Internationalisation of Micro and Small Enterprises through E-Commerce

Assessing the Impact of De Minimis

CUTS International

#1825

Internationalisation of Micro and Small Enterprises through E-Commerce

Assessing the Impact of De Minimis

CUTS International

Internationalisation of Micro and Small Enterprises through E-Commerce

Assessing the Impact of De Minimis

Published by:

CUTS International

Consumer Unity & Trust Society
D-217, Bhaskar Marg, Bani Park, Jaipur 302016, India
Ph: 91.141.228 2821, Fx: 91.141.228 2485
Email: cuts@cuts.org, Web: www.cuts-international.org

First published: September 2018

Citation: CUTS (2018), Internationalisation of Micro and Small Enterprises through E-Commerce: *Assessing the Impact of De Minimis*, CUTS International, Jaipur, India

This document has been produced by CUTS International

This report has been published under the project entitled, 'Internationalisation of MSME's through e- Commerce: *Assessment of De Minimis, Remote Taxation & Other Fiscal Incentives* implemented by CUTS International. The views and opinions expressed in this publication is that of CUTS International.

#1825, Suggested Contribution

Contents

List of Tables and Figures

Abbreviations

AfCFTA:	African Continental Free Trade Agreement
APEC:	Asia Pacific Economic Cooperation
ASEAN:	Association of Southeast Asian Nations
BKBK:	Buy Kenya Build Kenya
CAK:	Communications Authority of Kenya
CFTA:	Continental Free Trade Agreement
COMESA:	Common Market for Eastern and Southern Africa
EAC:	East African Community
EC:	European Commission
EPC:	Export Promotion Council
EU:	European Union
FTAs:	Free Trade Agreements
GDP:	Gross Domestic Product
GSO:	General Statistics Office
GST:	Goods and Services Tax
GVA:	Gross Value Added
GVCs:	Global Value Chains
ICT:	Information and Communication Technology
IFC:	International Fuel Charges
IPRs:	Intellectual Property Rights
KEBS:	Kenya Bureau of Standards
KICA:	Kenya Information and Communications Act
KIIs:	Key Informant Interviews
KIRDI:	Kenya Industrial Research Development Institute
KNBS:	Kenya National Bureau of Statistics
MNCs:	Multinational Corporations
MSEA:	Micro and Small Enterprises Authority
MSEs:	Micro and Small Enterprises
MSMEs:	Micro, Small and Medium-sized Enterprises
MTS:	Multilateral Trading System

NEB: Net Economic Benefits
NTBs: Non-tariff Barriers

OECD: Organisation for Economic Co-operation and Development

RCEP: Regional Comprehensive Economic Partnership

SDGs: Sustainable Development Goals
SMEs: Small and Medium-sized Enterprises
SPS: Sanitary and Phyto-sanitary

TBT: Technical Barriers to Trade
TOE: Technology-Organisation-Environment
TPP: Trans-Pacific Partnership

UNIDO: United Nations Industrial Development Organisation

VAT: Value Added Tax

WTO: World Trade Organisation

Contributors

Chandni Dawani is working as a Research Assistant at CUTS Centre for International Trade, Economics & Environment. Along with this, she is pursuing PhD in Economics from International College for Girls, The IIS University, Jaipur. She has done MA in Economics from Central University of Rajasthan in May 2016 and BA (Hons.) in Economics with a distinction from International College for Girls, The IIS University, Jaipur. She has an experience of working both on desk and as well as on-field during her three summer internships (Ministry of External Affairs, New Delhi; Sardar Patel Institute of Economic and Social Research, Ahmedabad; ICICI Prudential, Jaipur). Her research interests include International Trade and Development Economics.

Collins Owegi is an Assistant Programme Officer at CUTS Nairobi. Owegi holds a Bachelor's degree in Economics and is currently pursuing an MA in Economics of Multilateral Trading Systems at the University of Nairobi.

Muvafaq Sheeshaikh is working as a Research Associate at CUTS International Centre for International Trade, Economics & Environment. His areas of interest include International Trade, Economic Diplomacy in South Asia and Global Geopolitics. He was awarded post graduate degree in Regulatory Governance from the Tata Institute of Social Sciences, Mumbai.

Rohit Singh is currently Policy Programme Manager, India & South Asia at Facebook. Prior to joining Facebook, he was working with CUTS as a Policy Analyst. He was an Expert Member at United Nations, Sustainable Development Solutions Network; Subject Expert, Ecological Economics at Centre for Ecological Services Management, Indian Institute of Forest Management; and Researcher at The XIV Finance Commission of India. He also worked at Axis Bank and interned at Rural Planning and Credit Department, Reserve Bank of India. He completed his MBA in Environment and Development Management from Indian Institute of Forest Management; and Engineering in Computer Science from University of Rajasthan.

Sanjay Kumar Mangla is working as a Fellow at CUTS Centre for International Trade, Economics & Environment. He has expertise on quantitative and qualitative research in areas of Trade, Investment and Public Policy. Before, joining CUTS, he has served in academia for eight years where he taught many courses on economics and international trade. He has published several research papers and articles. His recent research work includes Trade Facilitation, Regional Integration, Investment and E-commerce. He has done PhD in Economics from Jamia Millia Islamia, Delhi after obtaining MPhil (Economics) from Kurukshetra University, Kurukshetra and Masters in Economics from Maharshi Dayanand University, Rohtak.

Preface

Industrial sector is facing serious challenges in countries like India and its share in country's income is declining. Micro and small enterprises (MSEs), which comprise a larger share in total manufacturing and employment, are struggling to create a space in domestic as well as global markets. Majority of MSEs do not trade cross-border for a variety of reasons such as their small size, resource constraints and inadequate capacity to identify and supply to international markets.

At the same time, these enterprises are best suited to absorb the work force engaged in agriculture or other economic activities with zero or even negative marginal productivity. Despite their evident importance, MSEs receive a small proportion of total financial support for the industrial sector. While governments in various countries, including India announced several support programmes for the growth of MSEs but due to numerous reasons the objectives of these programmes hardly turn into reality.

Primarily, MSEs sell into the domestic markets but trading in international market is also equally important for their growth and to create jobs. Among others, two biggest challenges to sell in international market include identification and reaching out to consumers and bearing of trade compliance cost.

For the first, electronic commerce (e-commerce) can play a big role as it can connect even small sellers to unknown global buyers. There is immense potential for the developing countries such as India, Kenya, Vietnam, among others, with respect to the uptake and use of e-commerce in conducting international business. However, it is important that rules governing e-commerce should create a level playing field without favouring any particular stakeholder.

In regard to the second challenge, large enterprises can manage their trade cost through economies of scale but it is very difficult for MSEs to bear trade compliance cost and, many a times, it becomes a big barrier to their exports.

Here, *de minimis (refers to the minimum value of goods, below which no duties and taxes are collected and streamlined border clearance is provided*) can play a pivotal role, if used properly, with a larger scope. Therefore, keeping these challenges in mind, there is a strong need to adopt and implement evidence-based measures on domestic as well as international policy fronts to strengthen the competitiveness of MSEs in order to make them independent as well as global through e-commerce.

This study is an attempt to gather and analyse such evidence. It identifies various challenges faced by MSEs in three developing countries: India, Kenya and Vietnam in adopting e-commerce platforms for selling in domestic as well as international markets. Additionally, it has identified prominent constraints for MSEs in trading across border. It finds that maximum benefits of *de minimis* can be realised if its scope covers local taxes along with customs duty.

I am sure that this study will act as an important resource in the efforts of making global trade more inclusive in this emerging digital era.

Pradeep S Mehta
Secretary General, CUTS International and
Member, Think Tank on E-commerce Policy
Ministry of Commerce & Industry, Government of India

Executive Summary

Background

Despite their extensive role in the output and employment, broadening access to economic and business opportunities remains one of the significant concerns for micro and small enterprises (MSEs). Their inherent characteristic of inadequate capital, labour and technical resources have posed challenges for them to grow independently and internationally. Owing to their small size and lower technological adoption, MSEs have been dependent on bigger export aggregators and other multinational corporations (MNCs) to participate in cross-border trade as well as supply of products in local markets. There is a need for inclusive trade through creating a level-playing field for MSEs that requires a pool of efforts, and reducing trade compliance cost is one of them.

Objective and Methodology

In this context, this study examines the role of e-commerce in internationalisation of MSEs while focussing on the effect of *de minimis* threshold. To achieve the foregoing, the study takes into account the qualitative and quantitative analysis of primary and secondary data respectively. Primary data has been collected from three developing countries: India, Kenya and Vietnam and aims at identifying issues being faced by MSEs in trading cross-border through e-commerce. The secondary data analysis establishes a causal relationship between *de minimis* (threshold and scope) and exports of MSEs for a group of selected countries.

Findings and Recommendations

Limited production capacity, high logistics cost, inadequate access to finance, infrastructural bottlenecks, etc. have been identified as the most prominent challenges that MSEs, in the aforementioned countries face while integrating into the global trade landscape. While some of the prominent challenges in adopting e-commerce include inadequate logistics/delivery facilities especially in rural areas, low internet penetration in rural and semi-urban areas, high shipping costs especially for small value orders, high information and communication technology (ICT) infrastructure cost, etc.

The statistical causal relationship between *de minimis* and exports of MSEs reveals that the former has a significant positive impact on the latter. However, the magnitude of this impact is quite low which may be attributed to many factors.

Some of them are: exports are very dynamic and determined by a number of factors; many countries do not permit *de minimis* on commercial consignments; and its threshold value is quite low in many countries.

The study finds that the impact on MSEs exporting is greater where the scope of a *de minimis* regime includes local taxes, such as value added tax (VAT) along with customs duty. For instance, increasing the customs duty *de minims* threshold by US$1 may lead to an increase of US$5mn in average MSEs exports of selected countries, whereas increasing the VAT *de minimis* threshold by the same amount may lead to an increase of more than US$115mn in average MSEs exports of selected countries, *ceteris paribus*.

The study examined the impact of increasing the *de minimis* threshold on customs duty to US$200 and the threshold on VAT to US$30 on MSE exports in selected countries. The estimates suggest that the modest rise in value thresholds may increase MSE exports with as much as 96 per cent (in comparison, the increase would be about 55 per cent for the group of countries with mixed *de minimis* scope), *ceteris paribus.*

Based on the observations from primary and secondary research, the study recommends evidence-based measures on domestic as well as international policy fronts to strengthen the competitiveness of MSEs in order to make them independent as well as international through e-commerce. Making MSEs independent implies that they can participate in foreign trade as well as domestic markets without any intermediary or export aggregators through the use of technology/e-commerce. This will reduce the risk involved in being dependent on multinationals or other sales agents.

1. Introduction

Background

Micro, small and medium-sized enterprises (MSMEs) are emerging as one of the most important market segments contributing significantly to the gross domestic product (GDP) of various countries around the world. They make vital contributions in improving economic and social sectors of a country through stimulating large-scale employment, investment, development of indigenous skills and technology, promoting entrepreneurship and innovation, enhancing exports, and building an industrial base at different scales.[1]

MSMEs are increasingly being recognised as drivers of growth as they contribute significantly (about 50 per cent) to the GDP and 60-70 per cent to employment, worldwide, and further comprise the majority of firms in almost all countries — 95 per cent on average (Bajaj and Selvakumar, 2017). There is a set of reasons which suggest the role MSMEs can play in promoting national economic objectives. Further, MSMEs account for the creation of employment in more labour-intensive production sectors and eventually contributing significantly to the generation of income and reduction in poverty.

It is against the foregoing that the discourse on MSMEs has attracted global debate to the extent that they are strongly being featured in key international agreements, such as UN Sustainable Development Goals (SDGs), Addis Ababa Agenda, bilateral and regional Free Trade Agreements (FTAs) and the Multilateral Trading System (MTS) vide World Trade Organisation (WTO).[2]

MSEs are a part of total MSMEs and make significant contribution in employment and income, especially in rural and semi-urban areas. However, they are ignored in receiving policy initiatives many a time. It must be noted that different countries and global organisations have varying definitions as to what constitutes MSEs such as the number of employees; annual turnover and investment; or scale of operation. Furthermore, the threshold on each parameter also varies from country to country.

The Organisation for Economic Co-operation and Development (OECD) defines MSMEs as 'independent firms, which employ less than a given number of employees'. Definition of MSMEs by various agencies suggests that the most widely used variable for defining MSMEs is the number of employees followed by turnover and assets.

Table1.1: Definition of Micro and Small Enterprises

Organisation/ Country	No. of Employees/Staff headcount		Investment Value/Total Assets		Annual Turnover/ Sales	
	Micro	Small	Micro	Small	Micro	Small
International Finance Corporation	Up to 10	10-50	-	-		
European Commission	< 10	< 50	< $3 million	<$13 million	< $3 million	< $13 million
UNIDO	1-9	10-49	-	-	-	-
APEC	< 5*	5-19	-	-	-	-
India**	-	-	-	-	<5 crore rupees	5 crore-75 crore
Kenya***	1-9	10-50	<10 million (Ksh)	10 million-50 million Ksh	<500,000 Ksh	500,000- 5 million Ksh
Vietnam****	< 10	< 200	-	<20 billion VND	-	-

**includes self-employed managers,*
*** http://pib.nic.in/newsite/PrintRelease.aspx?relid=176353,*
****MSE Bill, 2012*
*****definition for industry and construction*
APEC: Asia Pacific Economic Cooperation

Despite their immense potential and importance to national economies, MSEs have failed to make a mark in the public policy domain. Recognising the consequences of these inadequacies, many developing nations have been implementing policy reforms in this sector, with the general objective of strengthening the competitiveness of MSEs and encouraging their participation in global value chains (GVCs).

In view of this, the study assesses and analyses the application of electronic commerce (e-commerce) in increasing market access for MSEs in domestic as well as international markets with a focus on three developing countries viz. India, Kenya, and Vietnam. The study also examines the impact of de minimis, a fiscal incentive providing duty exemptions in case of trade in small value consignments, on internationalisation of MSEs.

E-commerce plays a catalytic role in unlocking the untapped potential of MSEs. The growing relevance of digital trade in goods and services is creating a new kind of global supply chain (B2B trade enabled by e-marketplaces) and is easing the participation of MSMEs in the global trade regime. E-commerce can help reducing barriers to trade significantly by reducing fixed costs, such as capital rents, as well as information and communication costs. E-commerce connects customers and merchants/producers without a need for physical presence in the market implying that it enables a greater geographical spread. Benefits that accrue to these enterprises through internationalisation are higher turnover growth (BIS 2010) and employment growth (Edinburgh Group).

The long-standing issue of *de-minimis* is whether governments should raise the minimum threshold limit in which no formal customs procedures are required and no duties or taxes are collected. Previous studies, such as Hintsa *et al*. 2014, have vouched for a higher threshold of *de-minimis* to boost trade in low-value items as it lowers MSEs trade compliance costs. The study investigates the practicality of this policy tool in increasing MSEs international trade for a group of selected countries.

Literature Review

This section reviews the existing available literature on MSEs on three aspects viz. their internationalisation, application of e-commerce to increase their market access, and impact of *de-minimis* on their cross-border trade. *However, there is no such study that focusses only on MSEs; rather various studies have focussed on small and medium-sized enterprises (SMEs). Therefore, available studies on these enterprises have reviewed here.*

Internationalisation

Mughan and Lloyd-Reason (2008) attempted to gain a better understanding of barriers to internationalisation of SMEs and share knowledge of government interventions to reduce those barriers. The study was conducted in 2008 and regions covered were OECD and the Asia-Pacific Economic Cooperation (APEC) countries. Authors employed ANOVA Analysis, Ward Cluster Analysis, and Likert scale ranking of secondary data as methodology tools. The study found that internal problems of enterprises create more hurdles than government policies. The analysis of impact of government support revealed that there seemed to be a shift in barriers when SMEs start engaging in export activities from initial barriers the firms faced.

Deprey and Ibeh (2009) analysed the motivation to SMEs for the internationalisation of their business activities and developed a deeper understanding of select existing support programmes, particularly those addressing major barriers. The study included OECD and APEC countries for the year 2009. The methodology of the study was analysis of large-scale quantitative surveys and qualitative case studies. The study pointed out the importance of growth and knowledge-related motives in driving SME internationalisation. The results suggested that limited firm resources and international contacts as well as inadequate managerial knowledge about internationalisation have remained critical constraints to SME internationalisation.

The US International Trade Commission (2010) brought out a report to describe the role of SMEs in US exports. Two linear regressions were used to estimate and analyse the data. The report pointed out that the share of SMEs in US exports is lesser than the share of SMEs in European Union (EU) exports owing to the better-targeted support programmes for SMEs in the EU. The report also highlighted the importance of governments providing information on foreign markets, export finance assistance etc. to promote SME exports.

Hagsten and Kotnk (2014) examined the role of ICT as a facilitator to internationalisation of SMEs in Europe. The period of the study was 2014. Empirical investigation, applying Probit model using Distributed Micro Data Approach of data sets for 12 European countries, found ICT to be positively related to exporting activities of SMEs in most of the countries. However, specific ICT capacities that matters the most seemed to vary across countries.

Peri and Saccon (2014) highlighted the importance of internet for SMEs and the kind of internet tools they can use to facilitate internationalisation and increase exports. The study was conducted in Italy in 2014. They used a questionnaire-based case study on family-owned business based in Milan. The study found that financial barriers do not determine the volume of export and degree of internationalisation. It is sound management principles with innovative marketing strategies that facilitate internationalisation of SMEs.

Pietrasiensky and Slusarczyk (2015) assessed the usefulness of various government support programmes for SMEs in OECD countries to overcome their difficulties in entering/expanding into foreign markets. The study highlighted that there was a significant divergence between expectations of SMEs from support programmes and the ones actually offered in OECD respective countries.

Chen and Zhang (2015) analysed the relevant factors that create challenges to MSMEs internationalisation and explored the influence of e-commerce in long- and short-term sales of SMEs in China. The study used theoretical analysis along with empirical research methods, such as Granger Causality, Johnson Co-integration, Impulse Response Analysis and Variance Decomposition. It found that investment in IT infrastructure is the most important factor to achieve competitive advantage in internationalisation. Furthermore, it also asserted that the expansion of the enterprise size could increase the transaction volume of SMEs in the short term.

Kaur and Arora (2017) examined the factors affecting internationalisation of MSMEs. The study deployed multiple regression technique for secondary data. Main factors identified were managerial skills, organisational behaviour and structure, and innovation and ICT adoption at firm level. Major barriers included inadequate finance, access to markets and inadequate knowledge about the markets.

Application of e-commerce to increase market access

Jia (2008) assessed the impact of e-commerce on internationalisation of SMEs, particularly in New Zealand. It was an exploratory study using Technology-Organisation-Environment (TOE) framework and cross-case thematic analysis for qualitative data collected in semi-structured interviews. The study highlighted the relative advantage of e-commerce over traditional marketing channels for internationalisation of SMEs.

Bagale (2014) assessed the determinants of e-commerce in the Indian MSMEs sector applying Innovation Diffusion Theories and TOE framework. The study found that the adoption of e-commerce by MSMEs would lower overall cost of trading, reduce geographical challenges and enable faster and better-informed business decisions. However, MSMEs faced challenges, such as limited financial and human resources to implement e-commerce unlike large organisations.

Pasadilla, Wirjo and Liu (2017) studied the application of e-commerce by MSMEs in five countries viz. China, Malaysia, Brunei Darussalam, Korea and Chinese Taipei. The study indicated that participation of MSMEs in cross border e-commerce is low and will continue to remain low in the near future. This phenomenon was attributed to many reasons, such as inadequate economies of scale to offer low prices, inadequate proactive branding and marketing so as to make their products visible, and language barriers. Authors also discussed how return policy and refund of commissions on various e-commerce websites pose formidable challenges to MSMEs sector. The methodology used for this study was focus group discussions with major stakeholders, including e-commerce platforms, payment providers, traders or aggregators, logistic service providers.

Panda (2017) analysed the role of e-commerce in MSMEs sector in India. He identified timely access to credit, infrastructural gaps, technological obsolescence and inadequate marketing capabilities as biggest challenges for MSMEs in utilising full potential of e-commerce. The study deployed narrative technique using secondary literature and authors own findings.

Impact of de-minimis on cross-border trade

Latipov, McDaniel, and Schropp (2017) examined the direct economic impacts of increasing *de minimis* threshold limit, including fiscal impacts as well as economic costs and benefits to businesses and final customers in an operation-oriented framework. The paper highlighted the relative inefficiency of very low *de minimis* threshold levels by utilising a unique set of data with transaction level information of Canada. The study considered three scenarios in which *de minimis* threshold were raised and found that the largest net economic gains were realised when *de minimis* was raised to the highest level.

Steven, Cezary, and Ives (2014) investigated whether there is a link between EU import duty and VAT *de minimis* level, and deliberate undervaluation of shipments below *de minimis* threshold. The study concluded that there was no link between duty and import tax *de minimis* level and undervaluation practices executed by foreign traders.

Hintsa *et al.* (2014) explored economic consequences, impact on consumer behaviour, and other potential implications of various VAT and duty *de minimis* levels relating to import of small and low value consignments into the EU for the year 2014. Authors applied conjoint analysis. The research team developed a web-based economic model and calculation tool, which was used for data optimisation.

Jeffrey and Stephen (2015) studied *de-minimis* regime in six Asia-Pacific Economic Cooperation (APEC) economies, viz. Canada, Indonesia, Japan, Malaysia, Philippines and Thailand for the year 2015. The study found that most APEC economies have *de minimis* arrangements, which varied from economy to economy. The *de minimis* values remained unchanged in recent years in all countries studied except Philippines. The study pointed out that the differences in *de minimis* values can affect balance of economic costs and benefits that a specific regime generates. Further, the study also concluded that higher *de minimis* threshold might have substantial positive impact on GDP.

Suominen (2017) attempted to set out concrete steps to get a *de minimis* plurilateral negotiations started between countries. The study took into consideration the Asia Pacific region. The author found that raising *de minimis* levels would reduce compliance cost of small businesses engaged in trade of low value consignments. The study highlighted that raising *de minimis* levels would also reduce cost of tax collection for the government.

Research Gaps

Based on the studies reviewed above, following points emerged as a considerable research gap in the existing literature on internationalisation of MSEs:

- Most of the studies focus on SMEs. No study, which solely cover micro and small entities is available.
- There is no study available that focusses on remotely-located MSEs. Further, none has documented challenges faced by these enterprises while entering into international market.
- There is no study available that estimate the impact of *de minimis* on the export performance of MSEs.

Research Objectives

The research objectives of this study are to:

i. highlight the importance of MSEs in developing countries;
ii. identify potential challenges being faced by MSEs in increasing their domestic as well as international market access, particularly located in remote areas;
iii. examine the role of e-commerce in increasing market access of MSEs in both domestic as well as international markets, along with identification of challenges in adopting e-commerce; and
iv. evaluate the impact of *de minimis* level on exports of MSEs in a global scenario.

Methodological Approach

In order to achieve the aforementioned research objectives, the study relies upon the analysis of both qualitative and quantitative information, obtained from primary and secondary sources respectively.

In order to achieve research objectives (ii) and (iii), the study had employed a case study approach. Qualitative information collected through field survey in three developing countries, viz. India, Kenya, and Vietnam was analysed. Key informant interviews (KIIs) with MSEs, majorly located in remote areas, were conducted through a structured questionnaire to obtain qualitative information about stakeholders' views on the role of e-commerce and key challenges faced by them in participating in global trade.

The basic rationale for selecting these three countries is that they all belong to the group of developing economies and represent three important geographical areas, viz. South Asia (India); Southeast Asia (Vietnam); and Africa (Kenya). MSEs occupy a considerable position in the Indian industrial sector in terms of number of entities, employment generation and country's exports.

Further, the e-commerce sector is rising at a rapid pace, which can prove to be an engine of increasing market access for MSEs. The reason for selecting Kenya is that it has a promising MSEs sector. The Government of Kenya is also committed to promote MSEs, establishing the Micro and Small Enterprises Authority in 2012. Further, Kenya has been a pioneer in digital payments (m-pesa) which is an important indicator of e-commerce. Vietnam contributes a significant proportion in GVCs. It also has a prospective manufacturing sector and many of the enterprises in Vietnam use e-commerce platforms.

The research objectives (i) and (iv) have been obtained analysing secondary information/data. Research objective (i) is served through exploratory research and data support on importance of MSEs in developing countries (India, Kenya, and Vietnam). Research objective (iv) has been achieved through applying econometric model – Ordinary Least Square (OLS) on a bilateral cross-sectional dataset on *de minimis* level and export by MSEs in a group of selected countries. It is important to note that data availability of country level trade performance by MSEs is the biggest limitation/criterion after selecting these countries. The detailed methodology has been specified in Chapter 3.

Rationale and Scope

MSEs are usually clustered under the umbrella of MSMEs and often policymakers fail to isolate issues specific to them. MSEs, especially remotely located and marginalised firms, have not been strongly linked to key global economic hubs and hence there is a gap in their integration into GVCs. Therefore, there is an evident need to specifically study issues of MSEs.

De minimis is one of the ways to encourage cross-border transactions of low value consignments. It is helpful in promoting integration of MSEs with international markets as many of their consignments may be low valued. *De minimis* may include customs duty as well as local taxes (VAT/GST) exemption on trade in consignments up to a threshold value, varying from country to country. Both aforementioned exemptions facilitate trade in small value consignments by reducing costs and/or providing a simplified customs procedure. Majority of countries across the globe have provisions for *de minimis* exemption in terms of customs duty while a very limited number of countries give local tax exemptions specifically on imports, mainly by developed ones such as EU and Australia, however, they are also withdrawing local tax exemptions.

In recent times, *de minimis* threshold values have been largely unchanged across the world, except in the US and the Philippines. At the same time, e-commerce has fundamentally changed opportunities available to MSEs, making it possible for very small enterprises to engage in commerce across borders by directly serving customers in a very large number of different countries. E-commerce can boost international as well as domestic market access to MSEs as it increases their chances of reaching unknown potential buyers along with regular buyers.

Limitations

- Data is not standardised across countries and time which, among other issues, hampers comparability. Further, data on MSEs exports is available for only few countries which restricts the examination of *de minimis* impact on MSEs exports.
- Given the time and financial constraints, the study is confined to three countries and therefore, there is a possibility of slight erroneous deductions in the final analysis due to limited geographic approach.

2. MSEs' Landscape in Developing Countries

This chapter highlights the landscape of MSEs in three selected developing countries: namely India, Kenya and Vietnam. *It is largely based on findings from a primary survey conducted in the aforementioned countries during February-March 2018.*

The chapter identifies the prominent challenges with regard to MSE expansion' in domestic as well as international markets along with adoption of e-commerce/e-market places for increasing their market access.

India

In India, which is a high-growth developing country, MSMEs play crucial role in the economy, which is evident from the fact that these constitute a major share accounting for 90 per cent of industrial enterprises in India. However, the contribution of MSMEs sector in India's gross value added (GVA) and GDP, at current prices, has decreased from 31.86 per cent and 29.57 per cent in 2011-12 to 31.60 per cent and 28.77 per cent in 2015-16 respectively. Still, MSMEs account for about 45 per cent of the manufacturing output in terms of value and contributes over 40 per cent to the country's exports (Annual Report 2017-18, Ministry of MSMEs, Government of India).

The emerging Indian MSMEs sector is also playing a vital role in facilitating employment generation and helping in industrialisation of rural and backward areas. With about 633.88 hundred thousand MSMEs in 2015-16, this sector employs 110 million people across the country. Out of this, 630.52 hundred thousand (99.47 per cent) enterprises are micro entities providing employment to 107.62 million persons, which accounts for around 97 per cent of total employment in the sector. The remaining 3.31 hundred thousand and 0.05 hundred thousand SMEs employ 3.20 million and 0.18 million persons respectively (Table 2.1).

Table 2.1: Distribution of MSMEs in India (in '00 thousand)

Sector	Micro	Small	Medium	Total
Rural	324.09	0.78	0.01	324.88
Urban	306.43	2.53	0.04	309.00
All	630.52	3.31	0.05	633.88

Source: NSS 73rd Round Survey (2015-16) on MSMEs

Despite their immense potential and significant contribution in manufacturing output, MSMEs and especially MSEs are yet to realise their full capacity. There is ample scope for MSEs to expand their market reach in domestic as well as international markets and e-commerce can play an important role in this direction. The following section discusses and highlights challenges distilled from the primary survey conducted in India.

Responses from Primary Survey

A primary survey was conducted in four states of India, viz. Rajasthan, Gujarat, West Bengal and Kerala. These states were selected based on the position of MSEs in terms of number of working enterprises, employment, GVA and exports. Subsequently, important districts in each states were identified based on the 'list of SME clusters in India' provided by United Nations Industrial Development Organisation (UNIDO). District-level profile (retrieved from dcmsme.gov.in) of each selected district in India was reviewed for comprehensive information, such as details of operational MSEs clusters, major exportable items and important contacts.

Table 2.2: Overview of MSEs Surveyed in India

State	No. of Enterprises Surveyed	Range of Employees	No. of Enterprises with Physical Stores	No. of Enterprises using E-Commerce Platforms	No. of Enterprises Selling Internationally
Gujarat	19	4-49	2	9	6
Rajasthan	31	2-49	6	8	9
Kerala	21	15-30	1	12	14
West Bengal	16	6-49	5	8	2
India	**87**	**2-49**	**14**	**37**	**31**

Source: Field Survey

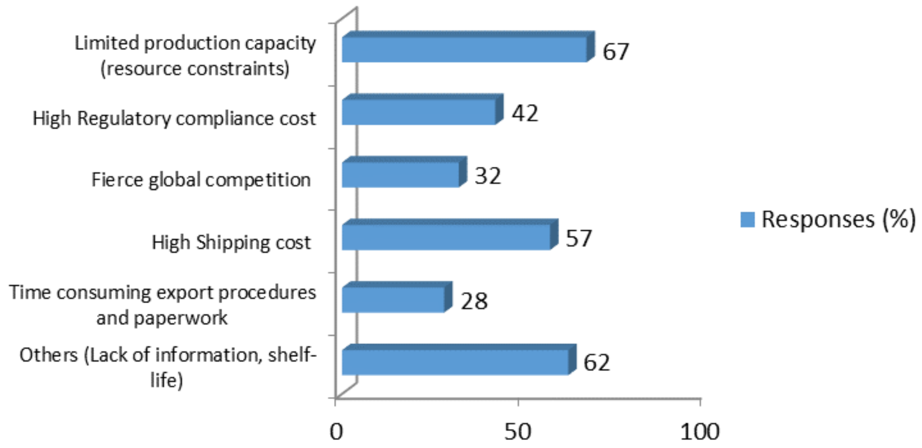
The findings of the survey in India revealed that most of the enterprises were selling in bulk to retailers and did not have their own retail operations/outlets. In many instances, enterprises could cater only to domestic and local demand due to their limited production capacity and resource constraints (inadequate of finance). It emerged from the survey that unprofessional handling of consignments and high costs of returns were major concerns and challenges to sell in international markets.

Challenges faced in domestic market: Taking into account responses of enterprises, it is worth noting that large enterprises, such as Parle, Britannia and Hindustan Unilever are opening their own ancillary entities (printing, packaging) which are negatively affecting MSE businesses. In some instances, enterprises could not serve their distant customers because of product-specific challenges (shelf-life of the product is one of them). MSEs face stiff competition from large domestic firms in terms of price because they sell better quality products at lower prices. Here, technology (e-commerce platforms) can help them in reaching out to customers directly without spending much on advertisement.

Reasons for not using e-commerce platforms: The reasons were attributed to inadequate motivation and ambition of surveyed enterprises to expand their digital presence. Others pointed out that they require more people and a separate dedicated team for handling e-commerce orders and as they are into small businesses it is not viable for them to use e-commerce. Further, burden of cost on professional photography for their products is another hurdle for MSEs, which make it difficult to engage in e-commerce trade. While some of them, who were using e-commerce platforms bolstered the fact that search engine optimisation is a big issue, i.e. their products are not being featured on the first and second page of search results. Therefore, they do not receive regular orders.

Reasons for not selling internationally: Some of the compelling factors identified were high shipping costs, fierce global competition and high cost of regulatory compliance (eg, laboratory testing) among others. Merely finding genuine foreign buyers is not the barrier but time-consuming export procedures and paperwork is a bottleneck that limits MSEs exports. This was the case for 28 per cent of them. About 67 per cent respondents raised the issue of resource constraints and limited production capacity. Figure 2.1 provides the overview of key factors that limits MSEs exports potentiality.

Figure 2.1: Reasons for Not Selling Internationally by MSE in India



Kenya

Kenya is located in the eastern part of Africa and a key regional player in East Africa, with major communications and logistics hub. It has a population of about 48.5 million (Kenya National Bureau of Statistics, KNBS, 2016). Over the past decade, Kenya's real GDP growth has averaged around five per cent.[3] The agricultural sector is the backbone of the Kenya's economy, contributing 26 per cent to the GDP, and another 27 per cent indirectly through linkages with other sectors of the economy.

On the other hand, the manufacturing sector's contribution to GDP is at around 10 per cent (KNBS, 2017) with food products sub-sector having the highest share of about 43 per cent to the overall manufacturing sector contribution to GDP while the industrial supplies (non-food) accounted for 27 per cent. In 2013, 18 per cent of Kenyan manufactured goods were exported, out of which 6.1 per cent was exported to the East African Community (EAC) and 12 per cent to the rest of world.[4]

MSEs

According to Kenya Economic Survey Report 2017, about 95 per cent of manufacturing firms are micro and small, but they contribute only about 20 per cent of the sector's GDP. The KNBS MSE survey 2016 established that Kenya had 1.56 million registered MSMEs and 5.85 million unlicenced ones. In both instances, a majority of them were involved in retail and wholesale trade as well as automotive mechanics. The manufacturing sector accounted for only 12 per cent of the sampled enterprises. Other notable products include carpentry, metalwork fabrications, agro-processing and value chain development, tailoring, leather works and chemicals: soaps and detergents, candles, paints and spirits (Kinuthia & Akinnusi, 2013; World Bank, 2013). This necessitates the support to MSMEs to actively engage in the manufacturing sector.

The Micro and Small Enterprises Authority (MSEA) is a government body mandated to spur growth of MSMEs in the country.[1] Besides MSEA, the Government of Kenya has other initiatives targeted at encouraging the growth of MSMEs. These include the policy on 40 per cent government procurement reserved for local producers. Additionally, the Kenya Industrial Research Development Institute (KIRDI) provides subsidised training and incubation to local manufacturers whereby they are also facilitated to acquire the Kenya Bureau of Standards (KEBS) product certification.

Kenya's Vision 2030, which seeks to transform the country to middle-income, recognises MSMEs among growth drivers. However, they continue to face several obstacles to growth as 17.9 per cent of them have a very limited market access for their products and 14.3 per cent are faced out by local competitors.[5] The Sessional Paper on Development of MSEs for Employment and Poverty Alleviation also identified some obstacles to MSE development. Among obstacles identified range from access to information, land and infrastructure, skills and technology, to licencing, forward and backward linkages.[6]

Status of e-commerce

The rate of uptake on internet in Africa has been steadily increasing over the recent past with 340.78 million subscriptions in 2016, with mobile telephony penetration rate at 63 per cent.[7] However, the use of e-commerce in trade has not been well developed within the continent. This is attributed to several factors. A past study[8] on the barriers to e-commerce in Africa identified two major impediments. First, national barriers, which include poor state of the economy, inadequate sound regulatory frameworks, low levels of awareness, and remoteness of some regions which led to isolation. Secondly, there exist cross-national hurdles, such as legal implications, language barriers and poor state of infrastructure, which make it difficult to engage in multilateral trade.

As far as Kenya is concerned, the high rate of uptake and use of mobile telephony has made it relatively easier to transact business[9] due to ease of communication, social media marketing and mobile money cash transfer systems. This has provided an environment for the growth of MSMEs, which are critical in the

[1] See Annex I on functions of MSEA

country's economic development through their role in production, creation of employment opportunities as well as contribution to exports.

By selling through online platforms, the need to have physical premises and related licences has been reduced, thus, decreasing operational costs such as rent, amenities and salaries. Additionally, numerous opportunities have been created through online jobs, which have promoted a 'work-from-home' culture especially among the youth.

Kenya is currently migrating most of its services to the e-government platform where applications and payment of key documents, such as passports, land title deeds and driving licences, among others are completed online. This digitisation strategy has increased efficiency in service delivery while simultaneously reducing corrupt practices by government officials. Similar endeavours also manifest in private sector institutions such as banks, which have shifted most of their operations to online platforms.

The above-mentioned developments have been complemented by the existence of an effective mobile money infrastructure, which enable instant transfer, and receipt of money through the mobile phone.

Provisions for the regulation of e-commerce in the country are majorly contained in the Kenya Information and Communications Act (KICA), 2012 that created the Communications Authority of Kenya (CAK) whose mandate is to licence and regulate postal, information and communication services in accordance with provisions of the Act. A key area of focus is the development of a postal master plan for the country because e-commerce needs an effective courier system to ensure fast and reliable delivery of orders.

Responses from Primary Survey

Primary survey in Kenya was conducted in five counties, viz. Bomet, Busia, Homa Bay, Murang'a, and Nairobi. The total sample size was 50 MSEs.

Table 2.3: Overview of MSEs Surveyed in Kenya

County	No. of Enterprises Surveyed	Range of Employees	No. of Enterprises with Physical Stores	No. of Enterprises using E-Commerce Platforms	No. of Enterprises Selling Internationally
Bomet	10	1-3	10	0	0
Busia	10	1-5	10	1	2
Homa Bay	10	1-5	10	0	0
Murang'a	10	1-3	10	0	0
Nairobi	10	1-4	10	0	2
Kenya	**50**	**1-5**	**50**	**1**	**4**

Source: Field Survey

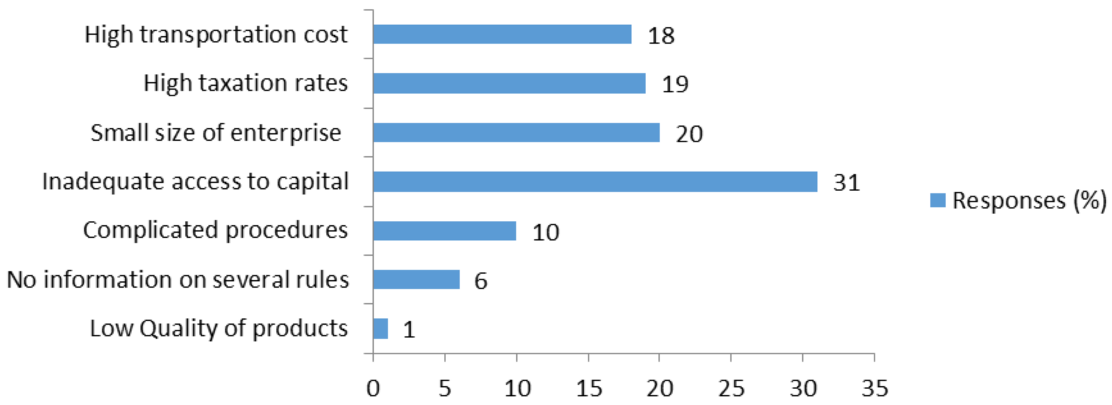
Most of the sales reported by enterprises were to direct customers to be easily accessible by the businesses. Sales were high within towns/market centres where ventures were located. In some instances, enterprises served customers in other towns within their counties of operation. The few who made sales in further parts of the county used courier services (mostly long distance buses) to deliver orders. The standard *modus operandi* of these transactions includes orders made via phone calls, payment done using mobile money, and dispatch of the consignment.

The level of interaction with cross-border buyers by MSMEs in Kenya is very low as only four respondents had customers in international market and that is within the EAC member states. The nature of transacting with these customers was similar to the ones with local long distance buyers as buses and payment made using mobile money did deliveries.

Challenges faced in domestic market: Some of the common challenges faced by MSEs in Kenya to expand in domestic market include inadequate capital, high taxation rate, high transport and transit costs, insecurity about demand of their products, inadequate capital and human capacity, and inadequate KEBS makes it difficult to getting license (especially for food). It was observed that inadequate access to capital (especially at a reasonable interest rate) is the most significant impediment to enterprises. This was the case for 31 per cent of gathered responses. The inability to raise sufficient capital affected the output, quality and profitability of the businesses. The issue of high taxation rates was mentioned in 19 per cent of responses while high transportation cost was a bottleneck to 18 per cent.

Reasons for not selling internationally: The reasons were attributed to the inability of MSEs to raise sufficient capital to produce enough goods that would satisfy the export market. This was the case for 31 per cent of them. Others thought their businesses were small and therefore opted out of exports market. Likewise, there was a feeling by one of the interviewees that export procedures were complicated and had legal implications. Inadequate information about opportunities abroad was another key factor that limited exports. Figure 2.2 outlines some of the barriers to exporting by local MSEs.

Figure 2.2: Reasons for Not Selling Internationally by MSE in Kenya



Vietnam

Vietnam is a small country located in Southeast Asia, known for its history rather than industrial landscape. However, industrial sector has picked up the pace in recent times and government is promoting manufacturing sector in the country. SMEs, driven by private sector, have emerged as an engine of growth of Vietnamese economy. They have registered a rapid growth over the last decade in terms of number of units, production as well as employment.

According to General Statistics Office[10] (GSO) of Vietnam, number of SMEs was almost doubled (49,203 in 2013 as compared to 25,653 firms in 2003). Manufacturing sector has seen a phenomenal growth during the same period as the number of registered enterprises increased from 16,916 in 2003 to 58,688 in 2013. On the employment front, non-state enterprises took the lead, which employed about 53.90 per cent (6.8 million) of total enterprise workforce. It has increased more than 300 per cent over the period of 10 years from the year 2003-2013. Additionally, employment in manufacturing sector increased 2.6 million to 5.3 million during the same period.

SMEs contribute a significant proportion to the country's GDP about 40 per cent. As long as sectoral composition of SMEs is concerned, it is majorly driven by trade and services (60 per cent). Manufacturing sector captures only about 17-18 per cent of total SMEs. Out of total exporting enterprises in Vietnam, only 1 per cent micro-sized and 13.90 per cent small-sized firms are engaged in exporting activities.[11]

Responses from primary survey

Primary survey in Vietnam was conducted in three provinces, viz. Hanoi, Vinh, and Ho Chi Minch city. The total sample size was 30 MSEs. Apart from interviewing MSEs, key other stakeholders, such as government officials in relevant ministries were also interviewed to collect the ground level information.

Table 2.4: Overview of MSEs Surveyed in Vietnam

State	No. of Entities Surveyed	Range of Employees	No. of Enterprises with Physical Stores	No. of Enterprises using E-Commerce Platforms	No. of Enterprises Selling Internationally
Hanoi	9	2-80	9	9	4
Vinh	14	14-200	14	11	7
Ho Chi Minch	7	15-200	6	7	5
Vietnam	**30**	**2-200**	**29**	**27**	**16**

Source: Field Survey

The outcomes of the Vietnam primary survey suggest that most of the enterprises have their own retail stores while the standard *modus operandi* of their international business transactions include orders received through email, Alibaba, telephone and attending international commercial fairs and exhibitions. Further, the nature of online orders for retail sales direct to customers was via their own websites, Facebook and Zalo in Vietnam.

Challenges in domestic market: MSEs in Vietnam are facing different challenges. They are identified as counterfeit products, complicated trademark registration procedure, tedious approval process of loans, and difficulty in regulatory compliance because of overlapping regulations in some sectors.

Reasons for not using e-commerce platforms: The reason pertains to inadequate IT professionals in Vietnam, which restricts their ability to expand their operations on digital platforms. In some instances, enterprises felt that they were either too small or too new in the market to be able to sell their products online. Ineffective marketing strategies of small enterprises also acted as a deterrent to find customers for their online business while advertising/marketing cost is too high for them to manage.

Challenges faced in International market: Most of the enterprises opined that it is difficult to engage with overseas businesses due to language barriers. Enterprises also quoted the inadequate capital as a constraint to expansion of operations in international markets. At the same time, some of them indicated that they find it difficult to assess the market scenario and information on the potential international buyers. High shipping costs along with complex and long customs procedures also contribute to enterprises not selling in international markets.

SLOT Analysis on Internationalisation of MSEs (these observations are based on primary survey)

	India	Kenya	Vietnam
Strengths	Large in number and producing variety of products which can be used as intermediate inputs	Job creation	MSEs occupy a prominent place in GVCs
	Government support schemes especially through MSME Ministry	Opportunities for less educated	Low labour cost
	Low cost of production	Frugal/enterprise-led innovations	High competitiveness in textiles & clothing/leather and footwear/handicraft industries
	Geo-strategic position of India providing sound logistics and transport connectivity with other countries	Product diversification	
Limitations	Limited production capacity	Inadequate access to capital	Language barrier (low proficiency in English)
	High shipping cost and regulatory compliance	Difficulty in getting sites to build enterprises	Tedious and slow approval process of loans (access to credit)
	Inadequate knowledge/information about export procedures and SPS/TBT standards	Payment facilitation	Weak protection for intellectual property rights (IPRs)
	High marketing and advertising cost	Low skills level	High logistics cost
	Inadequate finance and skilled labour		Low awareness of prospective international buyers
	Inadequate adoption of new modern technology		Difficulty in procuring certificate of origin
	Unable to exhibit products in international trade fairs due to inadequate information and high cost		Shortage of skilled labour force
	Potential of being part of GVCs		Low technological capability and low value added
			Low proficiency in English, resulting in difficulty in communicating with international buyers

	India	Kenya	Vietnam
Opportunities	Preferential market access due to India's status of middle-income developing country and engagement in various bilateral trade agreements	Kenya Industrial Research Training Institute (KIRDI) training to MSEs can improve product quality and standards	ASEAN integration facilitates Vietnamese enterprises' access to larger ASEAN markets
	Availability of large young workforce	Government can arrange	Relatively high adoption of digital technology and relatively stable Internet connection (at affordable price)
	MSEs promotional various schemes/incentives are in place but not being optimally utilised	Membership in WTO	Engagement in Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP) negotiations, membership in WTO
		EAC has a potential market of approximately 150 million people	Other specific support by the Government of Vietnam
Threats	Price war among enterprises	Counterfeits	Unfair competition with counterfeit and cheap Chinese products
	Fierce competition from low cost products produced in neighbouring countries like China, Thailand and Malaysia	Non-licenced MSMEs	Difficult to confirm the identity and trustworthiness of international buyers
	Frequent change in EXIM policies of trading countries	Poor quality goods	Long and complex custom procedures of both Vietnam and trading partners
	Difficulty in assessing the authenticity of the international buyer	Consumer perception on imports	Outdated production facilities and equipments
			Proliferation of non-tariff barriers

SLOT Analysis on Adoption of E-commerce by MSEs (these observations are based on primary survey)

	India	Kenya	Vietnam
Strengths	E-commerce user base	Reach to millions of prospective buyers	Competitive prices
	Reasonable internet charges	Time saving	Relatively high adoption of digital technology and relatively stable Internet connection (at affordable price)
	Availability of large number of e-commerce platforms and product exclusive online market places	Cost effective	Competitive products are highly compatible items for e-commerce (textiles & clothing, handicraft, footwear, etc.)
	High penetration of internet and smartphones	Eliminates brokers and middlemen	
	Large number of e-payment options		
Limitations	MSEs products are not displayed on initial search results	No personal touch with customers	Low internet penetration in rural areas, instability of internet connection at times
	MSEs cannot afford professional photography leading to lower visibility	Low internet penetration (rural areas)	Low level of awareness of e-commerce options and engagement in e-commerce by MSMEs
	Inefficient e-commerce platforms sending wrong enquires to sellers	Low level of awareness of e-commerce options and its engagement by both MSEs and customers	Weak branding
	No pick up facility in rural areas.	Weak branding	High shipping costs vs. small orders
	Unable to serve small orders because of high shipping and packaging cost		Inadequate professional IT staff, high ICT infrastructure costs
	Requires separate e-commerce team to handle online orders which is out of their capacity		

	India	Kenya	Vietnam
	Product returns and refunds are time consuming and costly		
Opportunities	Data recorded for online sales and the same can be used for analysis and policy-making.	Membership in EAC and Continental Free Trade Agreement (CFTA)	High Internet penetration and smartphone adoption rates, affordable Internet charges
	Immense potential for B2B transactions	Changing lifestyle patterns	Membership in ASEAN, WTO and participation in TPP and RCEP
	Changing lifestyle patterns	Increased internet access	Rising disposable incomes and changing lifestyles
	E-market places provides wide market access for MSEs		The government's policy to promote e-commerce and the digital economy in general
Threats	Inadequate warehousing, logistics and delivery services in rural and semi-urban parts of country	Possibility of hacking e-commerce accounts (Internet security)	No specific online consumer protection measures and policy yet
	Cybercrimes and data theft	Possibility of online frauds	Increasing competitive pressures
	Inadequate trust between buyer and seller	Global competition as Kenya is having a low status in manufacturing	Lack of trust between buyers and sellers
	Possibility of hacking e-commerce accounts (Internet security)	Inadequate trust between buyer and seller	Dumping of products by China
		Possibility of hacking e-commerce accounts	Possibility of hacking e-commerce accounts (Internet security)

3. *De Minimis* Exemption and MSE Exports

An Overview

The expression ***'de minimis'*** has originated from Latin language as "maxim de minimis non curat lex" meaning the law cares not for small things. However, this term has taken variety of meanings in various fields, such as taxation, criminology and crime, risk assessment, copyright, education and others.

The term *de minimis* is now being used substantially in cross-border trade also. In WTO terminology, *de minimis* is a kind of subsidy which is identified in amber (slow down, i.e. be reduced) box.[12] In general, *de minimis* is a threshold limit under which goods are exempted from customs duties and other taxes.

A de minimis regime provides streamlined border clearance and exemption from customs duties and other taxes. These features generate economic benefits by refocussing public revenue collection on more efficient revenue sources, reducing the costs borne by importers, and accelerating the delivery of imports (Holloway and Rae, 2012).

De minimis refers to the minimum value of the goods below which no duties and taxes are being collected by customs (Global Express Expression, 2016).

Imposition of higher customs duties as well as local taxes (VAT or GST) on internationally-traded products/services have been identified as the prominent barriers to international trade, however the world has witnessed a significant decline in customs duties after the WTO came into existence. Fulfilling customs procedures and paying duties as well as local taxes are among the prominent constraints to exports from MSEs.

De minimis provides relief to MSEs in trading cross-border in small value consignments as it provides exemptions from customs duties and local taxes if applicable; along with simplified customs clearance procedure. Most of the countries report *de minimis* threshold in their national currency and it highly varies from country to country. *De minimis* threshold varies in the range of zero in Saudi Arabia and Bahrain to US$1000 or more in Azerbaijan and Georgia. It is US$800 in US, Rs 10000 in India, RMB 50 in China and €150 for customs duty and €22 for VAT in European Union countries. Another issue with *de minimis* exemption is that it is applicable to only non-commercial/postal shipments in many countries including India, Mexico and Korea etc.

Further, the European Commission (EC) has recently removed the *de minimis* VAT exemption for cross-border B2C e-commerce whereas Australia has enacted a new law, taking into effect from July 01, 2018, which will require overseas businesses (involved in online trade) with an annual turnover of A$75,000 or more will be required to register with the ATO to collect GST on all goods sold, including purchases under the current low-value threshold of A$1000.[13]

In the recent past, *de minimis* threshold has been unchanged in almost all countries except few, such as US and Philippines. Further, *de minimis* threshold of many countries is not known. *More than half of respondents in many of the surveys have revealed their preference to buy more if duties are reduced or eliminated.*[14]

However, many of the products qualify for duty free trade subject to their qualification of rules of origin or other clauses in various trade agreements. Thus, the underlining question is that how much of qualified trade under *de minimis* exemption really enjoys its benefits. Therefore, it is essential for countries to declare all rules and regulations on *de minimis* exemption very clearly.

Higher *De Minimis* and Economic Benefits

A positive relationship has been assumed between higher *de minimis* and greater economic benefits. ITS Global Asia Pacific (cited in Holloway & Rae, 2012) has estimated net economic benefits (NEB) of higher *de minimis* threshold (only for customs duty exemption) for six Asia Pacific Economic Cooperation (APEC) economies, viz. (CA) Canada, (ID) Indonesia, (JP) Japan, (MY) Malaysia, (PH) Philippines and (TH)Thailand.

Table 3.1: NEB of Alternative *De Minimis* Thresholds

Alternative *De Minimis*	CA	ID	JP	MY	PH	TH	APEC-6	APEC-21
	US$mn per year						US$bn per year	
US$50	30.6	0	0	0	0.28	0.35	0.031	0.16
US$100	3771	38.8	0	0	16.9	61.8	3.89	19.80
US$150	4662	44.4	104	0	18.7	70.3	4.90	25.00
US$200	5453	48.7	304	22.5	20.7	78.5	5.93	30.30

Source: ITS Global Asia Pacific cited in Holloway and Rae (2012)

Table 3.2: Composition of NEB of Alternative *De Minimis* Thresholds (US$mn per year)

Component of NEB	Alternative *De Minimis*			
	US$50	US$100	US$150	US$200
Saving in merchandise transit time	0.07	16	26	33
Saving in government administration	23.92	2981	3765	4548
Saving in business compliance	7.38	920	1157	1399
Less Tax revenue foregone	0.12	29	40	52
Benefit-cost ration	270	137	125	115

Source: ITS Global Asia Pacific cited in Holloway and Rae (2012)

Table 3.1 shows that raising *de minimis* limit to US$200 in six APEC economies may generate a total NEB of US$5.93 per year and US$30.30bn per year in 21 APEC economies. Out of all the six economies analysed, Canada seems to have the largest NEB equal to US$5453mn per year if *de minimis* is raised to US$200. In 2015, *de minimis* thresholds in these six APEC economies were US$15.637 (Canada), US$50 (Indonesia), US$82.615 (Japan), US$129.266 (Malaysia), and US$28.028 (Thailand).[15] This implies that these countries have substantial scope to raise their respective *de minimis* threshold.

Table 3.2 shows components distribution of NEB arising from raising *de minimis* threshold. The table reveals that highest NEB (about 76 per cent) occurs in saving resources involved in government administration followed by savings in business compliance. The latter is particularly very important for MSEs as they generally face disproportionate weights in complying with customs formalities.

De Minimis Impact Exports of MSEs

Research Framework

It is well known that quantum of trade cost has substantial impact on exports. Large enterprises can manage their trade cost through economies of scale but it is very difficult for MSEs to bear heavy trade cost and many times, it becomes a big barrier to their exports. Among various components of trade costs, customs duty, local taxes and customs clearance are significant ones, posing a high degree of difficulties/challenges to exports of MSEs.

De minimis regime is a way to safeguard the interests of MSEs in respect of their small valued export consignment. It refers to the minimum value of goods below which no duties and taxes are being collected by the customs and provides streamlined border clearance by a way of giving various exemptions. Thus, *de minimis* regime can substantially help promoting trade by MSEs and lead to inclusive trade expanding the integration with the global trade order as majority of their trade consignments are low value.

Further, this also helps in promoting e-commerce cross-border transaction as digital trade consignments (especially B2C) are also low value. Overall, it can be picturised that *de minimis*, if its threshold limits is appropriate and used properly, can supplement digital trade and stimulate the participation of MSEs in global trade.

However, the problem relates to the scope of *de minimis.* Conceptually, it provides exemptions from customs duty and local taxes (like excise or VAT) on small value trade consignments but different countries are providing this exemption at their own wish. Majority of the countries apply *de minimis* only on customs duty and that also on only gift/sample items and do not cover local taxes like India. While some countries, such as the EU used to cover both local taxes and customs duty under *de minimis*, but it has withdrawn local taxes from its purview on digitally trade products. Additionally, the range of *de minimis* on customs duty vary from zero in Saudi Arabia and Bahrain to US$1000 or more in Azerbaijan and Georgia. Further, *de minimis* threshold has been constant during many years in past in majority of the countries except few like Philippines and the US.

Thus, it is very important to examine the impact of *de minimis* under its various scopes on exports of MSEs to ensure appropriate application of this very important regime in promoting inclusive trade. This study attempts to examine how higher and more widely covered (inclusion of both customs duty and local taxes) *de minimis* regime can lead to integration of MSEs in global trade through promoting their exports.

The study tries to distil the impact of *de minimis* regime under two groups of countries, one group that covers VAT under *de minimis,* and second group where VAT is not covered under *de minimis.* This analysis will provide important insights on the application of *de minimis* under its different scope. The study forecasts the increase in exports of MSEs if *de minimis* threshold on customs duty is increased to US$200 and local taxes (VAT) to US$30. Findings of this study are based on observations from limited number of countries, as country level data on exports values of MSEs is not available in the public domain.

This study also aims at estimating possible impact of raising *de minimis* threshold on exports of MSEs. *It is important to note that there is a mammoth limitation of data availability for estimating such relationship.* The definition of MSEs varies from country to country as some classify based on number of employees while others classify based on level of investment. Further, countries do not either disclose or report export values of MSEs. Since, this study proposes a global view on this aspect, exports of MSEs in 13-53 countries have been taken, based on the availability of data. Data on exports of MSEs has been taken from OECD database for the year 2015, which is the latest available while data on *de minimis* have been taken from various sources including Global Express Association and trade.gov.

In order to examine the impact of *de minimis* incentive (exemption from customs duty as well as VAT) on exports of MSEs, the following function has been estimated in a single point cross-section dataset:

$$\boldsymbol{Exports_{ij} = f(x_j, \mu;\ \beta)}$$

Here, $Exports_{ij}$ are exports of MSEs from country i to country j, $\boldsymbol{x_j}$ is vector of determinants i.e. threshold of *de minimis* for customs duty and VAT in importing country j , μ is the error term and β is the vectors of the parameters to be estimated. This estimation has been assuming a linear relationship between MSEs exports and *de minimis* threshold. The specific equation for estimating the possible impact of changes in *de minimis* on exports of MSEs is as follows:

$$\boldsymbol{Exports_{ij} = \beta_0 + \beta_1 x_j + \mu} \text{--} (1)$$

Here, equation (1) has been estimated in following three models, aimed at distilling the impact of customs *de minimis* and VAT *de minimis,* as follows:

Model (1) - when *de minimis* regime of importing countries covers only customs duty

$$\boldsymbol{Exports_{ij} = \beta_0 + \beta_1 (customs\ de\ minimis\ of\ importing\ country)_j + \mu}$$

Model (2) - when *de minimis* regime of importing countries covers both customs duty as well as local taxes (VAT)

$$\boldsymbol{Exports_{ij} = \beta_0 + \beta_1 (customs\ de\ minimis\ of\ importing\ country)_j + \beta_2 (VAT\ de\ minimis\ of\ importing\ country)_j + \mu}$$

Model (3) - when *de minimis* regime of importing countries covers customs duty and whether or not local taxes, here if an importing country provides *de minimis* on VAT its threshold value has been taken, and if an importing country does not provide *de minimis* on VAT, its value has been taken as zero.

$$\begin{aligned} Exports_{ij} = \beta_0 + \beta_1(customs\ de\ minimis\ of\ importing\ country)_j \\ + \beta_2(VAT\ de\ minimis\ of\ importing\ country)_j + \mu \end{aligned}$$

Hypothesis:
H_0: There is no significant impact of *de minimis* exemption on exports of MSEs.
H_1: There is a significant impact of *de minimis* exemption on exports of MSEs.

Table 3.3: Summary Statistics of Variables in Equation (1)

	Obs.	Mean	Std. Dev.	Min.	Max.
Model-1					
MSEs Exports (US$mn)	297	438.62	1328.87	0.05	12939.50
Importer *De Minimis* (US$)	297	132.57	199.44	5.198	822
Model-2					
MSEs Exports (US$mn)	341	960.42	2569.90	0.03	31230.55
Importer *De Minimis* (US$)	341	158.34	30.12	25	166.30
Importer VAT (US$)	341	23.77	1.82	16.63	24.39
Model-3					
MSEs Exports (US$mn)	638	717.51	2100.84	0.028	31230.55
Importer *De Minimis* (US$)	638	146.34	138.32	5.20	822
Importer VAT (US$)	638	12.71	11.94	0	24.39

Table 3.4: Regression Results of Equation (1)

Dependent Variable-Exports of MSEs Estimation Method- Ordinary Least Square	Model (1)	Model (2)*	Model (3)*
Constant	468.42* (5.17)	-2578.023* (-4.24)	432.1196* (4.80)
Importer De Minimis (Customs duty)	-0.2248 (-1.08)	4.9758* (4.18)	-0.0791 (-0.37)
Importer De Minimis (VAT)		115.7058* (4.56)	23.3719* (3.44)
Obs.	297	341	638
F-Statistics	1.16	12.21	6.60
R/Adj. R-Squared	0.0011	0.0117	0.0175

Source: Author's own estimates

- *Figures in parentheses are t ratios.*
  *Significance: *1 percent, **5 percent and ***10 percent*

Table 3.5: Forecasted Exports of MSEs based on Equation (1)

	Model (1)	Model (2)	Model (3)
Number of exporting countries	13	13	13
Number of importing countries	25	28	53
Actual total MSEs exports in 2015 (US$bn)	130.27	327.50	457.77
Forecasted total MSEs exports (US$bn) if customs and VAT *de minimis* of importing countries are US$200 and US$30, respectively	Not possible as Model (1) does not reflect any significant relationship of MSEs exports and customs *de minimis of importing countries*	644.10	712.94
Projected increase in exports (US$bn)	NA	316.60, i.e. 96.67 per cent	255.17, i.e. 55.74 per cent

Inferences from Table 3.4 and 3.5 (all the below mentioned findings are based on the assumption of *ceteris paribus,* i.e. all other factors are assumed to be constant except threshold of *de minimis,* such as demand for exports of country *i* in country *j*, price of the exported products, various public policies etc.)

- If *de minimis* regime of importing country *j* covers only customs duty (i.e. Model-1), it has not significant impact on exports of MSEs from country *i.*

- If *de minimis* regime of importing country *j* covers both customs duty and VAT (i.e. Model-2), it has much significant impact on exports of MSEs from country *i.* In this case, *de minimis* regime of importing country *j* may account for 1.17 per cent variations in exports of MSEs from country *i.* Further, one US$ increase in customs duty *de minimis* may lead to approximately US$5mn increase in average exports of MSEs of sample countries, *ceteris paribus*. While one US$ increase in VAT *de minimis* may lead to more than US$115mn increase in average exports of MSEs of sample countries, *ceteris paribus*.

- If sample of importing countries include both groups of countries providing VAT *de minimis* or not (i.e. Model-3), the impact of customs duty *de minimis* becomes insignificant. Further, *de minimis* regime of importing country *j* may account for 1.75 per cent variations in exports of MSEs from country *i.* One US$ increase in VAT *de minimis* may lead to US$23.37mn increase in average exports of MSEs of sample countries, *ceteris paribus*.

- Based on the regression statistics, the paper has tried to forecast MSEs exports if customs duty and VAT *de minimis* thresholds are raised to US$200 and US$30, respectively. In Model-2, total exports of MSEs of sample exporting countries may rise to US$644.10bn from actual US$327.50bn (an increase of 96.67 per cent) while in Model-3, total exports of MSEs of sample exporting countries may rise to US$712.94bn from actual US$457.77bn (an increase of 55.74 per cent).

- These observations clearly reflect that VAT *de minimis* has much more positive impact on exports of MSEs than customs duty *de minimis.* A comparison between forecasted exports of MSEs between Model-2 and Model-3 clearly reflects that if group of importing countries not providing VAT *de minimis* exemptions are included to group of importing countries providing VAT *de minimis,* forecasted increase in exports of MSEs observes a substantial declined.

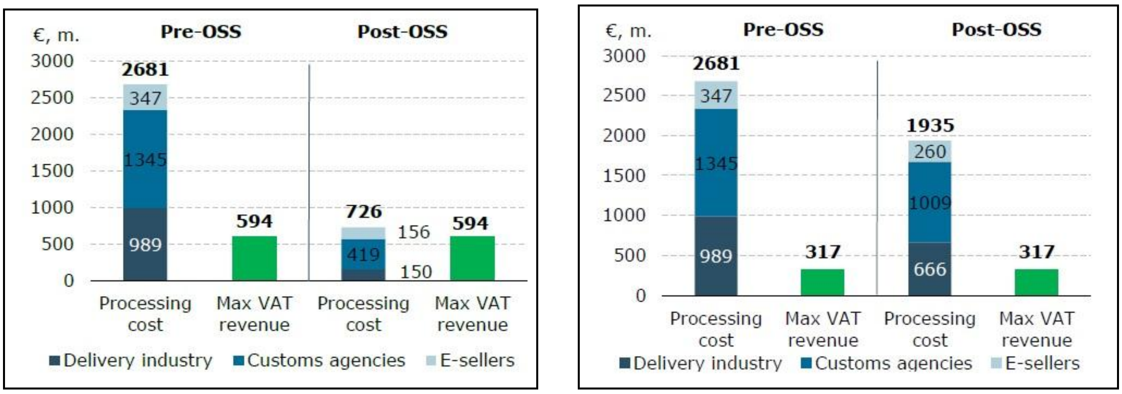
- The projected figures of exports of MSEs may seem to be inflationary (may be due to un-accounting of various factors affecting exports, which is highly difficult due to unavailability of data), but the results clearly reflect the importance of *de minimis,* especially local taxes like VAT, in boosting exports of MSEs and bringing them into the mainstream of global trade.

Impact of Removing VAT *De Minimis* on E-commerce Imports in EU

In December 2016, the EC proposed a bundle of policies to modernise VAT for cross-border B2C e-commerce. The key component of the Commission's proposal is to extend the Mini One-Stop-Shop (MOSS – a solution for collecting VAT on digital services) into a new One-Stop-Shop (OSS), which will also cover online retail (i.e. e-commerce of goods). One of these policies is to remove *de minimis* VAT exemption on imports of low value items (€10-22). Copenhagen Economics (2017) conducted cost-revenue analysis of this proposal under two ways, viz. based on assumptions taken in EC analysis, and based on sensitivity test of key parameters. Figure 3.1 is showing this effect.

Figure 3.1: Impact of the VAT *De Minimis* Removal in EU

Based on the European Commission Analysis assumptions | Based on sensitivity test of key parameters



Source: Effects of Removing the VAT De Minimis on E-commerce Imports, Copenhagen Economics (2017)

The EC is expecting a substantial decline in processing cost in Post-OSS while sensitivity test of Copenhagen does not support this claim. The above analysis finds that the proposed removal of the VAT *de minimis* will cause major and disproportionate costs on the delivery industry, on national customs administrations, and on e-sellers-costs that all flow towards EU customers. Besides, the additional VAT revenue raised by removing this exemption is significantly smaller than the induced additional costs (Copenhagen Economics, 2017). Both the above analysis reveals that there will be no change in VAT revenue collection in Post-OSS as compared to Pre-OSS. However, there seems to be a substantial difference in terms of processing costs in Post-OSS between two approaches.

The report concludes that the Commission's proposal to remove the *de minimis* imparts additional costs to the national taxpayers, as well as to industry, while the ad-additional VAT revenue is much lower. However, this move of EC seems to create a level playing field between domestic and foreign online sellers but in practice, this comes at a relatively great cost.

De Minimis Encourages MSE Exports

E-commerce has altered the way of exchange of goods and services worldwide and immense potential in boosting exports of MSEs. Here, *de minimis* comes as a useful policy instrument as it exempts MSEs to undergo customs procedures as well as paying customs duties. There are numerous ways that higher *de minimis* threshold has positive relationship with exports of MSEs. Some of the advantages of higher *de minimis* to exports of MSEs are:

- Fulfilling customs procedures is among the top bottlenecks to MSEs trade as they have inadequate capacity (in terms of infrastructure as well as trained human resource) to comply with complicated customs procedures. Here *de minimis* provides exemption from complying with customs procedures if consignment value is within the *de minimis* threshold.

- Trade compliance cost is high for MSEs. *Firms with fewer than 250 employees incur trade transaction costs that are 30-45 per cent higher per consignment than those falling on larger firms* (Walkenhorst and Yasui, 2003). Trade compliance cost act as a barrier for MSEs to enter into new international market as well as their expansion in the existing ones, and d*e minimis* exempts/reduces this cost and thus enhances the scope of Internationalisation of MSEs.

- Various studies have shown that raising *de minimis* may increase customs revenue as in many cases (for low value consignment) cost of collecting customs revenue is higher than actual revenue collected.

- *De minimis* reduces trade transit time.

Appropriate *De Minimis* Level

De minimis involves loss of revenue to the government and saving of cost in collecting custom duties.

Determining the appropriate quantum of de minimis threshold is fundamentally an assessment of where the balance lies between revenue gained, on the one hand, and the overall costs to business and government of compliance and customs administration, on the other (New Zealand Customs, 2011) and (Productivity Commission, 2011).

This cost-benefit assessment differs from country to country and depends upon variety of socio-economic-political factors. *De minimis* benefits to cost may be higher or lower for different countries depending upon various national/international factors involved. For example:

At de minimis level of A$1000 in Australia, with current processes, about A$578mn of revenue would be collected and over A$2bn of collection costs would be borne by *businesses, customers and government. These costs are a deadweight loss to the community* (Australian Productivity Commission, 2011).

New Zealand Customs estimated revenue loss and cost saved for two alternative de minimis thresholds viz. NZ$650 and NZ$1000. It was found that "taxation revenue foregone under these options is estimated to be up to NZ$10.4mn and NZ$24mn per annum respectively, which would exceed the combined compliance and administration costs of collecting it, based on current practice and cost structures (NZ Customs Services, 2011). Thus, increase in *de minimis* is not justified.

Common Market for Eastern and Southern Africa (COMESA) promoted a simplified trade regime with condition that 'goods that originate from COMESA member states and whose value does not exceed US$500 per consignment qualify automatically for duty-free entry anywhere in the COMESA market. In the East African Community too, a simplified certificate of origin for cross-border trade of a maximum value of US$500 is in force since the July 01, 2007 (Lesser and Leeman, 2009).

Australian Productivity Commission (2011) identified following factors affecting *de minimis* threshold in any country and must be examined before changing it:

- Number, value, and distribution of low value consignments exporting/imported through international mail, air cargo and sea cargo;
- Rate of custom duty applicable;
- Value and number of consignment which are exempted;
- Level of other costs such as insurance and freight; and
- Extent to which any change in threshold may affect the behavior of importers.

It is important to note that the above-mentioned data is not available in the public domain and a country will require making its own data compilation to obtain such a micro data for reaching/deciding a de minimis threshold.

Final Remarks

Exports are a highly dynamic and complex phenomenon as they are decided by several socio-economic-political-cultural factors. Governments across the world provide certain exemption from customs duty, local taxes and compliance with certain trade procedures for low value merchandise trade consignment.

A de minimis regime provides more streamlined border clearance procedures than apply to other imports. It reduces the costs borne by importers and accelerates delivery of merchandise, which both benefit the final consumer. Such a regime allows *governments to refocus their revenue collection on the higher yielding parts of the tax base* (Holloway and Rae, 2012).

De minimis regimes benefit several stakeholders including customs, exporters, importers, and final consumer. Its benefits accrue especially to MSEs as their exports/imports consignment values are small and thus become eligible for *de minimis* exemption. **However, it is important to note here that many countries do not allow *de minimis* exemption on commercial exports, which reduces the potential benefits of this duty/tax exemption.**

This study finds a positive relationship between exports of MSEs and *de minimis* threshold importing countries. It has been found that VAT *de minimis* has much more positive impact on exports of MSEs than customs duty *de minimis.* It can be concluded that the *de minimis* exemption positively affect exports of MSEs, however the extent of this impact is very marginal. This finding is consistent with existing literature on impact of tariff reduction on exports. For example, market effect of tariff reduction is likely to be very small as exports are determined by competitive factors, however decline in tariff makes exports cheaper (Aggarwal, 2004).

This may be due to:

- majority of the exporters are not aware about such kind of exemption;
- *de minimis* threshold value is pretty low in many countries due to which a substantial proportion of MSEs exports do not qualify for this benefits; and
- many countries do not permit benefits of *de minimis* to commercial exports.

4. Conclusion and Recommendations

MSEs have a vital role to play in the industrial sector of any economy as these occupy the largest share in total number of units and people employed. These enterprises are the best suitable to absorb the work force engaged in agriculture or other economic activities with zero or even negative marginal productivity. Despite their evident importance, MSEs receive comparatively a small proportion of total funds/support for the industrial sector. However, governments in various countries announce several support programmes for the growth of MSEs but due to numerous reasons stated in Chapter 2, the objectives of these programmes merely turns into reality.

This study explores potential impediments and prime reasons affecting market access by MSEs in domestic as well as international markets; and examines the feasibility of using e-commerce platforms in this regard. It also attempts to examine the impact of *de minimis* exemption on export performance of MSEs.

In order to identify important challenges before MSEs to expand their sales network in domestic and international markets, a primary survey was conducted in three developing economies viz. India, Kenya, and Vietnam. The survey identified inadequate credit and transport facilities, inadequate willingness to expand their market, higher compliance cost, competition from countries like China, price war as the potential challenges in this regard. It was reflected that inadequate capacity in terms of human as well as capital resources and inadequate information/knowledge on technical facets of e-commerce is the biggest concern before MSEs for not using e-commerce.

While estimating the impact of *de minimis* regime on export performance of MSEs, it was found that former has an impact on the latter but the extent/magnitude of this impact is very low.

The study estimates that *de minimis* level of importing and exporting countries alone accounts for 3.54 per cent and 3.83 per cent variation in MSE exports. Whereas *de minimis* level of importing and exporting countries together has higher impact, 4.02 per cent. The econometric analysis shows that an average increase of US$1 in *de minimis* value of importing countries may increase exports of micro enterprises, small enterprises, and MSEs by approximately US$0.616mn, US$0.435mn and US$0.929mn respectively *ceteris paribus* and provided that *de minimis* exemption are applicable to all kinds of exports.

Marginal impact of *de minimis* regime on MSEs exports may be attributed to the fact that most of the exporters are not aware about this incentive; *de minimis* threshold value is considerably low in many countries due to which a substantial proportion of MSEs exports do not qualify for benefits; and many of the countries do not permit benefits of *de minimis* to commercial exports.

Policy Recommendations

Based on the observations during field survey, following are important recommendations of the study with regard to MSEs to enhance market access in domestic as well as international markets and the application of e-commerce:

India

<u>Increasing Domestic and International Market Access</u>

Short- and medium-term

- Complete details on Sanitary and Phyto-sanitary/Technical Barriers to Trade (SPS/TBT) standards on importing country should be provided.
- Better finance/banking facilities should be provided.
- Government should encourage MSEs to participate in global trade fairs by providing financial and information support.
- Indian postal services should be modernised.
- Better logistic solutions for small weights/quantity should be provided.
- Banks should finance small companies with small amount (for instance, 100 million each to 10 small companies) rather than financing one large enterprise with 1 billion.

Long-term

- Production capacity needs to be enhanced.
- Modern technology should be availed at concessional prices.
- Measures should be adopted to reduce production and logistics costs.
- International fuel charges (IFC) component should be removed from the shipping cost (presently, charging 16 per cent of IFC which adds to the cost of the product and makes it uncompetitive in the international market). Only freight charges should be added.

- Government should extend their schemes to MSEs operating in rented/leased infrastructure since a good number of MSEs use rented/leased infrastructure.

Promoting E-commerce

Short- and medium-term

- MSMEs federation/ministry/association and e-commerce platforms should ensure that products of MSEs are displayed properly and on initial pages on search.
- Efficient pick and drop logistics facilities should be arranged in rural and semi-urban areas.
- Small enterprises can be provided training on application of e-commerce platforms.

Long-term

- Need to devise solutions to reduce shipping costs.
- Sustainable measures should be adopted to protect MSEs from cyber-crimes.

Kenya

Generally, the level of support to MSEs from the government is very limited. This was affirmed by 70 per cent of respondents who claimed that they had not benefited from any state-sponsored/supported schemes. On the other hand, 30 per cent who had benefitted from the government extended their support in various ways. For example, enterprises in Murang'a County were conducting business in MSEA provided sheds while in Busia, the county government had a low-interest credit facility for entrepreneurs. These loans were issued on a progressive basis based on borrowers' rating in servicing preceding loans.

Increasing Domestic Market Access

The Ministry of Trade, Industry and Cooperatives is currently promoting the consumption of locally-produced goods and services through the 'Buy Kenya Build Kenya' (BKBK) strategy. This strategy targets mostly the large corporations operating in Kenya. In order to increase domestic market access for local MSMEs, the government should incorporate them into the BKBK. Moreover, the following strategies need to be utilised as well:

- The government should increase funding programmes targeting MSMEs to produce competitively.

- The government should sponsor MSMEs to local agricultural shows and trade fairs to display their products.
- The government should encourage more participation of MSMEs in government procurement. The policy of reserving 40 per cent of government procurement to local enterprises should be fully implemented.

<u>Internationalisation of MSEs</u>

Kenya has an immense potential in the MSME sector, which can form the primary foundation for its industrialisation. However, this cannot be realised without the support of the government. The following recommendations can be drawn from this study as far as internationalisation of MSMEs is concerned:

- The government should make it easy for MSMEs to formalise their operations though registration and licencing. This will make it easier for them to acquire support services, such as loans.
- The government should improve infrastructure across the country to enable quick delivery of both inputs as well as manufactured products.
- The government should increase efforts in capacity building of MSMEs though institutions, such as Kenya Industrial Research and Development Institute (KIRDI). It should also equip village polytechnics with adequate equipment and human resources.
- MSEA and Export Promotion Council (EPC) should aggressively market MSME products in international markets. The current efforts to sponsor entrepreneurs to regional and global expos should be stepped up. Equally, a website displaying locally-manufactured products should be developed and made visible globally.

<u>Promoting E-commerce</u>

On a positive note, there is immense potential for the continent with respect to the uptake and use of e-commerce in conducting business as many platforms are developed by both foreign and local initiatives with Mauritius, South Africa, Nigeria, Kenya, Uganda, Botswana, Namibia, Rwanda, Ivory Coast and Ghana being the continental leaders.[16] The Jumia Group, for instance, has operations in seven African countries out of its global presence in 14 countries (UNCTAD, 2017).

Some of the suggestions raised to mitigate the above mentioned challenges included provision of financial support, affordable credit in order to boost capital formation. A review of the transportation costs would significantly reduce overhead costs. The respondents also wanted the acquisition of KEBS to be more relaxed in order to widen the scope of accessible markets. There is also dire need for capacity building for entrepreneurs.

The concept of e-commerce is steadily gaining access into the Kenyan market arena. Presently, large MNCs operating in Kenya dominate it. In the recent past, new developments in trade, such as the signing of African Continental Free Trade Agreement (AfCFTA) provide more opportunities to sell products across the continent. Several measures and strategies need to be put in place for Kenya's MSMEs to benefit from such arrangements. These include:

- Enabling policies should be formulated for the growth of e-commerce.
- Policies should be harmonised with trading partners.
- The government should regulate communications sector through price controls in order to make the cost of internet and related accessories affordable to more Kenyans.
- The government should provide capacity building for Kenyan MSMEs on e-commerce. Such trainings should unpack the concept for better conceptualisation.
- The Postal Corporation of Kenya should restructure its operations to enable more efficient handling of parcels.

Vietnam

Increasing Domestic and International Market Access

Short- and medium-term

- Vietnamese government should issue flexible management mechanisms and regulatory environment to increase integration.
- The country policies in Vietnam should promote IT skill development at college and industrial level.
- Training courses for MSEs should be conducted to build their capacities on engaging them in international markets.
- Enterprises should enhance quality of their products, warranty criteria and customer service.
- Enterprises should be provided financial support/incentives by the government to expand their market outreach internationally.

Long-term

- Continuous innovation and learning should be promoted.

- Major reforms are required in public administration system in Vietnam.
- State policies on copyright and competition need reforms.
- Volatility of government policies induces uncertainty, which affects market prices. Thus, the government needs to ensure policy stability.
- There should be regulations and standards for production technology.
- Trademark registration procedure in Vietnam is complex and time consuming, which needs to be streamlined.
- Enterprises also felt a need for reduction in shipping costs, which may enhance their competitiveness against local products, in international markets.

<u>Promoting E-commerce</u>

- State agencies should facilitate and support small businesses in rural areas and build their capacity in using online platforms, such as e-commerce.
- Enterprises need to diversify their products according to the demand on online platforms. They also felt that their website should look professional.
- State government should strengthen their e-governance services.
- MSEs should be provided training to build their capacities on using e-commerce platforms.

De minimis Context

- There is a strong need to spread awareness about *de minimis* regimes among exporters.
- *De minimis* regimes should be applicable on commercial consignments also.
- Countries should think about revising/increasing their respective *de minimis* threshold values, as it has been unchanged in most of countries for the past several years except in few like US and Philippines.

Scope for Further Research

Based on the findings, following are the important aspects requiring detailed further research in this area:

- There is a strong need to work on serious gaps in availability of data on MSEs. For this, a detailed research is required to identify capacity constraints of MSEs in using e-commerce platforms and accordingly capacity-building programmes should be organised. This can be done by e-commerce players/platforms in association with international organisations involving civil society organisations.

- The relationship between *de minimis* and cross-border trade by MSEs is very crucial and its magnitude may vary from country to country. Due to inadequate country-wise data on MSEs, a further study is required to assess the impact of *de minimis* with firm-level data for selected countries, as its findings will provide clearer picture on the relationship between *de minimis* and exports of MSEs.

References

- Aggarwal, A. (2004). *Impact of tariff reduction on exports: A quantitive assessment of Indian exports to the US.* ICRIER Working Paper No. 120. Retrived from http://icrier.org/pdf/wp120.pdf
- Bagale, G. S. (2014). Determinants of e-commerce in the Indian MSME sector. *Universal Journal of Management*.
- Bajaj, P., & Selvakumar, K. (2017). The Emergence of Micro, Small and Medium-sized Enterprises: Enhancing their Role in International Trade. In T.Y. Soobramanien, & L. Worrall, *Emerging Trade Issues for Small Developing Countries*: *Scrutinising the Horizon* (pp. 151-171). The Commonwealth.
- Chen, Q., & Zhang, N. (2015). Does E-commerce provide a sustained competitive advantage? An investigation of Survival and Sustainability in Growth Oriented Enterprises. . *MDPI*.
- Commission, U. S. (2010). *Small and Medium sized enterprises : US and EU export activities , and barriers and opportunities experienced by US firms.* United States International Trade Commission.
- Copenhagen Economics (11 October 2017). *Effects of Removing the VAT De Minimis on E-commerce Imports.* Retrieved from https://www.copenhageneconomics.com/dyn/resources/Publication/publicationPDF/_2/412/1507816426/copenhagen-economics-2017-effects-of-removing-the-vat-de- minimis-on-e-commerce-imports.pdf on 06 July 2018
- Deprey, B., & Ibeh, K. (2009). *Top Barriers and Drivers to SME Internationalisation.* OECD.
- Global Express Association (April 2016). *Overview of de minimis value regimes open to express shipments worldwide.* Retrieved from https://global-express.org/assets/files/Customs%20Committee/de-minimis/GEA-overview-on-de-minimis_April-2016.pdf on 22 March 2018.
- Hagsten, E., & Kotnik, P. (2014). *ICT as facilitator of internationalisation in small and medium sized firms.* OECD.
- Hintsa, J., Mohanty, S., Tsikolenko, V., Ivens, B., Leischnig, A., Kahari, P., . . . Cadot, O. (2014). *The import VAT and duty de-minimis in the European Union - where should they be and what will they impact?* University of Lausanne.
- Holloway, S., & Rae, J. (2012). De minimis thresholds in APEC. *World Customs Journal*, *6*(1), 31-62.

- Jia, J. (2008). Electronic Commerce and Internationalisation in New Zealand SMEs. Auckland: Auckland University of Technology.
- Kaur, P., & Arora, N. (2017). Internationalisation of Small & Medium Enterprise : A review. *International Journal of Commerce, Business and Management* , *6*(1).
- Latipov, O., McDaniel, C., & Schropp, S. (2017). The de minimis threshold in international trade: The costs of being too low. *The World Economy, 41*(1), 337-356.
- Lesser, L. & Moisé-Leeman, E. (February 2009). *Informal cross-border trade and trade facilitation reform in Sub- Saharan Africa*. OECD Trade Policy Working Paper No. 86, Organisation for Economic Co-operation and Development, Paris.
- Lloyd-Reason, L., & Mughan, T. (2008). *Removing Barriers to SME access to international markets : OECD - APEC Global Study.* Cambridge: Anglia Ruskin University.
- Ministry of Micro, Small and Medium Enterprises, Annual Report 2017-18
- New Zealand Customs Service (February 2011). *Issues paper: review of de minimis,* New Zealand Customs Service, Wellington, NZ.
- Panda, A. K. (2017, November). Empowering India's MSME sector. *Yojana*, pp. 7-10.
- Pasadilla, G. O., Wirjo, A., & Jiquan, L. (2017). *Promoting e-Commerce to globalize MSMEs.* Asia Pacific Economic Cooperation,APEC.
- Perri, A., & Saccon, C. (2014). *Web and Internationalisation: New opportunities for Italian Small-Medium enterprises.* Venice: Ca' Foscari University of Venice.
- Pietrasienski, P., & Slusarczyk, B. (2015). Internationalisation of Small and Medium Enterprises - Empirical Research Review on Barriers to Entry into Foreign Markets. *Polish Journal of Management Studies*, Vol.11 No 1.
- Pope, S., Sowinski, C., & Taelman, I. (2014). Import Value de minimis level in selected economies as cause of undervaluation of imported goods. *World Customs Journal* .
- Productivity Commission (2011). *Economic structure and performance of the Australian retail industry*, Chapter 6: ‘Appropriateness of current indirect tax arrangements’, Draft Report, Productivity Commission, Canberra.
- Suominen, K. (2017). *The Silver Bullet for Fueling Small Business Exports in the e-Commerce era : A plurilateral on De minimis.*
- Walkenhorst, P. & Yasui, T. (2003). *Quantitative assessment of the benefits of trade facilitation.* TD/TC/ WP(2003)31/Final, 13 November, OECD, Paris.

Annexure 1:

List of Exporting and Importing Countries Selected for Secondary Analysis

List of Exporting Countries		List of Importing Countries			
1	Austria	1	Argentina	28	Latvia
2	Cyprus	2	Australia	29	Lithuania
3	Germany	3	Austria	30	Luxembourg
4	Korea	4	Belgium	31	Malaysia
5	Lithuania	5	Brazil	32	Malta
6	Mexico	6	Bulgaria	33	Mexico
7	Netherlands	7	Canada	34	Morocco
8	Poland	8	Chile	35	Netherlands
9	Portugal	9	China	36	Norway
10	Romania	10	Croatia	37	Poland
11	Slovenia	11	Cyprus	38	Portugal
12	Spain	12	Denmark	39	Qatar
13	UK	13	Estonia	40	Romania
		14	Finland	41	Russian Federation
		15	France	42	Singapore
		16	Germany	43	Slovenia
		17	Greece	44	Spain
		18	Hungary	45	Sweden
		19	Iceland	46	Switzerland
		20	India	47	Taiwan, Province of China
		21	Indonesia	48	Thailand
		22	Ireland	49	Turkey
		23	Islamic Republic of Iran	50	Ukraine
		24	Israel	51	UK
		25	Italy	52	US
		26	Japan	53	Viet Nam
		27	Korea		

Endnotes

---

1 United Nations Industrial Development Organization. *UNIDO and the Millennium Development Goals.* Retrieved from: www.unido.org/sites/default/files/2010-04/mdgbrochure2_0.pdf on March 14, 2018

2 MSMEs were agenda in 11th WTO Ministerial Conference

3 World Bank. *World Bank Development Indicators, 2017*. Retrieved from file:///C:/Users/user/Downloads/WDI-2017-web.pdf on March 20, 2018

4 Kenya National Bureau of Statistics. *Statistical Abstract, 2013*. Retrieved from https://www.knbs.or.ke/download/statistical-abstract-2013/ on March 29, 2018

5 Kenya National Bureau of Statistics. *2016 MSMEs Basic Report*. Retrieved from https://www.knbs.or.ke/download/2016-msme-basic-report/ on March 28, 2018

6 Government of Kenya. *The Sessional Paper No. 2 of 2005 on Development of Micro and Small Enterprises for Wealth and Employment Creation for Poverty Reduction*. Retrieved from https://searchworks.stanford.edu/catalog?q=%22Sessional+paper+%28Kenya.+National+Assembly%29%22&search_field=search_series on March 14, 2018

7 Enterprise Mauritius. *The Future of e-commerce in Africa*. Retrieved from http://sourcemauritius.com/wp-content/uploads/2017/01/E-Commerce-in-Africa-Jan-2017.pdf on March 28, 2018

8 International Trade Centre. *International E-Commerce in Africa: The Way Forward.* Retrieved from http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/International%20E-Commerce%20in%20Africa_Low-res.pdf on March 28, 2018

9 The Communications Authority of Kenya (CA) data estimates a 90 per cent mobile phone subscription rate as at 2016

10 Central Institute for Economic Management (CIEM), *Characteristics of the Vietnamese Business Environment: Evidence from an SME Survey in 2015*, retrieved from <https://www.wider.unu.edu/sites/default/files/SME2015-report-English.pdf

11 *Ibid*

12 " In WTO terminology, subsidies in general are identified by "Boxes" which are given the colours of traffic lights: green (permitted), amber (slow down — i.e. be reduced), red (forbidden). In agriculture, things are, as usual, more complicated. The Agriculture Agreement has no Red Box, although domestic support exceeding the reduction commitment levels in the Amber Box is prohibited; and there is a Blue Box for subsidies that are tied to programmes that limit production", World Trade Organisation Retrieved from https://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd13_boxes_e.htm.

13 https://www.news.com.au/finance/money/tax/government-urged-to-scrap-online-gst-changes/news-story/ccbe527c48ee840300c4c9ad77217f88; and www.posteurop.org/NeoDownload?docId=497808

14 https://www.export.gov/article?id=Duties-and-Taxes-eCommerce-Guide-2

15 Countries report *de minimis* threshold in their national currency. In order to convert them into US$, average exchange rate of 2015 of respective country's national currency to US$ has been considered.

16 United Nations Conference on Trade and Development. *UNCTAD B2C E-commerce Index, 2017.* Retrieved from http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d09_en.pdf on March 27, 2018