

Geneva Trade & Business Connexion

South & South-East Asian Countries

Update Note 2 on

“The WTO Trade Facilitation Agreement:

Main Issues Faced by SMEs in S&SE Asian Countries and Their Solution”

Context

This study was carried out from 4 to 25 May 2016 by PRIME (Policy Research Institute of Market Economy), Islamabad as a part of a CUTS International and Australia Aid Project entitled “Geneva Trade and Business Connexion: South and South East Asia”. The main objective of the project is to improve the capacity of the small and medium enterprises (SMEs) to provide input into their government and their WTO delegations so as to make their negotiating positions more fully aligned with on the ground conditions faced by small scale enterprises.

Methodology

In order to obtain the views of various stakeholders on the issues that SMEs faced when trading/transiting their products to other countries, a simplified questionnaire (Annex A) was circulated. However, due to various reasons including lack of capacity to fill-in responses and low literacy rate, response to the questionnaire were not very encouraging. However, personal visits and telephone contacts were more effective in eliciting their feedback. Personal meetings were also held with the officials of Small and Medium Enterprise Authority (SMEDA) and Customs Department to get their input.

Background

Small and Medium Enterprises (SMEs) are the backbone of Pakistan's economy. Their number is estimated at 3.2 million, which accounts for over 90% of all businesses in Pakistan. They employ 80% of the non-agricultural labour force. Of these, about 26,000 enterprises employ more than 10 workers, and 1,600 employ more than 50 workers. Their contribution to the national gross domestic product (GDP) is estimated at about 40%.

There are no reliable figures about their contribution to the overall exports, though estimates vary from 30% to over 70%. According to a recent survey (2013) conducted by the official government agency for promoting SMEs, Small and Medium Enterprises Development Authority (SMEDA), export earnings are estimated at USD 18.2 billion (72 % of the total), and are targeted to rise to USD 54 billion by 2025¹. However, this estimate seems to be out of line with many other estimates which suggest their contribution may be around 30-40 %. SMEDA officials were of the view that the variation is due to the lack of a uniform definition of what constitutes an SME and what its method of calculation should be

¹ Vision 2025, Ministry of Planning, Development and Reform, Government of Pakistan

The most important issues for Pakistan's economy are its stagnant exports and relatively low economic growth compared to its neighbours. The GDP growth has shown some improvement, now reaching about 4.75% during this financial year, but exports have continued to stagnate at around US\$ 24 billion per year for the last 5 years.

One major factor that is seriously hurting Pakistan's exports is its poor state of trade facilitation. This is also reflected in its current ranking in the World Bank "Doing Business Across Borders" index, a low number at 169 out of 189. It is particularly expensive for SMEs to deal with the cumbersome export/import processes. Excessive red tape costs make it difficult to compete in export markets. Another major hurdle is Pakistan's inability to integrate itself with other countries and become a part of global value chain. For SMEs, there is no level playing field as bigger firms can make use of specific SROs (Statutory Regulatory Orders) for duty exemptions on import, and also claim refunds on exports.

Therefore, the WTO Trade Facilitation Agreement is a great opportunity for Pakistan to modernize its import/export and related procedures. If all the provisions of the TFA are implemented in good time, it can be a game-changer for SMEs, and also create and massive overall improvement in Pakistan's trade performance. The TFA provisions for expediting clearance of goods, creating effective co-operation between customs and other appropriate authorities, and improving transparency would greatly increase possibilities for SMEs to participate in global value chains, and reduce their business costs. With the increased emphasis on exports and the role that SMEs can play, this issue is of very high importance for trade of Pakistan.

Awareness about the WTO TFA

There is very little familiarity with the WTO Trade Facilitation Agreement. This could be partially due to the fact that no government agency has made any effort to acquaint the general public with it. There were a few donor-driven programmes in the TFA but these were limited in scope. None of the SMEs have any idea about the current status of the Agreement's implementation in Pakistan.

Although SMEs face innumerable difficulties when trying to import and export goods from other countries, very few ever raise their problems with policymakers in Islamabad. Most SMEs work in the given constraints and only approach local customs and port authorities about their problems. At most, they raise it with the local Chamber of Commerce and Industry. However, since bigger business interests dominate such Chambers, issues faced by SMEs are often ignored.

Trade Facilitation and Transit Issues

Considering the diversity of SMEs, their main TF-related issues have also varied a lot. For a vast majority, it was about a lack of information about rules and regulations. Many also complained that their export consignments were subjected to more physical checks than the larger, more established enterprises. Those operating at land borders with neighbouring countries complained that too many border agencies insisted on checking their export goods. They were particularly concerned about intrusive inspections by anti-narcotic forces, which often made their export consignments unacceptable to foreign buyers. Other major issues included complex

taxation and documentation requirements, the inability to establish personal contacts with potential buyers, a lack of financial instruments designed for SMEs, a lack of any mechanism to decide trade disputes, and the nonexistence of integrated one-stop centres for advice on trade-related difficulties. Many SMEs also complained of the absence of a level playing field. Whereas larger firms can import raw materials at concessionary rates under various Statutory Regulatory Orders (SROs), and, under schemes such as the Duty and Tax Remission for Exports (DTRE), can import their inputs and raw materials duty free, SMEs are unable to do so because of their small size.

Impact on the country's economy

It is not easy to quantify the impact of red tape on the trade of our country. Therefore, there are no reliable overall figures. However, if we go by the OECD's estimates that a "full" implementation of the TFA could lead to a potential cost reduction of 17.4% for lower-middle income countries, we can infer that Pakistan can reduce its trading costs by almost one-fifth.

Furthermore, since Pakistan's current ranking in the World Bank "Doing Business Across Borders" index is rather low at 169 out of 189, Pakistan reduction of trade costs would be even higher. The cost of completing the procedures to export or import goods for a 20-foot container was estimated to be USD 1005 in 2014, according to the World Bank. Just for documentary compliance, it costs USD 307 per container for Pakistan compared to USD 184 for other South Asian countries and USD 36 for OECD countries. These figures show how much of an impact trade facilitation can have on Pakistan's economy. If Pakistan were able to reach the same levels as other South Asian countries, it could become far more competitive and could enhance its exports by 15-20% each year.

One of the most beneficial provisions of TFA is contained in Article 11, relating to the freedom of transit. The crux of this article is that the formalities in connection with traffic in transit should not be applied in a manner that would constitute a disguised restriction on traffic in transit, and there should not be any voluntary restraints or any other similar measures on traffic in transit. Furthermore, each Member shall accord a fair treatment to products passing through any other Member's territory, treating them no less favourably than those products that are transported from their place of origin to their destination without going through another Member's territory.

Pakistan is very fortunate to have a geographic location that can make it a transit hub. However, due to its out-dated transit rules and regulations, it has not been able to make use of this natural facility. Implementing the TFA is a great opportunity for Pakistan. It can modernize its transit rules and facilitate its neighbours in transporting their goods through Pakistan, and in return it could seek similar facilities from its neighbours. This would not only create lot of employment, but also considerably increase Pakistan's trade in the region. At present, the regional trade is less than 5% as compared to the global average of over 40%.

This would be particularly beneficial for SMEs as they find it easier to trade with their neighbouring countries rather than with far off locations. It would also make it easier for women entrepreneurs to engage in such trade.

Another related benefit would be the provision of work opportunities to communities living in the border areas. Pakistan shares a border over 2200 km long with Afghanistan. However, there are very few border crossings open for trade. There are also many restrictions as to what can be traded. If more border crossings were opened for trade, they would provide locals with employment opportunities and thus bring more peace. At present, due to lack of employment, many chose to become mercenaries and thus create law and order tensions.

Impact on the business of SMEs

No one could provide facts and figures about the impact of TF-related difficulties. However, several SME representatives recounted their experiences and gave anecdotal evidence of losses they suffered. Mr Naveed Khan (Lahore) narrated the difficulties he recently faced while clearing his consignment of Indian-imported ginger. Quarantine officials felt that it was unfit for human consumption and held up the consignment for testing purpose. Since there is no laboratory near the port, samples were sent to Islamabad. It took more than a week to receive any result. As the importer was not satisfied with the result, he requested for retesting through another laboratory. This was agreed on, and a sample was sent to Karachi, which took another 10 days. This laboratory declared the sample as fit for human consumption. But the quarantine authorities refused to accept this second result and decided to send another sample to the first laboratory in Islamabad. This time the laboratory's report was positive. The whole process took over a month. The importer had to shuttle to various cities and also had to pay demurrage charges for the held-up consignment. He had to incur substantial losses. His suggestion was that a laboratory should be near the port and if a consignment was found unfit for human consumption, the port authorities should send it back.

In Sialkot, a city known for its high-quality surgical and sports goods, many SMEs complained of a lack of mechanism for receiving payments. One big hurdle is that PayPal doesn't offer its services in Pakistan and the government has not done anything to remedy this situation.

An exporter of fresh fruit complained that due to the delay in shipment process, his consignment lost all its value. Due to such huge losses, he has not been able to re-enter the export market.

Seeking Solutions

There have not been any specifically designed training courses or capacity building efforts for SMEs. Whatever training programmes on trade facilitation that have been conducted so far have focused on developing the capacities of public sector institutions and officials. Therefore the first priority is to provide specifically designed training courses in a local language that should be delivered in towns and cities where there are significant clusters of SMEs.

While interacting with the SMEs, a majority of representatives complained about being unable to access information about rules and regulations for exporting/importing goods. They were not even aware of existing websites and other resources for accessing such information. Therefore, technical assistance should focus on how SMEs can tap the existing resources. Setting up a business support portal could solve some of the problems.

As it would not be easy for many SMEs to access this trade portal, this could be done through SMEDA's help centres that are already available throughout the country. One of the options could be to train SMEDA personnel so that they are able to respond to trade related enquiries. Already SMEDA and Customs authorities have started organizing joint training courses to explain import/export procedures.

National priorities for seeking technical and capacity building assistance

Most reforms have to begin at the country level. First priority should be to ensure that the TFA implementation is made part of a national trade policy framework. Second, priority should be to carefully work out the provisions of Category B and C in terms of Article 14.1 of TFA. Only those provisions that really require the acquisition of implementation capacity, through the facility of assistance and support for capacity building, should be classified under Category C. Otherwise, it would dilute resources available for other more pressing and difficult provisions. Another priority should be to activate the National Trade and Transport Facilitation Committee (NTTFC) and benchmark its performance against other national trade facilitation committees. This Committee has representatives from the public and private sector and is in a better position to determine national priorities and to avoid any overlap and duplication of resources.

The NTTFC, with technical assistance from donors, should regularly benchmark Pakistan's performance against other countries as well as its ranking in international indices for trade performance. The following are some of the indices that need to be looked at to measure the performance.

1. International Trade Transaction Procedures to identify the bottlenecks and the required improvements;
2. Time Release Study for establishing the cargo clearance time at border crossings;
3. Logistics Index for assessing the overall logistics performance and competitiveness;
4. Landed Cost Index to assess the adequacy of pricing in relation to other ports in the region;
5. Export Distribution Index to compare Pakistan's access to capacity situation with Pakistan's competitors; and
6. Import Distribution Index to make an assessment of the import situation as compared to the situation in competing countries.

Other actions the government can take while implementing TFA

The government should have a clear road map for implementing TFA to its fullest extent. For this purpose it needs to work at local, regional and international levels. At the local level, it needs to have a department for reforms to identify procedural and regulatory barriers to trade and benchmark the best practices. It needs to regularly conduct Time Release Studies (TRS) for cargo clearance time at border stations and should specify improvements that are achieved by implementation of the TFA measures. In the recent past, a number of donor-led studies were conducted to identify gaps and suggest roadmaps for the implementation of trade facilitation reforms. The reform department should review all such recommendations and find ways and means for immediate implementation.

At the regional level, there are already several initiatives and studies for increasing customs cooperation and addressing non-tariff measures. For example, Pakistan is a member of several regional organizations including South Asia Regional Cooperation Agreement (SAARC); Economic Cooperation Organization Transit Transport Framework Agreement (ECO-TTFA), and Central Asia Regional Economic Cooperation (CAREC). All these organizations have mechanisms for addressing customs cooperation and trade facilitation issues. It is important that the government not only takes part but also takes a lead in these initiatives. At the multilateral level, it needs to actively participate in the new WTO Trade Facilitation Committee. Many countries would be sharing their best practices and discussing the way forward. It is important that Pakistan takes part in all initiatives whether they are at the local, regional and international level.

At the national and regional levels, considerable work has been done on the operation of Single Window. Once this is functioning, SMEs, like other traders, would be able to submit their documents at a single entry point to fulfil all import, export, and transit-related regulatory requirements. Early implementation of the Single Window facility would also considerably simplify and expedite information flows between trade and government. It would improve efficiency and the effectiveness of official controls, and reduce costs for both Governments and traders due to the bettered use of resources.

Conclusion

Implementation of the WTO Trade Facilitation Agreement offers a great opportunity for Pakistan to boost its exports by involving Small and Medium Enterprises. For this purpose, the relevant government agencies need to chalk out a special plan of action. This plan should encompass the following key points:

- i. There should be specialized training courses for SMEs so that they are apprised of how the WTO TFA can assist them in facilitating their exports and imports.
- ii. Special efforts should be made for easier access to information. Enquiry points and Advance Rulings could be of considerable help for SMEs.
- iii. Capacity of SMEDA Help Centres, which are available in all major cities and towns across Pakistan, should be enhanced to be able to provide guidance on rules and regulations regarding imports/exports.
- iv. There should be a level playing field for SMEs compared to major firms. All SROs that provide preferential treatment for larger firms should be eliminated.
- v. Since SMEs are unable to utilize export promotion schemes, the best way is to reduce import duties so that SMEs can have access to high quality inputs to improve the quality of their exports.
- vi. Complex regulations relating to imports and exports should be simplified so that SMEs can become part of the global supply chain.
- vii. There should be a conscious effort to keep SMEs informed on how the government is implementing the TFA and how SMEs can benefit from those changes.