lower costs improve their welfare and are able to spend the saved portion elsewhere in the economy. Trade economists have for years shown that access to a wide variety of supplies at low costs generates real economic gains from companies, consumers, and economies.

- **More competitive domestic online retailers.** Availability of return shipping option is often a critical determinant of online shopper’s purchase decision. Ecommerce shoppers cannot touch and feel items as in stores and often insist on being able to send a product back if it did not meet their expectations. It is possible that customs at home simply treats a returned item as an import and charges a duty on it if it does not fall below the de
*minimis* threshold, even if the product has barely departed the country or was not used in the foreign market. If this hunch holds, return shipments made by foreign buyers of home country’s products would also benefit from higher *de minimis* in home.

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Evidence abounds in every world region that low *de minimis* levels are a money-losing proposition:

- Before the U.S. increased *de minimis* threshold to $800, the Peterson Institute estimated that the net payoff would be $17 million annually, taking into account the cost savings at each stage of the delivery chain, minus the revenue that is now foregone in customs on shipments in the $200-$800 range. The gains are probably even greater now – the study was published in 2011.

- A 2016 study on Canada’s *de minimis* finds that raising *de minimis* from about $20 CAD to $200 CAD would imply foregone revenue of $117 million but save the government $278 million in collection costs. Factoring in the costs and delays incurred by businesses and consumers, increasing *de minimis* to $200 would result in a $648 million net gain for Canada.

- In a study of 12 Asia-Pacific Economic Cooperation (APEC) economies (Canada, Chile, the People’s Republic of China, Indonesia, Japan, Malaysia, Mexico, Papua New Guinea, Peru, the Philippines, Thailand and Vietnam), raising the *de minimis* to just $200 in each economy would imply gains in customs and among consumers of $5.4 billion a year, equivalent to some $12 billion for all 21 APEC members. A 2012 study of five ASEAN economies finds that raising *de minimis* rates to $200 would have net economic gains of $109.2 million. The ratio of benefits to costs is resounding 5.6.

- According to the Australian Productivity Commission that studied the impact of a dismantling of Australia’s $756 *de minimis* as proposed by the country’s retail sector, businesses, consumers and the government would bear a collective cost of approximately $1.7 billion in exchange for about $520 million in revenue generation, a net loss of almost $1.2 billion.

- A 2014 study in Europe, where countries have a common duty *de minimis* levels but different value added tax *de minimis* levels, found that the total cost of collection faced by customs administrations and the private sector currently exceeds the revenues
collected. For a break-even, the study recommends keeping the customs de minimis at €150 but increasing VAT de minimis to €80 from the current €22. Under this scenario – which considered only parcels shipped by express shippers and omitted shipments carried by postal services or non-express shipper sea transport, rail, or truck transport – cost-savings for EU economies would be some €32 million, while net effect on VAT collected is insignificant.

### Really Worth the Hassle? How Much Does it Cost to Process Low Value Shipment?

In 2011, the Peterson Institute assessed the impact of a higher de minimis in the United States, from $200 to $800. The number of annual shipments at the time in this range was estimated at 3.8 million per year, with a declared value around $1.7 billion per year.

The study included an excellent calculation of the costs incurred by buyers, shippers and governments in processing each shipment:

- For buyers, individuals and small businesses, the time cost is approximately 0.4 percent of the declared value of an entry for each day of delay. In the Peterson study, a conservative estimate of the time burden on the seller, express shipper or postal systems, customs, and the ultimate buyer is between an extra half-day and an extra full day. Much of this is time spent on investigating the relevant customs schedule, filling out paperwork, dealing with a customs broker, and collecting the goods and paying customs duty upon delivery.

- Until 2016, shipments in the $200 to $800 range were “Informal Entries” that required filling out CBP Form 7501, a document with instructions of 32 pages and one that called for numerous details about the merchandise. Form 7501 must be stored for five years. For express shippers, the paperwork requires about 9.2 minutes per entry, or 0.15 hours. The hourly salary for express firm personnel who handle these shipments is roughly $16 and fringe benefits (health, pension, etc.) add another 30 percent, making all-in labor costs around $21 an hour. Express firms pay about $1 million a year to store the required forms. This means that the pure paperwork completed by express delivery firms and postal services for handling entries in the $200-$800 range came to about $25 million a year.

- Customs labor costs are around $34 per hour. Even assuming customs spend less time to handle Informal Entries, perhaps less than 2 minutes per entry, it incurs paperwork costs of $8 million a year.

In short, without calculating the costs to buyers, the paperwork alone cost $32 million, almost the same as customs revenue from these low-value items ($37 million). When factoring in the cost savings for the buyer, the gains vastly exceed the losses. With a higher de minimis created in 2016, the United States has created savings that in customs alone can be placed on targeting threats and increasing the productivity of staff.

Creeping Taxation of Ecommerce Imports

Perhaps the most charged issue in de minimis debates is the application of sales taxes on foreign online imports. The proponents of taxing domestic and foreign retailers equally argue that if a foreign business is not charged a sales tax in the foreign market where it sells, it will gain an unfair competitive advantage vis-à-vis domestic retailers that are. These arguments have been winning in some economies. For example, after a vigorous debate and lobbying by domestic retailers, Australia is poised to eliminate the de minimis for sales tax in July 2017, and in effect impose a tax on offshore supplies of digital products and other services to Australian consumers.22

These efforts, while assuaging protectionist lobbies and argued to be “fair”, clash with at least two types of arguments against forcing small remote retailers to pay taxes in a market where they have no meaningful local presence:23

- **Taxes on small foreign online retailers are discriminatory.** The rise of the omnichannel model (in lieu of the pure-play online model) and Amazon’s construction of massive warehouses in markets it serves attests to the value of market presence in retail – including responsiveness. In industries like fashion, companies with in-market presence can have four-wall showrooms where consumers touch and feel the products and also do not have to deal with cross-border returns. Retailers with facilities in-country impose burdens on the local infrastructure that remote retailers do not: a large store or a distribution center needs water, sewer, run-off, roads, power, police, schools and other parts of infrastructure. Small, remote online retailers do not enjoy the edge that in-country presence brings, nor do they impose any such costs. As such, there is a very strong argument why imposing taxes to the small foreign retailers without in-country presence where they sell is discriminatory.

- **Compliance costs with foreign taxes are excessive and onerous on small business and possibly unenforceable.** Large companies have lawyers and tax professionals to comply with taxes in different markets; small businesses don’t. Ironically, the success of small businesses in growing into multimarket sellers as is typical for online merchants is also their curse, as it entails burdens of tax compliance in multiple markets, each with different tax rules. If taxes are applied without any real connection to local presence, as many propose, small businesses selling online become subject to every government’s tax enforcement. Meanwhile, major government resources can be spent on enforcing taxation on far-flung foreign online sellers for what are likely modest sums in per-company taxes.

Even with the multiple findings and sensible arguments in favor of the benefits of higher de minimis levels, governments, seeing a stream of revenue from ecommerce shipments and pressured by domestic lobbies, have stuck to their de minimis levels or started to go in the wrong direction, lowering or eliminating de minimis. The following section proposes a way out.
V. Changing the Political Economy Equation for *De Minimis*: A New Approach

Low *de minimis* weighs on economic growth in the country using it: it imposes a net cost on customs, tax authorities, shippers, importers, and consumers. Despite multiple formidable econometric analyses and overwhelmingly compelling empirical evidence on the benefits of higher *de minimis*, governments have kept *de minimis* levels low and remarkably unchanged. Where economists see more fluid trade, governments see loss of tax revenue and political backlash from domestic retailers – without any tangible, immediate upside.

Against this backdrop, a new approach is needed. A powerful means to raise *de minimis* levels is a plurilateral agreement on *de minimis*. In such an agreement, each member gradually raises its *de minimis* level, much like when reducing tariffs over time, and each member benefits from the increased *de minimis* levels of the other members, first and foremost in the form of low-value exports. Each member gives a little market access, and each gains a great deal more, just as in a tariff reduction agreement.

This approach turns the endless debates on *de minimis* on their head: rather than worrying about lost revenue, governments can now cast a higher *de minimis* as an instrument for expanding the MSMEs’ market access. Where previously governments saw loss of revenue and wrath from protectionist retailers, they can now cater to thousands of small business online exporters and the services ecosystem that supports them. They may even gain the support of players that have resisted change in the past: many traditional retailers are today exploring omnichannel sales that are reaching foreign shoppers.

Plurilateralism is a good vehicle for attaining these ends. Plurilateralism is, after all, emerging, alongside regional trade agreements, as a key means for countries to negotiate trade agreements. Several WTO members are engaged in plurilateral talks in key sectors – the main one being the Trade in Services Agreement (TiSA) currently negotiated among 50 WTO members that cover 70 percent of world’s services trade.

Drawing on these experiences, there are several considerations for structuring a *de minimis* plurilateral:

- **Agreement coverage**: The agreement should be comprehensive, covering both customs and GST/VAT *de minimis* levels, even in economies that separate them out.

- **Thresholds**: To be impactful, the *de minimis* plurilateral should aim to raise the members’ thresholds to $1,000. This is for two reasons. First, if $800 was fixed as the target and the United States was a member, Washington would not have any bargaining chips. Second, with $1,000 as the target, governments would sense a much larger opportunity for MSME exports, for example in the B2B space, than at $200, which has in the past been cited as a meaningful goal.

- **Implementation schedules**: To accommodate the prospective member countries’ different starting points and political concerns, the *de minimis* plurilateral should have different implementation schedules, as countries do when lowering tariffs or as was done
in the Trade Facilitation Agreement. In the *de minimis* talks, each member could be required to raise its *de minimis* by a minimum of 10 percent per annum, and reach the $1,000 threshold within 5-7 years. This is fast enough for there to be meaningful impact, but slow enough for most governments worried about the political implications to have departed office by the final implementation years. The downside of this gradual ratcheting is certain complexity: revision of *de minimis* levels annually can in every January create confusion in customs and among exporters and importers. This concern is however manageable.

- **Members:** The *de minimis* plurilateral should be formed among a “coalition of the willing” countries that assume the rights and obligations of the agreement. The agreement should ultimately cover a meaningful share of the world trade in low-value items. As such, it will ultimately require the membership of the largest traders – China, United States, EU, and Japan. However, there is no need to wait for all the large players to fall in line: a *de minimis* plurilateral can be championed among a subset of large traders and/or in integration groupings with ready inter-governmental negotiation platforms, such as the Pacific Alliance or ASEAN, and expanded from there to other economies.

- **Most favored nation (MFN) treatment:** A major concern related to a *de minimis* plurilateral is whether it is implemented on an MFN basis – so that non-members receive benefit of members’ increased *de minimis* levels – or on a non-MFN basis, where benefits and responsibilities fall only to members. The latter, exclusive plurilateral can provide significant network effects: outsiders are incentivized to join the agreement the larger the membership grows. Moreover, members would not feel cheated as non-members could not free-ride on the higher *de minimis* the members apply to each other. This set-up also ensures that members feel a certain level of control over their *de minimis*: they can do a “soft launch” with their peers and assess the impact of the higher *de minimis*.

A significant downside of this set-up is that it sets the members’ customs up for determining the low-value items’ origin – whether the low-value item originates from members or from a non-member country. This can quickly defeat the purpose of a higher *de minimis*, which is to accelerate the flow of low-value shipments.

There are two plausible solutions around this dilemma. The first and less optimal is to institute *de minimis* in an integration group that already applies a rule of origin to outsiders – where customs anyway monitors the origin of goods against a pre-negotiated rule of origin regime. However, this method too still entails paperwork by traders and customs.

The second and by far the best solution is to negotiate *de minimis* on an MFN basis but among a critical mass of trading partners that are the most important trading partners to each other: free-riding is inherently less, and the impact is inherently more as more trade is covered. This approach would also implicitly help reinforce WTO principles of inclusiveness, transparency, and multilateralism.
• **Open vs. closed plurilaterals:** Just like the Information Technology Agreement (ITA) that was reached in 1996 among 29 Asia-Pacific economies, including the United States, and that has since expanded to cover 81 nations, the *de minimis* plurilateral should be open for outsiders to join.

• **Treatment of “informal entry” regimes.** The *de minimis* negotiation can consider informal entry regimes – simplified reporting forms that can normally be handled by the customer/shipper, possibly with some assistance from an express shipper, but without the need to engage a customs broker. These regimes are employed by some economies, such as Australia, EU economies, India, Japan, and the United States. Shipments in the informal entry bracket – higher than *de minimis*, but still below a certain threshold, such as $2,500, the world’s highest informal entry applied by the United States – have reduced paperwork requirements and fees. Raising the informal entry threshold would have all the same benefits as higher *de minimis*, only perhaps to a more moderate extent. One way to think about it is that while informal entry is not as impactful as *de minimis*, it is much better than nothing.

• **Treatment of sales taxes.** The *de minimis* plurilateral negotiation should be comprehensive and cover VAT and GST as well as customs duties. Members to a *de minimis* plurilateral should be barred from increasing taxes on imported items above the *de minimis* threshold to “compensate” for the revenue losses from increased *de minimis*. Members should also consider enabling the collection and remit of taxes for goods above the *de minimis* level from away from the border and perhaps create harmonized tariff codes for low value items that in and of itself qualifies for clearance.

• **Special and differential treatment (SDT).** If forged among countries with widely different development levels, the *de minimis* plurilateral can have SDT provisions for the developing country partners. In practice, this would mean these countries ratchet their *de minimis* levels up more gradually. While not desirable in principle, this option is politically useful. One of the reasons TFA was adopted was its SDT provisions that allow each developing and least-developed country member to define its own implementation schedule. The schedules can be conditioned on receipt of technical and capacity-building support.

In light of these considerations, perhaps the easiest way to launch the *de minimis* agreement talks is via existing integration groupings. These, of course, vary considerably in economic size and trade. The Pacific Alliance markets (Mexico, Peru, Chile, and Colombia) represent some 3.4 percent of each other’s exports; Latin American markets 14 percent, ASEAN markets 24 percent, NAFTA some 34 percent, NAFTA and Pacific Alliance combined some 37 percent, and APEC markets 69 percent (figure 12).

While we do not have data on how much these markets represent to each other in low-value item exports, it seems that the ASEAN and Pacific Alliance could have strong incentives to negotiate a *de minimis* on a non-MFN basis. A negotiation among these parties would further intra-regional trade and induce extra-regional countries for which these markets are significant export markets to become members. APEC, meanwhile, represents critical mass, though members, if
engaging in *de minimis* talks, too might wish to exclude larger sources of imports, such as the European Union, from receiving the benefits of higher *de minimis*.

**Figure 12 – Share of All Intra-Regional Exports of All Member Exports**

![Chart showing percentage of intra-regional exports]

Source: Author based on International Trade Center data.

Politically, it appears that the *de minimis* plurilateral is a long-shot in APEC, given Australia’s recent reversal in *de minimis* treatment. A likelier venue could be the ASEAN, which has pursued numerous measures to facilitate ecommerce and MSME trade. Pacific Alliance is also quite well-placed, given the group’s pragmatic, forceful work toward regional integration and keen interest in trade facilitation and spurring ecommerce and small business trade. Further countries that could join the Alliance include Uruguay, Argentina, and Costa Rica, an observer to the Alliance. Perhaps Canada could ease its way to a higher *de minimis* by joining the Pacific Alliance’s plurilateral – it after all is also an observer member. The United States, another observer, too could join later after the group started to reach the $800 threshold. Given growing trade ties between the Western seaboard of Latin America and East Asia, both Pacific Alliance and ASEAN could have incentives to create a common *de minimis* plurilateral.

To pursue a broader *de minimis* plurilateral at a global level requires policy entrepreneurship by developing countries. For developed economies, raising *de minimis* is good development policy: such “sales tax-free” access helps developing country small businesses use global ecommerce platforms and grow and prosper on the back of ecommerce exports. But except for the U.S., developed economies have not shown signs of acting on this point. Thus the demandeurs of the deal should be developing countries intent on using it to gain broader access for their small businesses in advanced economy markets, especially Canada and the EU. They can do so without opening their own market immediately by building a more gradual treatment for developing nations into the deal.
VI. Role of Development Partners: Comprehensive Package of Technical Assistance and Capacity-Building for MSME Exporters

Even though a *de minimis* plurilateral made perfect sense for governments aiming to increase their MSME exports, various points of concern would likely remain on the impact of such an agreement at different thresholds and with different partners. As such, the *de minimis* plurilateral should be accompanied by a comprehensive capacity-building package supported by aid agencies with three main components:

- **Impact assessments.** Multilateral development banks or other agencies could provide each country that is considering joining the *de minimis* plurilateral technical assistance to assess the impacts of the agreement under different thresholds, timelines, and members, and assess net effects annually.

- **Compensation for losses.** Development banks and donors could pledge to compensate governments for a share of net financial and economic losses, during the first 24 months of implementation. This takes risk off the table for governments, while unlikely resulting in any costs to donors.

- **MSME capacity-building.** Removal of the “barrier” of low *de minimis* levels does not guarantee that MSMEs succeed at cross-border ecommerce: selling online requires localizing websites and customer service, handling cross-border logistics and returns, managing payments and currency conversions, and complying with taxes and trade rules, among other things. Countries acceding to the *de minimis* plurilateral could automatically become part of a rigorous MSME capacity-building program backed by donors and, possibly, private investors and impact funds. Such a program would have a pool of committed capital accessible for the plurilateral agreement members that both keep to their implementation schedule and design high-quality capacity-building projects.

The TFA is the premier example of marrying a trade agreement with capacity-building. The implementation includes a very robust capacity-building window aimed to respond to developing country concerns that they may lack the resources and expertise to implement the agreement. This is supported by the WTO Trade Facilitation Agreement Facility, a program that enables developing and LDC members navigate the various funding options for implementing their TFA commitments. The Facility helps members find the donor support they need by making information available on assistance programs and, as useful, matchmaking between donors and recipients. The Facility works with regional and multilateral agencies, bilateral donors and other assistance providers.

The deal could be the first step toward a more comprehensive ecommerce agreement that has been discussed by the “Friends of Ecommerce” group consisting of a subset of WTO members and some others. Such a more comprehensive plurilateral would likely cover also such issues as intellectual property protection, consumer protection, and data flows.
VII. Conclusion

Ecommerce has become the leading driver of small business exports globally. While it has removed many of the costs and frictions that previously limited small businesses’ access to foreign markets and cross-border transactions of low-value items, impediments remain. The most nonsensical of them are the persistently low de minimis values in most part of the world. Empirical work shows that raising de minimis levels would have significant trade and economic gains.

The online revolution has yet to be matched by 21st century trade regime that accommodates and fuels MSME trade. This paper has proposed a mechanism for dealing with this problem – a plurilateral agreement on de minimis. Such an agreement, struck among a coalition of willing countries, would boost small business exports while also resulting in considerable economic gains in the member economies.

This paper is the first politically viable proposal for higher de minimis levels. While each government gives a little market access at lower rungs, each also gains a great deal new access to its MSMEs from the other members. The de minimis plurilateral is a silver bullet for increasing small business trade, and a way for governments concerned about the political costs of higher de Minimis to go ahead and raise those levels.

This paper has laid out a design for a de Minimis plurilateral agreement, and proposed possible venues for launching the talks. Any developing countries that commence such talks should be eligible to a comprehensive package of technical assistance for negotiating and implementing the agreement and capacity-building for MSMEs to take advantage of it. To the extent that the goal is a broad-based plurilateral covering much of the world economy, developing countries should also be the demandeurs, given that such attractive and large markets for developing country online sellers as the EU and Canada keep holding onto low de minimis values. The rewards for those who join will be great – a boost in MSME exports, along with saved resources, streamlined customs procedures, competitiveness gains for domestic firms, and increased welfare for domestic consumers.
Notes


13 Collection costs matter: In a KPMG study, the cost of processing a VAT invoice per item in the UK was estimated at 0.29-0.55 GBP (0.37- 0.69 EUR) when automated and 1.29-2.35 GBP (1.62- 2.96 EUR) when manually processed, depending on the size of the company. In APEC-6 (Canada, Indonesia, Japan, Malaysia, the Philippines and Thailand), these costs vary between 14.46 USD (10.64 EUR) to 3.13 USD (2.30 EUR) per consignment. A rule of thumb in the EU is that member states ultimately receive 25 percent of the duties they collect. See KPMG (2006), Administrative burdens – HMRC measurement project, HMRC, cited in Cross-border Research Association, Lausanne, Switzerland – in co-operation with HEC University of Lausanne and University of Bamberg. 2014. “The import VAT and duty de-minimis in the European Union – Where should they be and what will be the impact?” (14 October), http://www.euroexpress.org/uploads/ELibrary/CDS-Report-Jan2015-publishing-final-2.pdf. For Asia, see Holloway, S. and Rae, J. (2012), “De-minimis thresholds in APEC”, World Customs Journal, Vol.6 No.2, pp. 31-62.


15 Hufbauer, Gary and Yee Wong. 2011. “Logistics Reform for
23


21 Studies also point out that the savings from increases in de minimis levels would enable customs reallocate resources toward identifying serious threats, from terrorism to counterfeit merchandise, illegal drugs, and unsafe food products.

22 “Australia’s new digital GST is rubber-stamped,” Taxamo, 10 May 2016 https://www.taxamo.com/blog/australias-new-digital-gst/

23 These arguments have gained more followers as trade has digitized. In discussions on inter-state taxation is such federal countries as the United States and Brazil, there are two main ways taxes are dealt with – charging the tax at the origin and not in the destination of the sale, and, as is more typical, charging it at the destination. In the latter case, there is contestation over whether the company selling the product has presence via a “nexus” at the destination. Nexus used to be defined in U.S. states as physical presence, such as a store; however, as ecommerce has grown, many U.S. states have argued that nexus means any sales presence or online marketing. See, for example, Katherine Gustafson, “What Is Nexus and How Does It Affect Your Small Business?” Intuit Quickbooks blog <http://quickbooks.intuit.com/tr/taxes/what-is-nexus-and-how-does-it-affect-your-small-business/>