

MICRO-MULTINATIONALS, GLOBAL CONSUMERS, AND THE WTO

Towards a 21st Century Trade Regime



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CONTENTS

FOREWORD BY RUPERT KEELEY, CEO PAYPAL EMEA	3
I. INTRODUCTION	4
II. COMMERCE 3.0: WORLD TRADE FOR ALL	5
GLOBAL PRESENCE BY COMBINING TECHNOLOGY AND BUSINESS SKILLS	8
III. CONTOURS OF A NEW TRADE REGIME	9
IV. TRADE FACILITATION FOR MICRO-MULTINATIONALS	12
SPREADING CREATIVITY AND ARTISANSHIP AROUND THE WORLD	16
V. EMPOWERING GLOBAL CONSUMERS	17
VI. SHAPING A 21ST CENTURY TRADE REGIME	20

FOREWORD



I did not think twice when I received an invitation to participate in the 2013 Public Forum of the World Trade Organization on the theme of expanding trade through innovation.

One of the many reasons I joined PayPal and eBay was because I saw the power and potential of innovation and technology to foster international trade.

The research work that eBay has published over the last two years, and which is also described in this report, shows how global trade is changing. And technology-enabled small businesses, entrepreneurs and individuals are at the vanguard of this transformation: they are forging bonds and business across borders.

Of course, the concept of trade goes back almost to the beginning of time. The Internet and technology are not changing the idea of trading, simply making the act of trading easier and more transparent. They are effectively turning exporting into a very feasible option even for micro businesses in emerging economies, as you will read in this report. So by using new technologies, we are enhancing the old ways of trading - letting more people into the process.

Indeed, the trade landscape I see taking shape is one where small businesses and consumers are “world traders” alongside the large corporations. My fellow panelist, Helen McCallum of Consumers’ International, used the expression “democratization of trade.” That is exactly what is happening, with consumers leading the revolution and small businesses being quick to seize the opportunities.

By participating in the Public Forum, I wanted to share my experience of technology and innovation opening up markets, enabling opportunities and making a difference in people’s lives.

I also wanted to ensure that the concerns held by consumers and small firms are recognised as trade barriers. If we are to harness innovation for trade expansion, we need a trade regime that works for everyone. We need a 21st Century trade regime.

This report draws up the contours of such a regime. It offers support for a trade facilitation agreement, and it suggests new directions for the WTO and Member Governments to explore in 2014.

I hope you enjoy reading it and do let us at PayPal and eBay know what you think.

A handwritten signature in black ink that reads "Rupert Keeley". The signature is written in a cursive, flowing style.

Rupert Keeley
CEO PayPal EMEA

**The research work that
eBay has published over the
last two years shows how
global trade is changing.**

I. INTRODUCTION

The WTO has been going through a period of change and needs to keep pace with 21st century trade patterns. This report proposes ways of doing that by putting the needs of small businesses and consumers at the heart of the multilateral trade agenda.

The report builds on the studies that eBay has released over the last two years. These studies document the amazing success of technology-enabled small business traders in the US, Europe, Australia, Asia-Pacific and, most recently, in eight emerging and developing countries.¹

The idea that technology-enabled small businesses can maintain a local presence while providing goods and services globally is a novel and exciting story, particularly for those engaged in trade policy.

We have actively engaged with the World Trade Organization and other international fora to tell this story, based upon our empirical studies: the technology-enabled global marketplace is flat and it is creating a parallel model for trade.

Our ambition is to raise awareness about the new and exciting trading patterns that are emerging. At the same time, we hope to create a sense of urgency among trade policy leaders and governments.

Internet-empowered small businesses are able to overcome some significant barriers to international trade, in particular those related to information, communication and trust. But, a range of barriers remain, while new ones arise as large corporations are joined by small firms and individuals on the global stage.

This year's WTO Public Forum presented an excellent platform for discussing both the opportunities of the new Internet-enabled trade as well as the trade barriers holding it back.

We used this platform to encourage discussions about trade facilitation for small businesses and the consumer as the new "world trader". We did so through two workshops, where an impressive line up of distinguished experts discussed the two themes "customs and

98%
of French "commercial sellers" on eBay engage in exporting

eBay-enabled Australian "commercial sellers" selling abroad on average reach

28 markets

A remarkable **81%** of US "commercial sellers" on eBay sell to five or more foreign countries

And a snapshot of eBay "commercial sellers" in Chile, Peru, Ukraine, South Africa, Jordan, India, Indonesia and Thailand:

Over **95%**
engage in exporting

Average number of international markets reached is **more than 30**

60-80%
of new businesses analysed "survive" their first year. The respective figure for traditional exporters is only around **30-50%**

delivery as trade enablers" and "empowering consumers to drive technology-enabled trade".²

Our intention with organizing the workshops was to provide input into the forthcoming Bali Ministerial Meeting in December 2013. Equally important, we wanted to inspire the WTO and its members to shape a trade policy agenda that supports the trade patterns that flow from a global technology-enabled marketplace.

This report brings together extensive research carried out over the last two years and the valuable expertise that our workshops gathered. From there, it describes the contours of a trade regime shaped by 21st Century trade patterns. These proposals are for the WTO – both at Bali and beyond – and national governments around the world.

¹ Commerce 3.0 studies available here: <http://www.ebaymainstreet.com/commerce-3>

² Overview here: <http://www.ebaymainstreet.com/sites/default/files/eBay-WTO-PF-2013.pdf>

II. COMMERCE 3.0: WORLD TRADE FOR ALL

Through the power of the Internet and technology, small businesses like never before are able to reach beyond a local consumer base and access global markets.

COMMERCE 3.0 is the term we have used to capture this development of online and offline worlds coming together, and the merging of local and global markets.

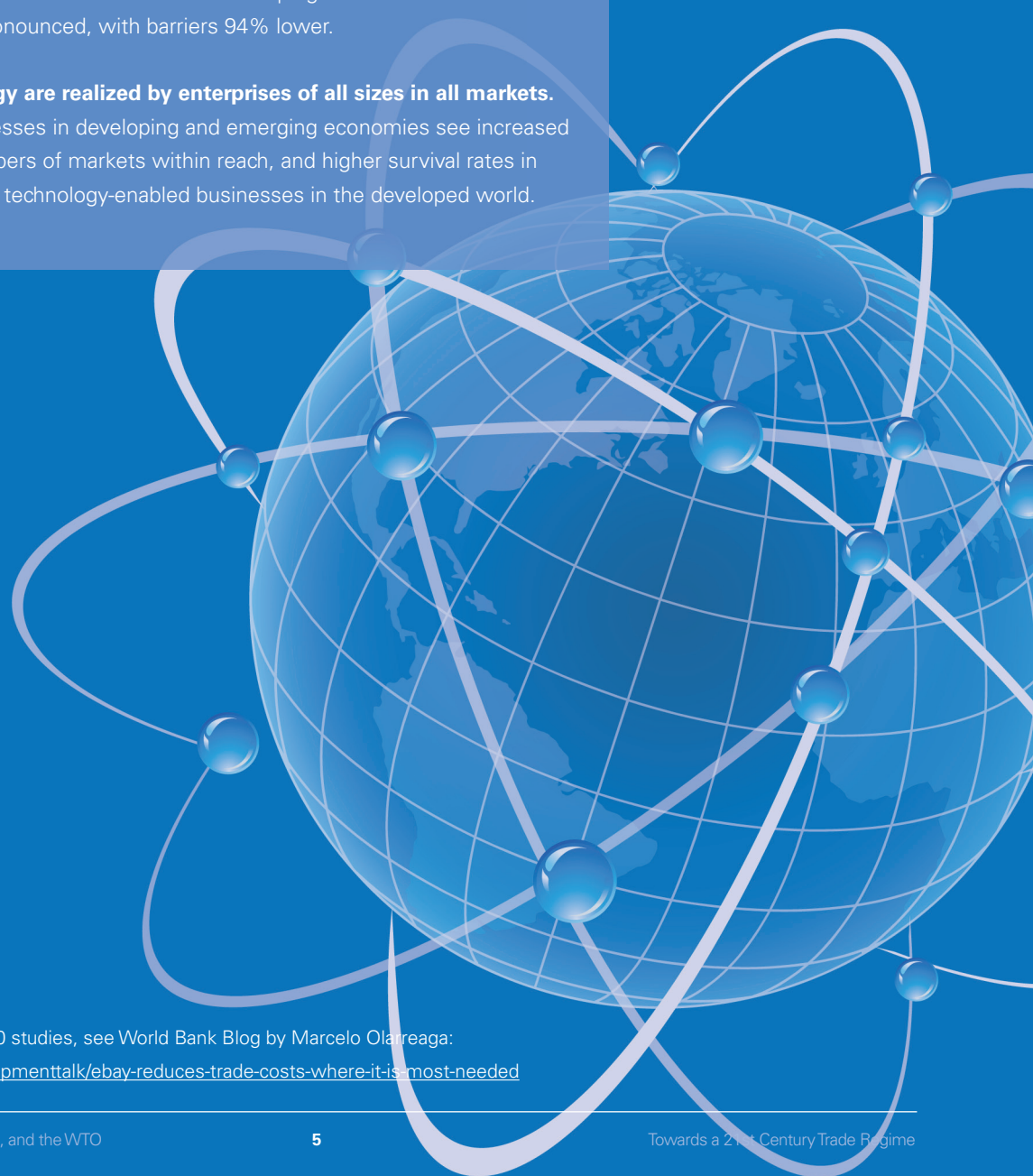
Commerce 3.0 represents the change taking place where international trade is no longer the privilege of the largest players or select countries.³

The technology-enabled global marketplace is flat.

Barriers to trading across distance are 83% lower for trade via such a marketplace, compared to traditional markets. In developing countries the effect is even more pronounced, with barriers 94% lower.

The benefits of technology are realized by enterprises of all sizes in all markets.

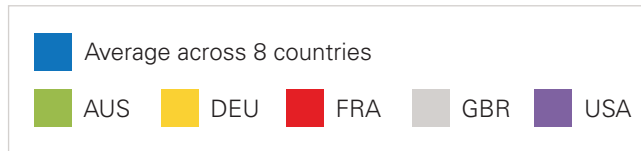
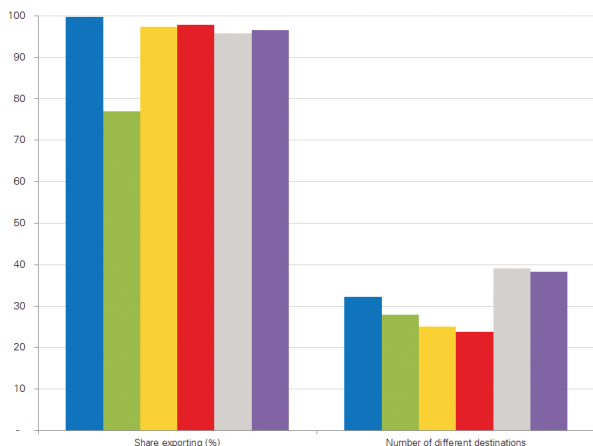
Technology-enabled businesses in developing and emerging economies see increased export rates, endless numbers of markets within reach, and higher survival rates in precisely the same way as technology-enabled businesses in the developed world.



³ In addition to our Commerce 3.0 studies, see World Bank Blog by Marcelo Olarreaga: <http://blogs.worldbank.org/developmenttalk/ebay-reduces-trade-costs-where-it-is-most-needed>

II. COMMERCE 3.0

The charts below illustrate findings from economic studies looking at sellers from different countries using the eBay Marketplace. It compares eight emerging and developing countries (Chile, Peru, Ukraine, Jordan, South Africa, India, Indonesia and Thailand⁴) with Australia, Germany, France, the UK and the US.

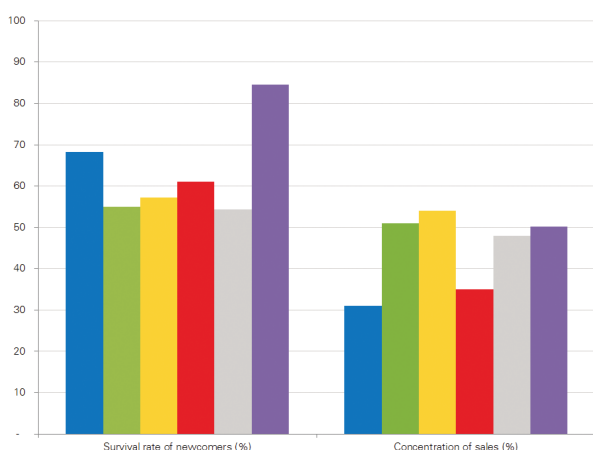


Share of sellers exporting

Almost all small businesses on eBay export, with Australia being the exception, and this stands in stark contrast to the situation for traditional firms. In India, for example, less than 15% of traditional businesses export.

Number of different destinations they reach

On average between 24 and 39 foreign markets are reached. For instance, South African sellers using eBay reach on average 30 markets, whereas traditional South African firms reach less than five.



Survival rate of newcomers

68% of newcomers in the eight selected markets remain active the second year, which can be compared with 30% for traditional Chilean businesses

Concentration of sales to the largest 5% of sellers

As a comparison, 91% of Peru's total traditional exports are conducted by the largest 5% of all exporters, and on eBay the equivalent figure is only 16%.

Commerce 3.0 is the idea that technology-enabled small businesses anywhere can maintain a local presence while providing goods and services on a global scale.

⁴The report "Commerce 3.0 for Development" carries out an economic and policy trade analysis of these eight countries, available here: <http://www.ebaymainstreet.com/news-events/commerce-30-development-promise-global-empowerment-network>

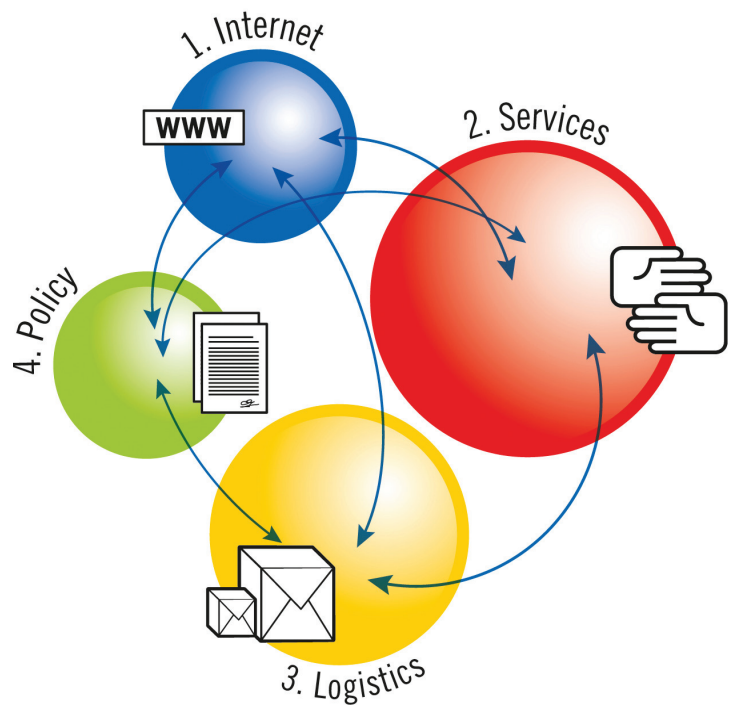
II. COMMERCE 3.0

A 2013 master's thesis⁵ from Lund University, Sweden, finds that online trade is supporting economic opportunities for small businesses, adding to entrepreneurial prospects, diversification of income sources and increased competitiveness in markets. The thesis provides support to the suggestion that online trade enables **GLOCALISM** whereby a local market presence (e.g. in sparsely populated or remote areas) can be sustained through access to global markets. This is important as a company's investment in a local community can spur local economic growth by way of creating jobs, safeguarding local supply, and incentivizing the development of new skills locally. Moreover, access to global markets enables business to offset fluctuations in sales during the off-season in their local, home market.

Commerce 3.0 is made possible through the emergence of a parallel model for trade where businesses of all sizes are able to trade directly with consumers around the world. This model can be referred to as the **GLOBAL EMPOWERMENT NETWORK**, and it runs alongside another internationalization model known-as "global value chains".

The Global Empowerment Network brings together a set of services and conditions that contribute to an emerging borderless system, which enables economic activity in new shapes and forms.

This system of building blocks is presenting an alternative model for small businesses to join the global economy: they can build a global presence on a set of digital services and solutions that can be tweaked to accommodate their needs and resources. These services and solutions need to be matched by the right legal and administrative conditions for full effect.



The Global Empowerment Network

THE FOUR KEY BUILDING BLOCKS OF THE GLOBAL EMPOWERMENT NETWORK

1. Connectivity at low cost and without gatekeepers
2. Innovative payment, marketing, translation, and marketplaces services
3. Moving products sold by many small traders around the world efficiently
4. Legal rules and administrative procedures for a world where small firms and consumers are part of global trade

Commerce 3.0 is a lense for observing developments in the trading landscape. The Global Empowerment Network is a framework for understanding them.

⁵ Summary available here: http://www.ebaymainstreet.com/sites/default/files/eBay-EU_Sustainability-Within-Online-Commerce_0.pdf

GLOBAL PRESENCE BY COMBINING TECHNOLOGY AND BUSINESS SKILLS



Ferit Göksen was born and raised in Kayseri, Turkey. He relocated to Istanbul to obtain his MBA from Marmara University, where he became interested in the world of international trade and development. In 2001, after obtaining his degree, he remained in Istanbul where he and his partner began selling different items on the eBay platform. In 2004, he combined his technology skills with his partner's traditional business skills and together they founded GSC Tekstil. "After a few years, we wanted to focus on a specific product. We noticed there was a market for yarn, and we decided to give it a try." Today, the business successfully utilizes the power and reach of the Internet marketplace to sell yarn products worldwide. Yarn Paradise has two websites – www.yarn-paradise.com and www.iceyarns.com - and also sells on ebay.com.

"We noticed there was a market for yarn, and we decided to give it a try."



Employees

The company employs between 15 and 20 people. "It's great to be able to give 20 different families in my community a job," explains Ferit.



Cross Border Trade

98% of the company's sales are outside of Turkey. While that was not the original intention, the Internet organically allowed Ferit to reach customers all over the world. About 35-36% of sales are to the United States and the rest are divided between European countries and Asia. "Yarn Paradise has sold to almost every country in the world including Norway, France, Germany, the UK, Denmark, Sweden, Canada, Australia, Malaysia, New Zealand, Thailand, Trinidad, Ecuador, Egypt, Haiti and many more. Sometimes I have never even heard of the country in my life, until I get ready to ship the product," says Ferit. Yarn Paradise uses companies like DHL and UPS to help with shipping and logistics. While most transactions are quick and seamless, there are some problems in countries where online commerce is still new, such as Eastern Europe. The biggest issue for Yarn Paradise is customs and customs duties. Buyers are often surprised by them and this creates a bad customer experience.

III. CONTOURS OF A NEW TRADE REGIME

“The multilateral trading system is in urgent need for update if it is to be relevant; if it is to stimulate innovation and development. WTO members face the common challenge of responding in timely manner to the new way business is conducted across the globe.”

Roberto Azevêdo Director-General WTO

A recent research paper by Lendle and Vézina (2013)⁶ applies the “balls-and-bins” economic model to international trade. Using data on transactions on the eBay Marketplace, they find that the distribution of export destinations across eBay traders is well approximated by the “balls-and-bins” model of frictionless trade, in contrast to that of traditional trade. This indicates that fixed costs to enter a market or enter into a buyer-seller relationship are lower on online marketplaces.

This research builds on previous research that identifies the characteristics of Commerce 3.0 and confirms the concept of the Global Empowerment Network.⁷

From a trade policy perspective, this research body raises two pertinent questions:

1. *What does it mean for trade policy formulation where the Internet and technology are capable of having effects similar to trade liberalization? Where they are capable of reducing export costs down to the variable part (e.g. shipping and contract enforcement)?*
2. *What does it mean for trade policy formulation where there is a significant degree of “randomness” to exporting? Where the number of markets a trader reaches is the result of action (ball-throwing) by customers/consumers?*

These questions show the challenges that the current trade regime runs into when faced with international, technology-enabled small exporters.

In Armenter & Koren’s (2010) “balls-and-bins” model, trade transactions can be thought of as balls that are randomly thrown into bins, and the width of bins is proportional to the size of the market. For eBay, one should intuitively think of buyers picking sellers randomly – the buyers are “throwing balls” at them.

(Lendle and Vézina, 2013)

“The fast pace of innovation is at odds with the outdated trade disciplines that still govern us.”

Roberto Azevêdo Director-General WTO

⁶ Andreas Lendle and Pierre-Louis Vézina, “Emerging market e-multinationals”, October 2013, available: http://pierrelouisvezina.weebly.com/uploads/2/3/4/2/2342194/eBay_degitt.pdf

⁷ Goldmanis et al, “E-commerce and the market structure of retail industries”, The Economic Journal (2010); Hortaçsu et al, “The geography of trade in online transactions: Evidence from eBay and MercadoLibre”, American Economic Journal (2009); Lendle, Olarreaga, Schropp and Vézina, “There goes gravity: How eBay reduces trade costs”, CEPR Discussion Paper No. 9094 (2012); Lendle et al, “eBay’s anatomy”, Economics Letters (2013).

III. CONTOURS OF A NEW TRADE REGIME

A 21st Century trade regime needs to:

Effectively leverage the strengths of technology and Internet services to lower both fixed and variable export costs.

Lendle and Vézina suggest that the eBay Marketplace is “akin to a technology lowering export costs.” The most effective solutions to addressing trade barriers will most likely be found in innovative combinations of law and technology. We will need new processes and mechanisms to ensure we identify these combinations.

Create conditions that help also micro and small businesses lower trade costs, notably variable export costs.

Lendle and Vézina also found that trade agreements have less of a positive effect on eBay-enabled trade compared to traditional trade. One could speculate that trade agreements fail to cater to the needs of small exporting firms, having been drawn up for a trading landscape dominated by large corporations.⁸

Recognise that consumers form part of the world trading system.

Finally, Lendle and Vézina found that fixed costs to exporting are lower on online marketplaces; the probability for Internet-enabled transactions to be made with a country depend to a larger extent on demand from that country. This should grant the consumer a prominent role in trade policy and it should encourage a review of today’s export support measures.

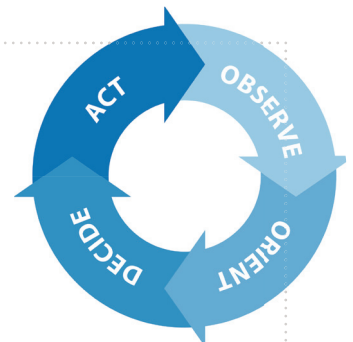
We need a model that helps us move towards a trade regime fit for the 21st Century trading landscape.

As a starter, we suggest that the “Boyd Loop” could be applied to trade policy formulation.⁹

The purpose is to introduce a process that shifts the focus from a set of issues, modes, classifications, and perhaps even disciplines, to the needs of new and different trade actors. We want to avoid bounded rationality and facilitate the search for novel solutions.

Employing the Boyd Loop means formulating and evaluating trade policy from the perspective of actors (businesses and consumers) at all stages of the **TRADE CYCLE** - as they Observe, Orient, Decide and Act according to market opportunities.

The Boyd Loop is a decision-making model, first developed for fighter pilots and now increasingly applied in other contexts. It consists of four stages in a cycle:



1. Gather inputs from the environment (**Observe**)
2. Make sense of this data by creating a model of the situational reality (**Orient**)
3. Use this new knowledge as the basis for decisions (**Decide**)
4. Translate this into action (**Act**)

The Trade Cycle is a model for formulating trade policy for an evolving trading landscape

⁸ One of the recommendations put forward by the report “Enabling Trade” (World Economic Forum, 2013) is to “[e]nsure that SME interests are represented in the policy prioritization process and that solutions are designed to address specific constraints that impact SMEs disproportionately”

⁹ We have in previous papers suggested the use of the “Boyd Loop” for policymaking, available here: <http://www.ebaymainstreet.com/news-events/how-should-industries-payments-be-regulated-21st-century> and here: <http://www.carre-strauss.com>

CONTOURS OF A 21ST CENTURY TRADE REGIME

LOOK AT TRADE THROUGH A COMMERCE 3.0 LENSE

What trade patterns evolve when the lines between online and offline blur?

What types of traders arise when local and global markets merge?

ANALYZE TRADE USING THE FRAMEWORK OF THE GLOBAL EMPOWERMENT NETWORK

Are the four building blocks in place and accessible?

Are they correctly balanced? What is missing?

FORMULATE AND EVALUATE POLICY WITH THE TRADE CYCLE MODEL

Assess whether categories of trade actors can properly oversee and navigate trade opportunities and challenges, based on which they can effectively act on trading decisions in a manner that fulfills their expectations. This is a continuous process that requires a fundamental understanding of the experience, resources and capabilities of the various trade actors.

When formulating and evaluating trade policy, allow these two questions to challenge you:

1. What does it mean for trade policy formulation where the Internet and technology are capable of having effects similar to trade liberalization? Where they are capable of reducing export costs down to the variable part (e.g. shipping and contract enforcement)?
2. What does it mean for trade policy formulation where there is a significant degree of “randomness” to exporting? Where the number of markets a trader reaches is the result of action (ball-throwing) by customers/consumers?

IV. TRADE FACILITATION FOR MICRO-MULTINATIONALS

“Trade facilitation, at its core, is about connecting countries — their farmers and businesses — to the global economy. And this is most important for small and medium-sized businesses that have the drive to succeed but lack the resources to manoeuvre through red tape. That’s why an action like making trade documents available on the internet is such a vital step — such a vital innovation.”

Michael Froman US Trade Representative

International Micro and Small Businesses (MSBs) have a different “trade profile” to large corporations traditionally engaged in exporting. Our research shows that technology-enabled MSBs export to several countries; they trade in several product categories; and their export pattern is generally infrequent.

It is therefore little surprise that MSBs face proportionately more trade barriers¹⁰. Their ability, capacity and resources to effectively Observe – Orient – Decide – Act are much more limited than the corporations traditionally engaged in world trade.

Swedish National Board of Trade describes the characteristics of firms using the Internet for trade as:

1. Small
2. Selling into a large number of markets simultaneously
3. Rarely established in the markets they sell into
4. Often shipping a large number of small consignments rather than single big ones

Report 2012:4 “E-Commerce: New Opportunities, New Barriers”

OBSERVE – ORIENT

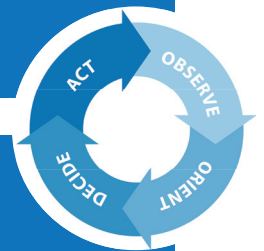
“small firms cannot easily absorb the cost of hiring personnel dedicated to navigating the market and regulatory requirements of export markets, whereas larger firms can do so. ...Those merchants that do choose to sell internationally typically limit sales to countries where the regulations are easiest to navigate.”

World Economic Forum, 2013 report

DECIDE – ACT

“SMES are also unable to realize the economies of scale associated with international shipping.”

World Economic Forum, 2013 report



Central concerns for MSBs include a lack of transparency about customs requirements in many countries, as well as complex border procedures. Another major concern for MSBs engaged in international trade is cross-border delivery services.¹¹

¹⁰ See World Economic Forum, 2013 report “Enabling Trade”, available: http://www3.weforum.org/docs/WEF_SCT_EnablingTrade_Report_2013.pdf

¹¹ See for example: ‘Making Global Trade Frictionless’, available: <http://www.ebaymainstreet.com/news-events/ebay-report-world-trade-organisation-making-global-trade-frictionless>; and the World Bank’s ‘Doing Business 2014’, available: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf>

WHAT THE EXPERTS SAID ON...

Customs and trade facilitation

The most important thing for all firms, but particularly for MSBs, is how much it costs to trade. The WTO Trade Facilitation Agreement is a first step towards reducing those costs through measures such as increased transparency, improved border agency cooperation, and the introduction of single windows for export / import requirements.

Low-hanging fruit includes greater uptake of the international work that has already been done to simplify and harmonize customs documents, as well as strengthening the dialogue between traders and officials to identify problem areas. A recent paper by the OECD finds that “the costs of putting in place and maintaining trade facilitation measures are not particularly large and are far smaller than the benefits gained from implementing these measures”¹².

Actions to address specific needs of small business – looking beyond the current Trade Facilitation Agreement – include adjusting Authorised Economic Operator (trusted trader) programs¹³, given that MSBs cannot be expected to fulfill the same requirements as large companies. Help desks could ensure more guidance and information reaches small firms, and consultation with the private sector before new policies are introduced could prevent the introduction of new burdensome requirements.

In developing countries, customs practitioners are often biased towards frequent traders, which MSBs inevitably tend not to be. Further introduction of ICT is also important, but cost remains a deterrent. The donor community may be able to help fill the gaps.

“Every hour that the entrepreneur spends filling out a particular document ... is an hour lost on building the business, an hour lost on talking to new customers, on refining the supply chain, on developing new products.”

Andrew Wilson Director ICC UK

¹² E. Moisé, “The costs and challenges of implementing trade facilitation measures”, OECD Trade Policy Paper No. 157, May 2013

¹³ National Board of Trade makes the following remark in their report 2013:4: “Recent improvements in trade logistics, such as ‘authorized economic operators’ and other trusted trader programs, also typically benefit large economic actors.” Likewise, World Economic Forum suggests in their 2013 report: “For example, one relatively straightforward policy [...] is to ensure that initiatives to reduce regulatory compliance such as trusted trader programmes are open to smaller firms.”

Postal and shipping services

In the internet age, it is necessary to fill the middle ground between (i) cheap, relatively slow, untracked postal services and (ii) fast, tracked but relatively expensive courier services. Merchants want access to affordable but also fast, and ideally tracked, services, which will deliver the product in a matter of days rather than weeks. Merchants and consumers want a service that is comparable to domestic services.

International cooperation to address the postal and shipping needs of smaller business is vital. Private solutions where companies partner with postal and delivery operators to develop services for specific trade corridors are trail blazers. For example, a partnership between eBay and DHL has enabled guaranteed two-week delivery from Europe to Russia, with all deliveries customs cleared in advance.

The postal network is a vital tool for Internet-enabled commerce, especially in the developing world. In poorer countries, post offices can be a force for digital and e-commerce inclusion, particularly for rural and remote communities; they can ensure that web platforms are in place to facilitate transactions; they can enable payment solutions such as cash on delivery. Throughout the world, the postal network has the capability to act as a physical link between small business and consumers.

The WTO Work Programme on Electronic Commerce could play an important role in ensuring the right level of services are in place by addressing themes like raising de minimis thresholds for customs relief (i.e. the monetary level below which an importer of physical goods is exempted from customs duty and paperwork requirements)¹⁴, standardization of label formats, and the interoperability of postal and shipping networks, including tracking across the networks.

“The digital economy has really opened up the world for SMEs, and SMEs are taking advantage of that opportunity. But shipping and logistics continues to be the single biggest pain point that they face.”

Chris Webster Commercial Director eBay Inc.

IDEAL OUTCOME FROM THE WTO WORK PROGRAMME ON E-COMMERCE

- The availability of cost-effective tracked international shipping in every WTO member
- Raised and harmonized de minimis level
- 100% electronic customs
- Public Application Programming Interfaces for both postal and customs systems
- International standardization of box sizes, label formats, tracking data, and terminology
- Investments in stable IT environments and in carriers' technology to read digital labels and barcodes
- Better balance between domestic and international prices
- Review of shipper of record and requirements for importer of record to fit aggregated shipments

¹⁴ This is a proposal made by several entities, including the Swedish National Board of Trade in their report 2013:4 (available: <http://www.kommers.se/publikationer/Rapporter/2013/Global-Value-Chains-and-the-Transatlantic-Trade-and-Investment-Partnership-/>); by the World Economic Forum in their 2013 report; and in a summary report by the OECD (available at <http://www.oecd.org/trade/tradedev/IBD2013Report.pdf>)

RECOMMENDATIONS

- ✓ Conclude the WTO Trade Facilitation Agreement by early 2014.

- ✓ Develop a post-Bali programme to ensure that Trade Facilitation commitments are implemented and to examine future work areas. These could include “trusted trader” programmes for small firms, uptake of standardized documentation, and the use of single windows.

- ✓ Mandate the WTO Work Programme on Electronic Commerce to develop and drive a trade agenda tackling the customs and postal challenges faced by small business.

THE EXPERTS

Milena Budimirović – World Customs Organization

Technical Officer, Procedures and Facilitation Sub-Directorate

Paul Donohoe – Universal Postal Union

E-Postal Services & E-Commerce Programme Manager

Evdokia Moisé – OECD

Senior Trade Policy Analyst, Development Division, Trade and Agriculture Directorate

Dr Mohammad Saeed – UNCTAD

Senior Technical Adviser on Trade and Transport Facilitation

Chris Webster – eBay Inc.

Commercial Director, International Commerce

Andrew Wilson – International Chamber of Commerce

Director of Policy UK

SPREADING CREATIVITY AND ARTISANSHIP AROUND THE WORLD



My mother has immaculate taste in jewelry and understands the traditional way of jewelry making very well. So, we thought why not try our hand at eBay?

Thanks to the Internet and new technology, at just 30 years old, Parul Arora has become a successful entrepreneur. Together with her mother, Usha, she runs an online jewelry boutique out of New Delhi, India.

“My mother has immaculate taste in jewelry and understands the traditional way of jewelry making very well. So, we thought why not try our hand at eBay?” They put their first few pieces of jewelry up for sale online and sold out in only a week. “We gradually started listing more items.” The business was so successful, when Parul finished school, she decided not to take a job and make the business her full time career. “After college when I refused a ‘real’ job for the online business I now run, I knew I was taking a big risk. All I had was an idea and a handful of experience, but there is not one day that I have regretted the decision.”

In the beginning **Indiatrend** would buy its jewelry from local artisans. “Our business has given these artists a steady income and in return they have given us the finest art of jewelry making India has to offer.” Recently, Indiatrend started offering their own line of handcrafted jewels, exclusively employing a local artisan for its production.



Employees

“We started with just two people and are now a strong team of nine.” While initially Parul and Usha worked from home, they now operate out of an office space.



Cross Border Trade

At first, Parul hesitated to sell to far away countries, but she kept getting inquiries from all over the world. Today, Indiatrend has sold to over 40 countries and shipped to places as far away as Poland, Finland, Japan, China, Russia, Israel, Kuwait, Macedonia, Turkey and many more. Its major export destinations are the US, UK and Canada.

“The Internet has been a blessing for people like me. I have been able to bring my creativity, along with the Indian art of jewel making and spread it around the world. It makes me immensely happy that someone in Germany loves their Indiatrend jewelry, which is affordable, genuine, handcrafted and customized to their needs.”

While Parul and Usha have a lot of repeat customers, new people keep pouring in from all corners of the globe. “You have people appreciating your work as far as Finland or somewhere in a village in Tamil Nadu, where there is no post office, but an Internet connection and a willing customer, who now wants to buy online.”

When Parul first started her business she experienced some traditional hurdles that come with cross border trade, such as shipping and customs issues. Yet as the e-commerce market has strengthened in India, both the government and the logistics providers have helped improve the environment in India through improved policies.

V. EMPOWERING GLOBAL CONSUMERS

This report has described the emergence of a new trading landscape – one where businesses irrespective of size and location can serve customers on a global basis. As much as this landscape is populated by “micro-multinationals”¹⁵, global consumers shape it.

Participating in the Second Plenary of the WTO Public Forum, Helen McCallum (Director-General of Consumers International) talked about the consumer benefits from innovative ways of trading. In general, open trade drives choice and competition, which in turn drive standards and quality. Where trade and technology meet, consumers are in the driving seat: technology enables people to use their personal power. Trade, manufacturers and retailers should respond to consumers, was part of her message.

“I would like to see the WTO engage in dialogue with the consumer perspective alongside the business perspective”

Helen McCallum Director-General of Consumers International

We believe that discussions about the appropriate trade policy responses to Internet-enabled trade must include the consumer perspective. More than traditional trade, Internet-enabled trade is demand driven. Policy for the new trade also needs to address demand barriers.

Helen McCallum noted that there is only a problem for consumers as a whole where there is a lack of transparency or a system failure, which prevents consumers from taking advantage of opportunities.

For example, a recent study by Consumers International¹⁶ revealed great variations in consumer protection across the world. There is a real risk that consumers feel comfortable transacting in their home market and from select but not all foreign markets, causing a discriminatory participation in the new and evolving trade. Ms. McCallum remarked that “technology enabled trade is speeding up the need to even up protection across the world”. This could take many forms, from harmonization to innovative use of technology for information and educational purposes.

The OECD and UN are currently updating their respective consumer protection guidelines to take account of online commerce. Consumers International and the OECD are contributing proposals that would, amongst other things, promote informed decision-making by consumers matched by educated businesses.¹⁷ “Innovative techniques made possible by global networks” should be used to educate both consumers and businesses.

The European Commission is taking a similar approach where information to traders and consumers on the opportunities, their rights and obligations when transacting across borders go hand-in-hand.¹⁸

The Commission is also exploring how a combination of policy and technology (e.g. “comparison tools”) can enable well-informed consumer choice.

Trade policy should ensure that consumers are confident “throwing their balls” also towards those “bins” situated far away.

¹⁵ See for instance: http://www.oecdobserver.org/news/fullstory.php/aid/4141/eBay_and_the_rise_of_the_micro-multinationals_.html

¹⁶ Available here: <http://consumersinternational.blogspot.co.uk/2013/03/lack-of-protection-for-consumers-in.html>

¹⁷ Consumers International, “Updating the United Nations’ Guidelines for Consumer Protection for the Digital Age”

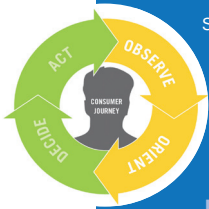
¹⁸ Commission Communication on building trust in the digital single market, COM(2011) 942 final.

V. EMPOWERING GLOBAL CONSUMERS

OBSERVE – ORIENT

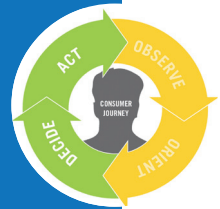
“New mobile technology, given the recent boom in sales of smartphones and tablets, can serve as a platform for “on-the-go” comparisons, allowing consumers to instantly access and compare information on prices, quality and product specifications when in a store.”

European Commission report from the multi-stakeholder dialogue (2013)



DECIDE – ACT

Only 29% of the 54 countries surveyed by Consumers International provide ways to resolve e-commerce disputes out of court.



WHAT THE EXPERTS SAID ON...

Empowering consumers to drive technology-enabled trade

- **Consumer rights are an important component of trade policy.** The WTO has a role to play, for instance, in (i) “leveling” up consumer protection standards internationally and (ii) cooperating with the International Trade Centre and UNCTAD with regard to consumer policy in developing countries.
- **Trust is key to consumer empowerment** in Internet-enabled commerce. This is true in all countries, but the challenges facing developed and emerging economies are more serious.
- **Keeping up with the digital economy**, and devising sound consumer protection frameworks to cater for developments in the digital economy, presents difficulties for political institutions. In both advanced and less developed economies, there is often a lack of technical knowledge and expertise within the relevant law-making bodies.
- **Online dispute resolution (ODR)** is vital to give the consumer confidence that problems will be dealt with if and when they arise. To assist developing economies with this, harmonized standards for cross-border ODR should be developed.
- **Customs issues** are important for consumers (particularly fees). It was recommended that the WTO look at raising *de minimis* thresholds for customs duties and charges. While this may not be a significant issue for large companies shipping goods in a container, but it is for small businesses and consumers.
- **Postal and shipping** are other important issues for consumers - in particular shipping costs and delivery times, as well as the ease of returns. This strengthens the message that cross-border delivery services should be a topic for the WTO.

“In online trade, if consumers don’t have confidence and trust to engage in markets, they are actually barriers to trade”

Richard Bates Consumer Futures

“[The] WTO decided to take up e-commerce as an agenda 15 years ago, and nothing has happened, and I think it should be taken up at Bali”

Pradeep Mehta Secretary General, CUTS International

V. EMPOWERING GLOBAL CONSUMERS

RECOMMENDATIONS

- ✓ Use the WTO Work Programme on Electronic Commerce as a platform to address barriers to trade arising from consumer trust concerns, particularly in developing countries.

- ✓ A global consumer rights system providing transparency about rights in different countries, and a standardized cross-border Online Dispute Resolution mechanism.

- ✓ Examine raising global de minimis thresholds for customs duties and charges.

OUR EXPERTS

Cécile Barayre-EI Shaml - UNCTAD

Programme Manager, E-Commerce and Law Reform

Richard Bates – Consumers International

Director, Consumer Empowerment

Julien Brugerolle – European Commission

Policy Officer, Directorate General for Health and Consumers

Andreas Lendle – Sidley Austin LLP

International Economist

Pradeep Mehta – CUTS International

Secretary General

Hanne Melin – eBay Inc.

Policy Strategy Counsel EMEA

VI. SHAPING A 21ST CENTURY TRADE REGIME

“We need to start thinking about trade in a completely new fashion.”

Alexander Stubb Minister Foreign Trade Finland

Internet-enabled commerce has created a new and important dimension to international trade. Micro and small businesses are trading directly with customers in markets all over the world. Global, empowered consumers are benefiting in terms of choice, price, standards and quality.

While ever-powerful combinations of the Internet and technology services are reducing trade costs and making the world flatter, some trade barriers remain and others arise that require policy to address.

Off the shelf policy responses will not do. The new actors in world trade have different and varying needs; business models, structures and behaviors change as new technologies and services are brought to market.

During the Plenary Session of the Public Forum, Michael Froman, US Trade Representative, asked whether trade negotiations can evolve quickly enough to facilitate or even drive international trade in view of innovation, technology and even the concept of trade changing so quickly.

This echoes Director-General Azevedo’s sobering remark that the Internet has rendered the trade disciplines of the WTO outdated.

Mira Burri of the World Trade Institute at University of Bern notes in a recent paper that “there has been a growing consensus ... that the umbrella of the WTO offers the most appropriate venue to create rules ... on critical aspects of digital trade¹⁹.”

This report has given trade policymakers three new tools for shaping a 21st Century trade regime:

1. **Commerce 3.0** is a lense for observing developments in the trading landscape.
2. **The Global Empowerment Network** is a framework for understanding developments.
3. **The Trade Policy Cycle** is a model for formulating policy for that evolving trading landscape.

This report also proposes that serious efforts to address the “urgent need for update” (to quote Director-General Azevedo) of the multilateral trading system, must include:

- Effectively leveraging the strengths of technology and Internet services to lower both fixed and variable export costs.
- Creating conditions that help also micro and small businesses lower trade costs, notably variable export costs.
- Recognizing that consumers form part of the world trading system.

¹⁹ Burri, “Should there be new multilateral rules for digital trade?,” 24 October 2013

“We ask Ministers [in Bali] to reiterate and give a strong mandate to the E-Commerce Work Programme ... that is ambitious in its goals and aspirations.”

Chris Webster Commercial Director, eBay Inc.

Based on the input gathered from our two workshops with trade facilitation and consumer experts, this report outlines four key recommendations that would move the WTO towards a 21st Century trade regime:

1. A trade facilitation agenda for small firms

Conclude the WTO Trade Facilitation Agreement (TFA) by early 2014 as a first step in addressing the logistical challenges faced by small traders. Establish a post-TFA agenda, to ensure that the agreement is effectively implemented and to identify additional measures that address the specific needs of small traders.

2. Update and intensify the Work Programme on Electronic Commerce

It is now fifteen years since the creation of the WTO Work Programme on Electronic Commerce. Unfortunately, the Work Programme has been relatively inactive for much of this time – despite the rapid growth and evolution of the digital economy that has occurred meanwhile.

Fifteen years on, this gap needs to be filled. WTO Members should give a revised and more ambitious mandate to the Work Programme – and intensify its activity – to include *inter alia* trade barriers to small businesses and consumers in Internet-enabled commerce.

A crucial element in addressing the needs of both small businesses and consumers is action to improve cross-border shipping and delivery services. This should be a key thematic area for an updated and expanded Work Programme.

3. A global consumer rights system

Practical and specific steps to address trust concerns that inhibit consumer participation in Internet-enabled trade should include:

- i. a consumer rights “Exchange Platform” giving individuals full transparency about rights and obligations in other countries, a mechanism that could let consumers rate and perhaps negotiate to improve conditions; and
- ii. a global and standardized Online Dispute Resolution procedure / mechanism linked to and complementing the “Exchange”

4. An initiative to raise global *de minimis* thresholds for customs duties and fees

Closely related to the trade facilitation agenda set out above, but sufficiently distinct to merit separate attention, is customs charges and fees, which can be a significant barrier to trade for both businesses and consumers that would otherwise sell and buy online.

While international *de minimis* levels need not be uniform (tariffs, for example, are not either) an initiative to raise global *de minimis* thresholds would give a significant stimulus to technology-enabled traders, and encourage more consumers to make online cross-border transactions.

CONTOURS OF A 21ST CENTURY TRADE REGIME

LOOK AT TRADE THROUGH A COMMERCE 3.0 LENSE

What trade patterns evolve when the lines between online and offline blur?
What types of traders arise when local and global markets merge?

ANALYZE TRADE USING THE FRAMEWORK OF THE GLOBAL EMPOWERMENT NETWORK

Are the four building blocks in place and accessible?
Are they correctly balanced? What is missing?

FORMULATE AND EVALUATE POLICY WITH THE TRADE CYCLE MODEL

Assess whether categories of trade actors can properly oversee and navigate trade opportunities and challenges, based on which they can effectively act on trading decisions in a manner that fulfills their expectations. This is a continuous process that requires a fundamental understanding of the experience, resources and capabilities of the various trade actors.

When formulating and evaluating trade policy, allow these two questions to challenge you:

1. What does it mean for trade policy formulation where the Internet and technology are capable of having effects similar to trade liberalization? Where they are capable of reducing export costs down to the variable part (e.g. shipping and contract enforcement)?
2. What does it mean for trade policy formulation where there is a significant degree of “randomness” to exporting? Where the number of markets a trader reaches is the result of action (ball-throwing) by customers/consumers?

