

Chapter 8

The Emergence of Micro, Small and Medium-sized Enterprises: Enhancing their Role in International Trade

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8.1 Introduction

Recent discussions on the new issues in global trade have witnessed more interest in some key elements of the new global economy—micro, small and medium-sized enterprises (MSMEs), services, digital trade and technology. The inter-link between these aspects of international trade is dynamic, and the synergies are undeniable. With the growing acknowledgement of the role of MSMEs in global trade at its core, this chapter seeks to explore some of these synergies, as well as the challenges and the opportunities ahead.

MSMEs are increasingly being recognised as drivers of growth. They are now estimated to constitute 95 per cent of global firms, account for 50 per cent of global gross domestic product (GDP), and 60–70 per cent of employment, worldwide (ITC, 2015). Yet their participation in trade policy, and their mention in trade agreements, discussions and negotiations, has, so far, been fairly limited. Furthermore, trade policy, a key feature of economic policy, is often driven in consultation with industry. However, in such discussions, larger firms, with more organised representation, tend to have their voices heard better. The lack of aggregation of MSMEs affects their ability to participate in exercises to garner industry opinions on trade policy.

Recent discussions on various platforms, recognising the growing role of MSMEs, have attempted to address this situation and have pushed for the inclusion of MSMEs within the new issues in the discussion on global trade. Various studies have underscored the role of MSMEs in trade, employment and output, as well as their ability to potentially correct distributional distortions in the economy (Love and Roper, 2013). The World Trade Organization (WTO), for example, has acknowledged that the entry of newer, smaller firms alters industry dynamics for the better, ‘not only because successful entrants have productivity growth rates that are usually higher than those of incumbents, but also because their entry can foster increased innovation by market incumbents’ (WTO, 2016b). In fact, the same report underscores the diminishing need for size and scale in modern-day trading markets by arguing that the advantages of scale in international trade are ‘diminishing’, allowing micro-multinationals to participate competitively in the global market.

Discussions on MSMEs at various forums, such as the WTO, the International Labour Organization (ILO), the UN Conference on Trade and Development (UNCTAD), the

International Trade Centre (ITC), have underscored their potential, opportunities and specific vulnerabilities, and, in particular, the impact that the usual trade barriers have specifically on MSMEs as a result of their nature and scale of operation, and associated challenges.

For example, the Istanbul Programme of Action, part of the United Nations' (UN) initiatives to advance and improve the interests of least developed countries (LDCs), specifically highlights the role MSMEs can play in promoting national economic objectives (UNOHRLLS, 2011). MSMEs have also found reference in prominent international agendas, such as the Sustainable Development Goals and the Addis Ababa Agenda (Table 8.1).

The WTO (2016b) affirms,

“Micro firms and SMEs account for the majority of firms in most countries (95 per cent on average), and for the vast majority of jobs. They figure prominently in most governments' social and economic policies. They also feature prominently in the new UN Sustainable Development Goals, which seek to encourage the growth of SMEs in order to promote inclusive and sustainable growth, full and productive employment and decent work for all.”

Several regional trade agreements, worldwide, also specifically acknowledge MSMEs and have specific clauses alluding to them.

While conversations on global trade are seeking to give voice to MSMEs, and to acknowledge their role and potential, technological developments have pushed the frontier on digitally tradable goods and services. The growing relevance of e-commerce, or digital trade in goods and services, is creating a new kind of global supply chain and easing the participation of MSMEs in the global trade regime. Technology has, on the one hand, disrupted how we trade, traditionally, and how MSMEs interact in the global trading landscape, while, interestingly, also allowing for the aggregation of voices and experiences, the easier exchange of information and know-how and the implementation of capacity-building initiatives, where required.

Table 8.1 References to MSMEs in key international agreements

Sustainable Development Goals

- **8.3** Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services
- **9.3** Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit and their integration into value chains.

Addis Ababa Agenda

- **16** Generating full and productive employment and decent work for all and promoting MSMEs. We note that micro, small and medium-sized enterprises which create the the vast majority of the jobs in many countries, often lack access to finance.
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Digital trade in services has also blurred the lines between modes of services supply, and added new dimensions to trade and trade policy. Entrepreneurial ventures in the MSME services sector are offering niche services online, and bringing about a paradigm shift in the model of service supply by plugging into large service chains globally with such service offerings. Smaller providers of goods and services have emerged as suppliers of niche service and product offerings, which have contributed to GDP as well as filling a gap in the employment market, especially in developing and least developed economies. At the same time, digital trade in services and goods alike has, given the fluid flow of bits and bytes over the Internet, created new concerns over data and consumer security and privacy, necessitating some amount of government intervention and regulation. While regulators seek to prevent security and privacy lapses in the digital space, concerns over such regulation infringing the space of disguised barriers to trade have also been highlighted.

Furthermore, the digital platform, while connecting consumers, producers and service suppliers, has also, to an extent, allowed a greater geographical spread of the services value chain, making it harder for national-level regulators to control, regulate or monitor all levels of the chain individually, thus necessitating a multilateral dialogue on the sector. This realisation has fuelled the discussion on the need for policy intervention, at the national and multilateral level, in protecting and promoting the interests and growth of MSMEs.

In view of these developments, this chapter seeks to provide a detailed analysis of the challenges facing MSMEs in integrating into the global trade landscape and the limitations of existing measures in the WTO to enhance their participation. It provides a brief overview of MSMEs and how they plug into global value chains, both contributing to, as well as benefitting from, the phenomenon. It then focuses on the services sector, a key sector in the growth story of MSMEs, particularly for developing countries, and placing specific emphasis on the role of e-commerce in the services trade landscape. The authors then discuss the challenges experienced by MSMEs in commodities as well as in the services sector. It concludes by evaluating the measures already in place at the WTO to integrate MSMEs into the global trading landscape, and offering suggestions to improve on existing measures to enhance their participation in the global trading regime, in both manufacturing, as well as in services. In understanding that the nature of services and goods trade, even for MSMEs, means there are specific challenges to address and opportunities to explore, the chapter places separate emphasis on each sector within the MSME space.

8.2 Micro, small and medium-sized enterprises: Definitions

One of the limitations with analysing the growth of MSMEs is the lack of an internationally agreed-upon definition. Different countries and different international organisations classify these enterprises differently. While in some countries MSMEs are defined by the number of employees, other countries classify them by annual turnover, investment or scale of operation.

Furthermore, the threshold on each parameter also varies. For example, the Organisation for Economic Co-operation and Development (OECD) (n.d.)

defines MSMEs as ‘independent firms, which employ fewer than a given number of employees’. In the EU, this is less than 250 employees, whereas the United States of America (USA) considers firms that employ less than 500 employees MSMEs. A widespread analysis on MSMEs from 132 countries conducted by the International Finance Corporation (IFC) (2010) suggests that the majority of countries define micro enterprises as firms with up to 10 employees, small enterprises as those with 10–50 employees and medium enterprises as those with less than 250 employees.

It is also important to note that MSMEs operate in both the formal and the informal sector. While formal MSMEs are officially registered with respective national government agencies, informal enterprises are, by definition, not. ILO (2015) reports that only 26 per cent of MSMEs worldwide operate in the formal sector; unregistered informal firms constitute the remaining 74 per cent. Thus, in many developing countries, the contribution of MSMEs to economic growth and employment is greatly understated, given the ambiguity surrounding their definition and the lack of data as 80–95 per cent of all informal firms are micro firms (WTO, 2016b).

Adopting a common definition for MSMEs and creating credible sources of data collection on both formal and informal operations of MSMEs are critical to the ability of policy-makers to advance the growth of MSMEs and enhance their role in GDP, trade and employment. Additionally, in the interim, it may be useful to develop a comparative model of analysing limited available data, across definitions.

8.3 Plugging MSMEs into output, employment and global value chains

A vibrant entrepreneurial sector can ensure long-term sustainable economic growth, as the economy shifts away from primary industries (agrarian) towards manufacturing and services-oriented industries. In doing so, the spill-overs are plenty: poverty alleviation, creation of infrastructure and economic empowerment of women, among others.

MSMEs, a product of the growing entrepreneurial spirit worldwide, contribute significantly to GDP, employment and income distribution in the domestic economy. This is particularly true in developing countries, where MSMEs not only play a crucial role in providing employment for the growing rural and urban population but also are a source of innovation, generate export opportunities and attract foreign direct investment. This consequently fuels economic growth and aids in overall development (WTO, 2016b). Aside from in low-income developing countries, MSMEs play an indispensable part in middle- and high-income countries too. Research shows that MSMEs account for 63 per cent of total employment in 17 OECD countries. In addition, the World Bank (2012) reports that the MSME subgroup accounts for the largest share of employment in middle-income countries.

The evolving nature of global production processes, and the significant role played by global value chains (GVCs) in production and service supply, has enhanced the

ability of MSMEs to participate effectively in international trade. While MSMEs traditionally do not have the resources, capital or technical know-how to compete in an entire chain of activities, fragmentation of the production process has allowed them to specialise in specific parts of the production chain in which they have a comparative advantage. This has allowed MSMEs in both developing and developed countries to access information about the type and quality of products demanded by foreign markets and source for customers pre-production. This has greatly reduced the uncertainties and risks associated with operating in foreign markets and created the conditions to enable them to participate in international trade (Hesseks and Terjesen, 2010).

The development of MSMEs has been further aided by rapid improvement in information communication technologies (ICTs), particularly the Internet. This has vastly improved the opportunities available by allowing MSMEs to connect to world markets digitally. Digital technology has also helped reduce barriers to trade significantly by reducing fixed costs such as capital rents and eliminating the need for physical presence in every market firms seek to access, in both goods and services. In addition, it has allowed MSMEs to reach out to consumers beyond their geographical and regional borders and plug into GVCs at critical points, and enabled them to access a global consumer base and contribute effectively to the supply chains. With entrepreneurial culture taking wind in most economies, and alongside advances in technology and trading practices, such as e-commerce and digitally traded services, the domain of services-providing MSMEs is a rapidly expanding one and a niche in itself. Services MSMEs are not only offering their services directly to consumers, digitally, worldwide, and at the same time plugging into services supply chains with niche offerings, thereby completing the supply loop, but also supplying manufacturing value chains, at key points, with digital tradable support and ancillary services to complete the value chain. The criss-cross of services offerings, and the many possibilities for services MSMEs to connect into these chains, has also blurred the lines between different modes of services supply, offering consumers new means of accessing services globally. In a global economy where MSMEs form 95 per cent of all firms and account for 50 per cent of global GDP, developments in ICT have amplified their contribution to global trade, making this a pertinent subject that requires the attention of the global community (ITC, 2015).

However, while it is not difficult to logically ascertain the impact and scope of MSMEs in global trade and national output, in both goods and services, the cumulative quantitative impact of the growing MSME sector on global trade growth is hard to determine. There are two reasons for this. First, there is no internationally agreed definition of MSMEs, which makes measuring their impact difficult. Second, in the absence of reliable, accurate and consistent data any analysis, impedes the development of future growth strategies. This chapter further discusses this, along with other concerns about the potential of MSMEs and their ability to effectively contribute to national output and participate in global trade.

8.4 The services sector and MSMEs: The critical 'new' niche engine of growth

The services sector covers a wide gamut of sub-sectors, which constitute the backbone of any economy. From transport to infrastructure, IT, communications, banking, insurance and other financial services, tourism, distribution, postal services, education, health care and migration of manpower, both skilled and unskilled, the services sector has natural synergy with and supports all other economic activity.

In most economies, the services sector is also the fastest growing sector, and has shown significant potential over the past decade, globally. Trade in services, as well as the contribution of services to GDP (value-added), and to employment, have grown in both volume and share, in most economies, in varying proportions. As a matter of fact, in several countries, growth in trade in services has been stronger than that in merchandise trade. According to calculations based on UNCTADStat data, global exports of services in value terms nearly doubled between 2005 and 2015. Mashayekhi (2015) echoes this calculation, noting that this near doubling of global services exports was achieved at an annual rate of 3.6 per cent between 2008 and 2014. In 2010, the services sector also contributed to 71 per cent of global GDP (UNCTAD, 2014). While such growth has predominantly been aided by regulatory and institutional reforms, a strong services sector has also been known to support other sectors of the economy, and to enhance growth rates in manufacturing and agriculture. Therefore, efficiency in the services sector is key to enhanced and sustainable economic performance.

Growth in the services sector has not been restricted to developed and developing countries. LDCs the world over have also followed the trend. As a matter of fact, ITC (2013) notes that all LDCs (for which balance of payments data are available as of 2011) export services, and in fact some of them are net exporters of services. For example, in 2012, services exports contributed to 18 per cent of the total exports of LDCs in the Asia Pacific region (Arbis and Heal, 2015). Exports of commercial services displayed sustained growth in the period 2000–2010, according to data sources, and travel and tourism continued to be the mainstay of services exports from LDCs (WTO, 2011). As a matter of fact, in this period, LDCs witnessed an increase of over 14 per cent per annum of receipts from international tourism. This figure was in excess of the 10 per cent rate of growth in the same sector for other developing economies; and two times the total global average rate of growth of 7 per cent, for the sector. In addition, the market share of LDCs has grown nearly two times in the decade preceding 2011, and was 1.1 per cent of the respective world total during the last estimate. The sector has grown rapidly, and displayed a clear existence of a comparative advantage in this sector of export (WTO 2011).

In the same vein, UNCTAD (2014) underscores the significance of the services sector in developing countries, and LDCs, in referring to services as 'the new frontier for enhancing their participation in international trade, and in turn, realising development gains'.

The distribution of the growth of services trade, across service industries, in developing and least developed countries has also been fairly diverse. While travel

and tourism occupy the largest share of export of services from most LDCs, several Asian and African LDCs, such as Bangladesh, Cambodia, Burundi, Mozambique and Sudan, also export ‘other business services’, communication services (Benin, Bangladesh, Comoros, Djibouti, Ethiopia, The Gambia, etc.) and financial services, aided by technological innovation (ITC, 2013). Among developing countries, the growth of the services sector has been fuelled by the export of IT and IT-enabled services (ITeS), as was the case with India, for example.

With the widespread impact of the internet, digitally traded services have emerged as a significant sector in global trade, contributing to global supply chains and to manufacturing value chains, as well as providing services to consumers worldwide, directly, via the internet. This emergence of niche service suppliers in the services-based MSME sector adds an interesting element to the growth story of the services sector as a whole. A growing number of MSMEs, in all economies, are being set up in the services sector. Industries such as tourism, IT and ITeS, advertising, marketing, graphic design, health care, real estate, transport, etc. have seen a remarkable entrepreneurial surge. This has led to the establishment of small businesses, backed by owned funds, angel investors and venture capitalists who recognise their potential and significance in the economic structure of the country, as well as the benefits of the flexibility and dynamism inherent to them, in catering to the demands of both their customers and the rapidly evolving global markets and supply chains. In fact, as the World Trade Report notes, “trade flows of micro firms and SMEs are heavily tilted toward services (accounting for 68 per cent of total exports and 83 per cent of total imports)” (WTO, 2016b).

Unlike in manufacturing, the output of the services sector and the various points on the service supply chains are both intangible. This, in conjunction with the virtual nature of the digital platform, over which an increasing number of services are traded—directly to consumers; as well as indirectly, via supply chains or as ancillary services plugged into manufacturing value chains—adds a whole new dimension to global trade. Digital trade is based on a fluid exchange of bits and bytes, or data, over the Internet; this means government intervention and regulation have been necessary to ensure the security and privacy of the data, for both consumers and businesses. Yet, since digital trade itself is critically dependent on the unhindered exchange of these data, it is equally essential to ensure such regulation does not begin to overlap with the territory of unnecessary barriers to trade.

This conundrum, in addition to the fluidity of definitions in the sector, renders services-based MSMEs not amenable to old world legal and regulatory frameworks. Moreover, MSME service providers are typically first generation entrepreneurs, with personal savings at stake and little capital backing. They therefore require a robust risk mitigation framework.

The very nature of digital trade and value chains built online has allowed multiple small and big service providers to plug into various points of the services supply chain. This has created a framework whereby regulators at national or regional level do not have access to the entire value chain by themselves, necessitating the development of a modern, multilateral regime on trade in services, especially for e-commerce and digital trade. Furthermore, digital value chains in both services and

goods have the ability to change, and are already changing, the definition of modes of service supply, as well as the application of rules of origin as we know them, leading to an evolution in trade policy. An example is taxi or cab companies: consumers can order, track, locate and pay for the vehicle online, and be insured themselves as well as for the vehicle, for the entire duration of the journey, with one click of a button, via a mobile application, hosted on a digital server, all individual services, managed in potentially different geographies. Another relates to advances in technology, such as international hosting servers, 3D printing, travel portals, food and beverage industry review portals, and e-learning. Most of these developments started with small niche service offerings by entrepreneurial ventures in the MSME space, and have either been scaled up or merged with/supported by larger businesses, plugging into global supply chains in the services sector as well as support services for manufacturing output. The nexus of the MSME sub-sector and the services sector, fuelled by innovation and technological advancements, has led the way in the evolution of trade, as we know it.

Developments in technology, especially in the services sector, have disrupted trade, as we know it, and the way MSMEs participate in global trade. These developments are driving the way trade is evolving over the years. Yet technology itself offers the ability to aggregate MSMEs, especially those operating in the services sector. This allows for a platform where data on MSMEs in services can be collected, collated and analysed and MSMEs can interact, exchange know-how and experiences, collectively discuss and suggest solutions to the challenges they face, and at the same time have their voices heard by policy-makers. They can also tap technology to integrate efficiently into the global trading regime.

Adapting trade policy to these developments is not an issue that countries can regulate entirely domestically. This puts the onus on the global community to take action at the multilateral level to ensure both consumers and producers can benefit from this evolution, in a secure manner, without significant risk to their individual and collective interests.

8.5 Challenges facing MSMEs in manufacturing in the global trading landscape

8.5.1 Adhering to tariff and non-tariff barriers to trade

The inherent nature of MSMEs makes them more prone to the impact of market fluctuations and uncertainty. While a tariff hike would hit all businesses looking to access the market in question, for MSMEs their smaller scale of operations, relatively price-inelastic demands, smaller asset base and fewer resources make them particularly sensitive to such barriers, which affect their profit margins and their ability to compete with incumbents and larger firms.

At the same time, non-tariff barriers (NTBs) also tend to have a significant negative impact on MSMEs. Smaller firms find it harder to manage the uncertainty and lack of transparency such barriers create. For example, an ITC survey of 11,500 exporters and importers of goods from 23 developing countries found NTBs affected small firms most (ITC, 2015).

The two core NTBs to trade regulated by the WTO are sanitary and phytosanitary standards (SPS), which ensure tradable goods adhere to health and safety regulations, to protect public health; and technical barriers to trade (TBT), which comprise of regulations, standards and conformity assessment procedures for tradable goods. A widespread analysis of NTBs to trade have shown that SPS and TBT are costlier for small firms as large firms are more efficient and can benefit from economies of scale to comply with stringent requirements at lower cost than smaller exporters (Reyes, 2011; WTO, 2016b). Multiple studies have quantified the costs of restrictive SPS measures. For example, research by Fontagné et al. (2015), which uses export data provided by individual French firms, found that a restrictive SPS measure would reduce a firm's probability to export by 4 per cent and increase the intensive margin of an export by 18 per cent. This is a substantial amount that large firms are able to absorb quite easily, given their larger profit margins and relatively elastic demands, but would affect small firms adversely. Of all NTBs, MSMEs found conformity and pre-shipment requirements in export market and weak inspection and certification procedures particularly difficult to adhere to (ITC, 2015).

8.5.2 Limited opportunities to access finance

Analysis of worldwide firm-level data from the World Bank's Enterprise Survey shows that access to finance is the biggest obstacle to firms, both big and small, in the Commonwealth. Financing options for MSMEs are particularly limited because financial institutions face greater risks when lending to them. Lack of collateral and reliable financial information required for a loan and high fixed costs of financial transactions lead to investors perceiving MSMEs as high-risk borrowers. Research by the Asian Development Bank (ADB) (2014) estimates that more than half of MSMEs' requests for trade finance is rejected, compared with 7 per cent for multinational firms. Moreover, MSMEs face many more challenges than larger firms as a result of the tepid economic climate.

Since the financial crisis, financial institutions have become risk-averse and have tightened regulation on lending. This has affected MSMEs more adversely than large firms: studies have found that, during the 2008–2009 financial crisis, credit constraints on smaller exporters were so great that they resulted in stopping exports completely in some cases, and reducing the number of export markets served in others (WTO, 2016a). These measures affected exports from developing and low-income countries, as they are particularly dependent on bank-intermediated finance than in other regions (DIE, 2014). This has been exacerbated by the fact that the international trade finance sector is highly concentrated. DiCaprio (2015) reveals that about 40 banks account for 30 per cent of trade finances supplied internationally. Thus, in a time of recovery from a recession, banks are cautious to lend, which, in turn, significantly limits the export growth of these firms.

8.6 Challenges facing MSMEs in the services sector

Just as the potential of services-based MSMEs derives from the potent combination of their specific characteristics, and the strengths of both these firms and the services

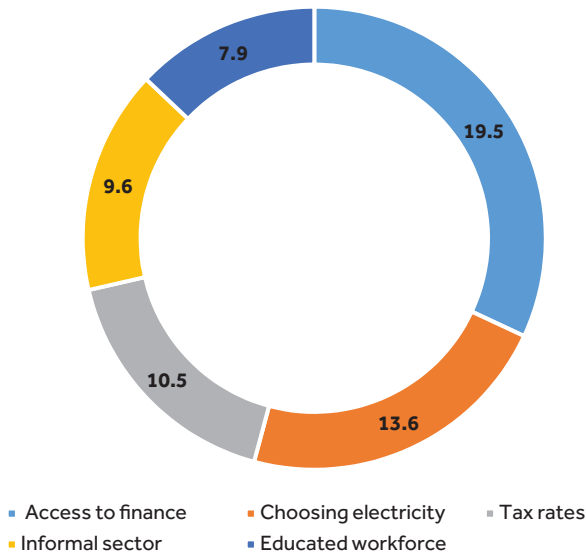
sector, in the same vein the challenges facing this sector are layered, and stem from the specificities of both MSMEs and the services sector.

The first layer of these challenges relates to the obstacles to productivity and competitiveness inherent to the sector, exacerbated by lack of adequate domestic institutional structures in the domestic economy. These challenges mean that, while MSMEs in the services sector, particularly in developing countries and LDCs, are exploring their potential and contributing to the domestic economy, their spread across services industries within specific economies and their direct contribution to trade remain limited (WTO, 2016b).

First, data on MSMEs, which are active largely in the informal space, are often sketchy, where available, and hard to collate. Additionally, sector-specific data on MSMEs are usually not easily to find, making it harder to segregate MSME contributions, by manufacturing and services, to GDP and to trade. Add to this is the lack of consistent, reliable and accurate data, particularly in developing and least developed economies, on the services sector and on trade in services. Coupled with the absence of categorical definitions and clean lines in the services sector, this makes assimilating and ensuring the consistency of data services-based MSMEs, as a niche category, an enormous challenge.

This is exacerbated by the fact that services entail a wide gamut of industries and activities, often resulting in a sketchy definition of what qualifies as ‘services’ to begin with. As the global economy enters a digital era, the overlapping domains of e-commerce and digital trade make the definition of ‘cross-border trade’ all the more complicated. Furthermore, lack of harmonisation on standards, regulations and

Figure 8.1 Top five challenges to firms in Commonwealth countries



Source: Author’s calculations using data from World Bank Enterprise Surveys. The percentages are calculated as an average of Commonwealth countries from 2010–2015

definitions makes partner data less relevant for analysis. Therefore, more often than not, just defining the sector and assimilating data on output and trade is a challenge. Lack of credible data also, as Arbis and Heal (2015) concur, makes it harder to analyse the growth and impact of trade in services on the economy, particularly for LDCs, and to plan and monitor developments in the sector. Naturally, then, formulating trade policy at regional or multilateral level, to ensure effective participation by services-based MSMEs in national output and in global trade, becomes more challenging.

Second, a challenge to services-based MSMEs in particular is the inadequacy of workers to meet the requirements of a skills-intensive business. Firms in the services-based MSME sector establish operations with unique or niche ideas and seek to scope out customers and make an impact with their offerings. Their services are specialised, and require specific skills sets and skilled human capital. As such, finding the requisite, trained human resources, and platforms where skilled resources are mapped to the niche requirements of smaller enterprises in the services sector, is often a key challenge in their growth and their ability to scale up operations, compete in a global market and integrate into GVCs, which require specialised services, value-added and scalable trained manpower. Lack of adequate skills development facilities, especially those with backing from the public sector, and inability to scale up to meet the requirements of businesses add to their woes, with smaller businesses often struggling to meet the costs of setting up such facilities specifically for their own firm. Additionally, services-based MSMEs are often unable to access low-cost, efficient support services for administrative, finance, human resource and compliance functions. Arbis and Heal (2015) agree, 'the ability to trade services more competitively relies heavily on human skill factors and an efficient regulatory framework and institutions that many Asia-Pacific LDCs have yet to fully develop, such as an adequately trained workforce, strong rule of law, intellectual property rights protection, and sufficient digital infrastructures'.

Third, such challenges are furthered in light of the poor, inadequate and inconsistent access to funds facing most MSMEs, including those in the services sector. Traditional banking has consistently failed MSMEs, particularly in developing and least developed countries, with administrative and collateral requirements that they are often unable to meet and impossible interest rates. In fact, as in the case of manufacturing, MSMEs in services often find financial resources only at higher rates of interest and with more stringent requirements by financial institutions than is the case for larger firms. This is, in addition to the nature of traditional banking, also a function of the lack of credible data and information available to financial institutions about services-based MSMEs, which operate across modes of supply in a market with fluid definitions; and a general lack of literacy in the financial sector on the services-based MSME sector. This leaves lenders and financial institutions with insufficient information to take an informed decision on the potential and the specific requirements and challenges of this sector, making it harder for them to fully comprehend it and to create financial assistance instruments tailored to the sector. In addition, it further discourages their risk appetite for the sector. The WTO (2016b) argues that, while international banks are reluctant to invest in developing country markets, local banks in these markets often lack the know-how, capacity, international network, etc. to support export-oriented MSMEs.

Without adequate capital backing, services-based MSMEs find it harder to put together the infrastructure required to offer services at prices lower than those of larger incumbents, to scale up operations to meet competition or to effectively reach out to and integrate into global services value chains, both within the services sector and in terms of ancillary support to manufacturing value chains. Moreover, while skilled manpower is a key requirement for services, without adequate capital backing it is harder for smaller firms to hire skilled experienced professionals to provide better-quality services than the larger incumbents. Lack of finance also makes it harder for them to comply with the multiple quantitative and regulatory restrictions they face in importing countries and to manage their competitiveness in the environment of uncertainty and lack of transparency the regulations create.

Furthermore, unlike in the case of manufacturing, the services sector naturally lends itself to easier replication of services offerings. Therefore, where a service offering finds takers in consumer demand, several other service providers, including incumbents and larger firms, are encouraged to capitalise on a good idea and to replicate it, differentiating themselves on price, quality of service and scale. In the absence of adequate capital backing, therefore, smaller firms find it harder to continue to compete on price, quality and scale, and to source experienced skilled professionals from the market, as a differentiating factor. This both discourages smaller entrepreneurs from investing in newer ideas, and in the research and development initiatives required to hone such ideas, and makes it harder for them to survive once they do. Easier, more tailored, access to capital for smaller firms would enable them to protect their ideas, invest in intellectual property protection and continue to scale up their operations and source more skilled manpower, so they can better compete in the market.

In addition to resource and data constraints, the weak institutional structure and inadequate regulatory reforms in most developing countries and LDCs also pose a barrier to growth and trade for MSMEs in general, and those operating in the services sector in particular. In addition to labour/employment law and policy, banking and access to credit and regulation on, *inter alia*, competition, public ownership of key industries and intellectual property (IP) are often not geared towards enhancing the ease of doing business, especially for MSMEs. For example, the continued existence of monopolies in key sectors such as telecommunications, IT and air transport makes it harder for smaller players to enter the market and create a niche for themselves. In the absence of a strong IP regime, smaller firms do not have the necessary incentive to invest in research and development, and cannot benefit from the sort of technological transfers with bigger domestic players or with players in the international market to which a healthy IP regime in the home economy could provide access. Where strong regulatory frameworks exist, they are often covered in bureaucracy and corruption, making it even harder for smaller firms to survive and compete.

Growth of services-based MSMEs in developing countries and LDCs is further hampered by the absence of high quality infrastructural facilities in the home economy. Grater et al. (2016) underscore the sensitivity of SME service providers' efficiency and productivity, to the quality of infrastructure in the domestic economy. They note, for example, that, "congested and unmaintained roads, and unreliable

and expensive electricity and telecommunications services can add significantly to the cost of doing business and dash SMEs' hopes of delivering competitively priced services at a regional or international level" Grater et al. (2016).

Where MSMEs that trade services do attempt to make it to international markets, they have to deal with both market access and regulatory barriers. Since barriers to trade in services are not tariff-based, but in fact quantitative or regulatory in nature, they are harder to measure and gain certainty on, and indeed they often represent disguised barriers to trade. At the same time, several aspects of services make the sector significant to the domestic economy, and particularly sensitive to regulation: governments strive to protect consumers, producers and, often, national security via regulation of industries in the sector. This makes the potential role of the multilateral arena particularly significant in ensuring countries have the flexibility to regulate the sector where necessary but at the same time preventing such regulation entering into the realm of disguised barriers to trade.

The result of the behind-the-border nature of these barriers is that they cause significant uncertainty and lack of transparency in doing business and add an additional layer of complexity to trade in the sector. They thereby raise costs and create an environment averse to the competitiveness of MSMEs, which tend not to have the resources to remain efficient and competitive in an uncertain, non-transparent trading environment and to meet burdensome regulatory requirements in the importing market. The WTO (2016b) notes, 'non-tariff barriers are particularly burdensome for SMEs, because they entail fixed costs independent of the size of the exporter'.

Arbis and Heal (2015) note,

"As tariffs are not applied to trade in services, barriers to trade are almost always generally of a quantitative and/or regulatory in nature and their impact is not amenable to simple quantification... In general, though, global commitments to liberalisation of services under the GATS are less advanced than liberalisation of levels of bound tariffs for merchandise trade under the GATT, and are subject to weaker regulatory disciplines. Thus despite declining overall costs, according to estimates, trade costs in services are two to three times higher than trade in goods globally, as services costs have remained relatively flat over the past decade, while trade costs in goods have continued to fall overall at a faster rate."

With businesses now going digital, and consumers meeting sellers in a virtual space, all these concerns are being underscored. Such interactions require the support of experienced and trained professionals, seamless connectivity and high-end technology, together with strong distribution networks, customer service set-ups and initial funding, as well as an efficient regulatory system that makes doing business easier, especially for small enterprises. In the absence of such support networks, and adequate institutional and regulatory reforms, businesses looking to sell services and trade online find it harder to flourish even domestically, let alone in the international market. Furthermore, without a clear, universally accepted, harmonised definition of e-commerce itself, policy-makers struggle to draft policies that support these businesses effectively and to provide standardised and 'easy-to-do-business-in' regulatory frameworks for businesses in the area. At the same time, lack of a clear

definition, and the lack of transparency that this leads to, adds to the costs of operation and compliance for businesses, and this uncertainty has impacts on efficiency.

In the digital space, technology is creating fluid and widespread service supply chains wherein domestic regulators may not necessarily even have access to, let alone the ability to control and regulate, all points of operation. In this environment, rules of origin, modes of service supply and therefore the ability of governments to protect both service suppliers and consumers from the inherent risk of trade that does not necessarily require peer-to-peer interaction in person are limited. Furthermore, the free exchange of bits and bytes over the internet creates challenges of security and privacy, even while the very nature of Mode 1 trade, and e-commerce, requires such free exchange, entailing a need to regulate with caution, without creating unnecessary barriers to trade. It also necessitates the intervention of international or multilateral bodies, such as the WTO, in trade policy, to ensure a fair and level playing field that also protects consumers' interests and security. In such an environment of uncertainty, even international regulatory bodies find themselves in uncharted waters, with members seeking out new ideas on finding the balance between regulation and liberalisation. In this situation, the services sector, particularly in the digital space, finds itself evolving faster than trade policy and regulatory reform. It is, of course, imperative to note, once again, that such missing links in trade policy add to the uncertainty and lack of transparency in trade, making it harder for MSMEs in services to compete in global markets.

Even in light of the above concerns, and given the clear role for a multilateral regulatory regime, there has been limited focus on MSMEs in the services sector in discussions and policy-making. In fact, very little attention in trade policy is paid to MSMEs engaged in services, even within the WTO, for example in the General Agreement on Trade in Services (GATS). This, as Adlung and Soprana (2012) note, is particularly uncanny, since the GATS, unlike the GATT, covers suppliers and not just services/products. It is also important to note that not much research or analysis has been undertaken, within or around the WTO, on MSMEs in services, their role in trade and development and the challenges they face, and how those can be addressed in both domestic, and international markets. While several Member States have pushed the agenda of both MSMEs and firms engaged in trade in services, at the WTO and at other negotiating forums, concrete action on addressing barriers to growth and trade faced by these entities, in particular, is yet to take shape.

Whereas negotiations on trade in goods, both in agriculture and in non-agriculture market access, have evolved over time, those on services have lagged behind developments in technology and global trading practices. With the internet redefining, for example, how services are or can be traded, there has been an evolution in the mere definition of tradable services and how they fit into the four modes of services supply defined under the WTO, as well as the relative significance of each mode of services supply to different economies. However, negotiation and agreement on this definition to allow consistency and harmonisation have lagged behind. With little or no clarity on the scope of these definitions, regulatory reforms on the sub-sector have also been left to the discretion of individual governments, leaving service providers

in the lurch and pleading for harmonisation: seeking to comply with multiple norms and requirements, often without access to necessary information, increases costs and decreases efficiency, interfering with their ability to compete globally. This is particularly detrimental for MSMEs, which are often strapped for capital and expertise and struggling to sell, in both the domestic and the international market.

Grater et al. (2016) refer in the below quote specifically to African LDCs and the role of MSMEs in the services sector, but this could just as easily apply to MSMEs and services worldwide. They note that, while MSMEs in the services sector are being seen as the new drivers of growth in Africa, and there is an increasing recognition of their role in economic growth, particularly for lesser developed economies, the focus on their scope an impact for LDCs, as well as information and data on SMEs in the service sector has been relatively meagre in academic research, and analysis, for Africa and other LDCs.

The WTO (2016a) reiterates this concern, underscoring,

“MSMEs continue to lag behind large firms not only with regard to productivity but also level of competitiveness and ability to internationalise. Evidence shows that while around 20 per cent of new firms go out of business after their first year, and just over 50 per cent after five years (Dunne, Robertson and Samuelson, 1988; van Praag, 2003; Knaup and Piazza, 2007; Geroski, Mata and Portugal, 2010), young MSMEs are more likely to survive if they export. If policymakers address the market failures that constitute barriers to trade for MSMEs the enterprises will be able to become more competitive” (WTO 2016a).

8.7 The Trade Facilitation Agreement: A beacon of hope for MSMEs in manufacturing

While MSMEs face many challenges that are unpredictable, such as market fluctuations and political instability, barriers related to regulatory unpredictability have been addressed to a certain extent through the Trade Facilitation Agreement (TFA) which has entered into force in February 2017. This seeks to expedite the movement, release and clearance of goods and promotes effective cooperation between customs. This enhanced transparency through the harmonisation of export and import processes will greatly enhance the competitiveness of MSMEs in particular, which are disproportionately affected by the lack of regulatory predictability. In quantifiable terms, the tariff equivalence of ‘red tape’ for imports corresponds to an additional tariff of 25.6 per cent in Sub-Saharan Africa (Nathan Associates Inc. cited in Joosep, 2014). Apart from tariffs, access to credit, NTBs and cumbersome customs procedures are perceived to be the most significant barriers to MSMEs’ export competitiveness (Joosep, 2014). Research by the OECD (2014) estimates the TFA measures will reduce global trade costs by 11 to 15 per cent and lead to an increase of exports of nearly US\$1 trillion. Consequently, MSMEs are able to pass on the cost reduction to consumers, thereby making their goods more competitive, and are able to integrate easily into GVCs.

However, a key limitation lies in being able to provide the resources to implement the TFA for MSMEs, especially in developing and least developed countries. These groups of countries fear that the agreement could lead to an increase in imports,

Table 8.2 Singapore's SME Policy 2015

Component	Relevance
<p>SME Centres Integrated one-stop centres where SMEs can access information and seek advice on a wide range of assistance programmes from relevant government agencies and private sector organisations.</p>	Can be used to provide information on trade procedures and identify SME needs (Articles 1, 2, 23)
<p>Market Readiness Assistance Grant Grants consultancy advice for SMEs on market assessment, market entry and business restructuring through internationalisation. These also include assistance on market research, legal and tax regulations.</p>	Can include or be extended to trade facilitation aspects (Article 1)
<p>Capability Development Grant Supports SMEs by co-funding up to 70% of their productivity improvement and capability development costs for 10 support areas:</p> <ol style="list-style-type: none"> 1. Business innovation and design 2. Business strategy development 3. Brand development 4. Enhancing quality and standards 5. Financial management 6. Human capital development 7. Intellectual property and franchising 8. Productivity improvement 9. Service excellence 10. Technology innovation 	Can include or extend to capacity-building for trade facilitation (e.g. knowledge and application of international standards for paperless trade, or of relevant certification and/or conformance procedures)
<p>Internationalisation schemes Reducing certain internationalisation risks to help SMEs thrive in foreign markets. Double Tax Deduction for Internationalisation allows Singaporeans posted overseas to receive tax deductions. The International Growth Scheme includes a lower tax rate on incremental income for qualifying overseas activities.</p>	Can be extended to special trade facilitation services such as SME the Programmes for Authorised Economic Operators and Single Windows or reduced fees and charges

Note: Article 1: Publication and Availability of Information; Article 2: Opportunity to Comment, Information before Entry into Force and Consultations; Article 23: Institutional Arrangements

which would negatively affect their trade balance. Research by the OECD (2014) shows that total trade facilitation costs will range between €3.5 billion and €19 billion. For many low-income countries, this will not be feasible without the assistance of developed countries. Thus, it is crucial that the international community provide sufficient investment to overcome capacity constraints related to human resources, training, equipment and ICT (Joosep, 2014).

The TFA alone is not sufficient. While it will help alleviate some of the bottlenecks experienced by producers and sellers of goods, it does not address the key issue of limited access to finance at high interest rates. Moreover, multilateral TFA measures are effective only if they are mainstreamed into national MSME policy frameworks. Countries need to up the ante on domestic regulation and infrastructural reforms, and work with banks in the private and public sector to provide sustainable, need-based financial assistance, loans and funding instruments to smaller firms, often disconnected from the credit market. In addition to successful implementation of international agreements, therefore, domestic reforms and further international technical assistance need to be coordinated to create an enabling environment for harmonising customs procedures and to reduce informational asymmetry between countries.

An example of successful promotion of MSMEs, through a consortium of domestic reforms and integration with multilateral efforts, is Singapore, a Commonwealth small state, which has managed to integrate TFA measures effectively into its national MSME policies to facilitate its growing MSME sector (Table 8.2). Fundamental to its success is the creation of its Centre@SME, a one-stop centre that provides direct assistance and advisory services to MSMEs, which helps them overcome the informational challenges MSMEs face with regard to trade facilitation. Singapore also uses its well-established ICT infrastructure to communicate with traders: Singapore Customs provides a mobile service for traders to receive updates on their shipments. In addition to these measures, the Singapore Customs Academy conducts regular training courses to disseminate information on customs compliance and provides access to information around the clock (UNESCAP, 2016).

Smaller, lower-income economies can benefit from the experiences of countries such as Singapore, and push to mainstream trade and MSMEs in domestic policy. They can work towards integrating MSMEs successfully in the multilateral trading system by effectively implementing measures such as Aid for Trade (AfT) and the TFA into development projects. This will create an environment that fosters the growth of smaller enterprises, which would lead to higher GDP, more employment and better welfare distribution, in addition to more effective participation in the global trading regime. Even where notable success has been achieved, such as in Singapore, tools provided by technology can enhance this, via, for example, a digital forum for MSMEs to exchange experiences and know-how, match products and services and gain enhanced market access.

8.8 Addressing challenges for MSMEs in services

The solutions required to address the challenges facing MSMEs in services require first critically acknowledging the difference in the nature of the sector *vis-à-vis* other sectors of the economy. Second, it is necessary to understand how the challenges facing MSMEs are different from those facing larger enterprises. In fact, even the challenges common to both larger and smaller enterprises tend to be more restrictive and to affect the efficiency of smaller enterprises more. The niche group of services-providing MSMEs are structurally and functionally different from other enterprises in their nature, their potential, and in the challenges they face. Yet they provide an engine

of growth to any economy, and plug back into the smooth functioning and efficiency of other sectors. The reforms required for enabling these enterprises to function optimally, enhance their competitiveness and integrate effectively into the global economy demand long-term vision and reforms, at both domestic and multilateral level. These reforms continue to be the most critical of all trade reforms to implement.

The space of both MSMEs and the services sector is an evolving one, and is driven by consumer demand. With every new service required by consumers, and thus offered by firms in the market, a new regulatory challenge faces policy-makers. With technology evolving rapidly and the digital space redefining the frontiers of trade in services, MSMEs are facing increased opportunities as well as challenges. Regulators are facing increased challenges with regard to security, privacy and management of data. Regulators and trade policy-makers must take rapid leaps forward and be able to adapt to anticipate or react promptly to the changing market environment and policy requirements.

In this light, negotiating a new regime for trade in services, particularly with a view to enhancing the ability of services-based MSMEs to integrate more effectively in the global trading regime and to benefit from the opportunity, while contributing better to sustainable economic development, is gaining traction as a key objective of policy-makers in multilateral and other trading forums. In fact, GATS negotiators anticipated the evolving nature of trade in services and the sensitivities of the sector. Part IV of the Agreement provided, in advance, for progressive liberalisation, while still affording 'due respect for national policy objectives and the level of development of individual Members' (GATS, 1994). This remains a powerful, and yet unutilised, tool in the hands of WTO members, and can be used effectively to guide the path ahead on trade policy, regulation and enhancing the ease of doing business in the multilateral trading regime. Such policy-making at this level would definitely facilitate trade for MSMEs and help them achieve their potential and contribute better to global trade.

Of course, it should be ensured that such a regime takes into account technological developments; innovation; incumbent economic situations in developing countries and LDCs; and newer trade mechanisms, platforms and practices, especially with reference to digitally traded services or, more generally, e-commerce. At the same time, institutional reforms are required at both national and international levels, to facilitate the building of supply-side and trade capacity in services and to enable trade, especially for MSMEs.

To begin with, an overarching environment that fosters entrepreneurial endeavours and encourages small businesses to take the leap is essential. The services sector operates in a high-skill, technology-driven industry where exchange of know-how is key. Additionally, the challenges facing smaller firms in these sectors are often not evident in terms of numbers, tariffs and border measures. Such challenges often require deep regulatory reforms, infrastructural development and capacity-building assistance, above all else. This requires both domestic and trade policy to take into account the specific concerns facing these firms in the niche sector, and to ensure that addressing them is mainstreamed in domestic reforms and in international trade

regulation. Since MSMEs in services are largely part of an unorganised, scattered group, their 'voice' often goes unheard. It is, therefore, essential to create a platform to encourage and support discussion and sharing of information among these firms, and to ensure policy-makers account for their opinion in their negotiations at international forums and during domestic policy reforms. It is essential for policy-makers and chambers of commerce to adopt a proactive rather than reactive approach to connecting industry to trade policy, especially when it comes to the voices and challenges of MSMEs.

Two aspects of such a platform are particularly interesting. First, such a platform could address all the concerns of services MSMEs that this section begins by discussing. It would allow firms not only a collective voice in policy-making but also a platform to exchange experiences and know-how, and a way to invest in and develop capacity-building initiatives and skills development programmes. Second, technology itself allows for the creation of such a platform and its effective management in the digital space, enabling smaller firms better access to it without having to invest in physical presence, facilitating interaction.

A forum such as this should also attempt to define and harmonise core definitions of services, MSMEs, e-commerce, etc. and ensure means of tracking output and trade in the sector. This will allow the development of a credible system of data collection. The challenges of definition and data collection are deeply intertwined, and their resolution is critical to allow tracking, monitoring and assessment of development and progress in the sector. Such a forum should also provide a means to disseminate information for MSMEs in services on regulation and access conditions in markets outside the home economy, preferably in a WTO language, to ensure all members can fully understand the regulation and its implications for effective market access.

Furthermore, since MSMEs in services are often born out of a specialised idea, for a niche service offering, by a handful of individuals with narrow expertise, they are critically dependent on ancillary services, further provided by other service-providing MSMEs, perhaps once again in the unorganised sector. It is therefore essential to create a credible national and global 'ecosystem' of service providers among MSMEs.

From the perspective of government policy, at a domestic level it is also essential to aid and support skill development so as to be able to infuse skilled individuals in scalable numbers into these firms. The services sector thrives on high-skilled manpower, and smaller firms often lack the capacity to develop a skilled force of human capital for themselves. Intervention to ensure an education and skills development ethos that encourages training for employment will assist smaller firms in addressing this element of fixed costs.

Additionally, it is necessary to implement targeted regulatory reforms in the banking sector, with a view to allowing easier and more consistent access to funds for MSMEs. It is also critical to ensure the complete financial inclusion of service-providing MSMEs, by building institutions dedicated to MSMEs in services within such an 'ecosystem'; enabling the collection and analysis of data on the sector; and providing

literacy on its potential, challenges and requirements to officials and agents in the financial sector, to help them comprehend it better and create products and solutions tailored to its needs. Governments should also focus on fostering an environment where risk-taking behaviour is encouraged among investors, with specific reference to the services-based MSME sector.

Regulatory reforms targeted at supporting MSMEs in services, not restricted to the banking sector, cannot be over emphasised with regard to the future of these entities. Regulatory norms must be designed to ensure ease of doing business. Governments must effectively reduce instances of corruption and red tape, excessive licencing requirements and commercial presence regulations, in addition to the administrative procedures and costs involved in establishing new businesses. Emphasis should also be put on developing robust infrastructural facilities, which can cater to the specific requirements of the services sector and are accessible to and targeted at MSMEs. For example, a stable communication technology network can allow MSMEs to use technology to connect to global production networks and value chains online and to benefit from the digital trade revolution, by operating in modes of service supply outside of Mode 3 (commercial presence) and Mode 4 (temporary movement of persons) of services supply, which have a higher cost of operation for these firms and whose strict regulations can be unnecessarily burdensome for them. Governments should also aim to ensure that the restrictions and regulations imposed on the sector are minimal, and indeed necessary, and do not pose *de facto* barriers to trade.

On the international front, negotiations in both regional and multilateral forums must seek to define and harmonise core terminology, data collection and assimilation methodology, service classification and regulatory requirements in services. Means to track e-commerce, particularly digitally traded services, must be established, and transparency must be ensured. Negotiations should account for current technological developments and allow for future advances and innovation, so that regulations can keep pace with technological developments and their impact on trade. International discussions must also tread with caution the fine line between consumer and firm protection online and data security; and overregulating the digital space. They need to ensure technology can constructively disrupt the norms as we know them on trade and at the same time effectively harness technology to use trade as the true engine of growth and efficient, sustainable development. It is also critical to ensure negotiations and discussions on trade facilitation account for the specific requirements of the services sector, and of the smaller firms within the sector. Regulations set up therein must cater to and seek to enhance the productivity and competitiveness of these firms. In fact, trade facilitation as we know it today, focused on manufacturing and trade in goods, will need to develop a whole new meaning and framework. This will account for the needs of the services sector, and particularly small firms in it, in terms of technical assistance, exchange of know-how, regulatory cooperation and mutual recognition, among others. This will perhaps entail mapping trade facilitation initiatives at the multilateral level with Aid for Trade (AfT) and technical assistance at the individual developing country and LDC level.

8.9 Conclusion

The increasing significance accorded to the rise of MSMEs at the WTO, as well as in regional and plurilateral discussions and in other international organisations, is promising, as it points towards more inclusive growth, which is truly sustainable. While the TFA mitigates some of the challenges facing MSMEs in internationalising, its full efficacy will be achieved only when trade facilitation measures are mainstreamed into national MSME policies and implemented effectively in the domestic context. Multilateral initiatives are able to determine the direction of global policy measures, but those measures are effective only if they are implemented and utilised effectively implemented domestically. Much more thrust needs to be given to policy-making, institutional and regulatory reforms, infrastructural development and technical support to MSMEs. The aim of this is to help build trade capacity, address supply-side constraints and assist with MSMEs to integrate into the global trade regime, to allow them to achieve their full potential and contribute effectively to economic development, especially in smaller states, LDCs and developing countries.

While discussions on the Doha Development Round continue to seek effective conclusion, technology and the manner in which it has affected and led trade have in the meantime led to the opening-up of a whole gamut of new issues in trade. MSMEs, and their growing synergy with trade in services, both represent critical new issue and perhaps have the potential to resolve a whole lot of other existing as well as new issues in trade, if explored effectively.

This is particularly true of the services-based MSME sector—the next generation of trade-based sustainable development and the harbinger of growth of the future in most economies. The sector has the potential to provide employment, promote skills development, contribute to GDP growth, enhance trade globally, address distribution issues and balance gender roles. Its dynamic nature and inherent flexibility, even within a niche service offering, makes it the ideal model for future global growth. It also feeds into the requirements of both manufacturing and agriculture at every step, for big and small players alike. However, given its fluid nature; the niche nature of its offerings; lack of adequate, credible data on the sector and on the fluid nature of its operations; its smaller scale; its undeniable dependence on skilled human resources; its added vulnerability to regulatory reforms or the lack thereof; and the interdependence between firms within the sector, it poses its own unique challenges, and requires special attention from policy-makers and businesses alike.

To allow services-based MSMEs to achieve their full potential, and contribute at home and globally, it is imperative to provide them with an enabling ecosystem, to give their collective voice a platform and to create a robust platform for curating reliable data and a forum for the exchange of experiences and know how. The much-needed thrust for services-based MSMEs, which will emanate from policy, planning and regulatory reforms with credible inputs from the ground level, will enable their mainstreaming, which will benefit their competitiveness and growth. Additionally, trade facilitation initiatives at the multilateral level and effective utilisation, where applicable, of AfT need to be targeted at promoting small businesses in the services sector, to ensure the sustainable growth of all sectors of the economy, both domestically and globally.

The internet, innovation and technology and, more recently, the growth of e-commerce have constructively disrupted the system and made it possible to provide businesses a whole new platform to aggregate their voices, experiences and know-how. This has special significance for MSMEs, which can benefit from the disruption and the aggregation, to exchange experiences and concerns, explore their potential and reach out to consumers across the globe. They can do this by integrating into GVCs, with minimal investment in physical infrastructure, for trade in both goods and services. This is an extremely positive development for services-based MSMEs in particular, redefining the future of trade in services.

Digital trade, alongside the growth of MSMEs as a critical instrument and the increasing significance of services-based MSMEs in such growth, has set forth a whole new game in trade, with new rules, players and policy and regulatory requirements. E-commerce has taken global trade to a whole new level of 'global', and policy-makers will need to raise their game to ensure inadequate reforms and old-world policy-making do not interrupt the potential pace of growth induced by these firms. In fact, this very technology can and should be employed to aggregate MSMEs and provide them the platform and opportunity discussed in this chapter.

However, with new technology and the greater flow of bits and bytes over the Internet, legitimate concerns on security and the privacy of data and of consumers are raising their head. Regulators have taken note and have addressed these concerns with stringent regulation. It is more necessary now than ever before to regulate with caution, ensuring security and privacy and guarding against fraud while taking care that the measures employed are indeed necessary, and do not over regulate markets, acting as barriers to trade. Technology has the potential to further change the nature of the game, and for the better, as long as policy-makers tread the line between security and regulation carefully.

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