

# Facilitating Trade for SMEs' Growth in Cross-Border E-Commerce

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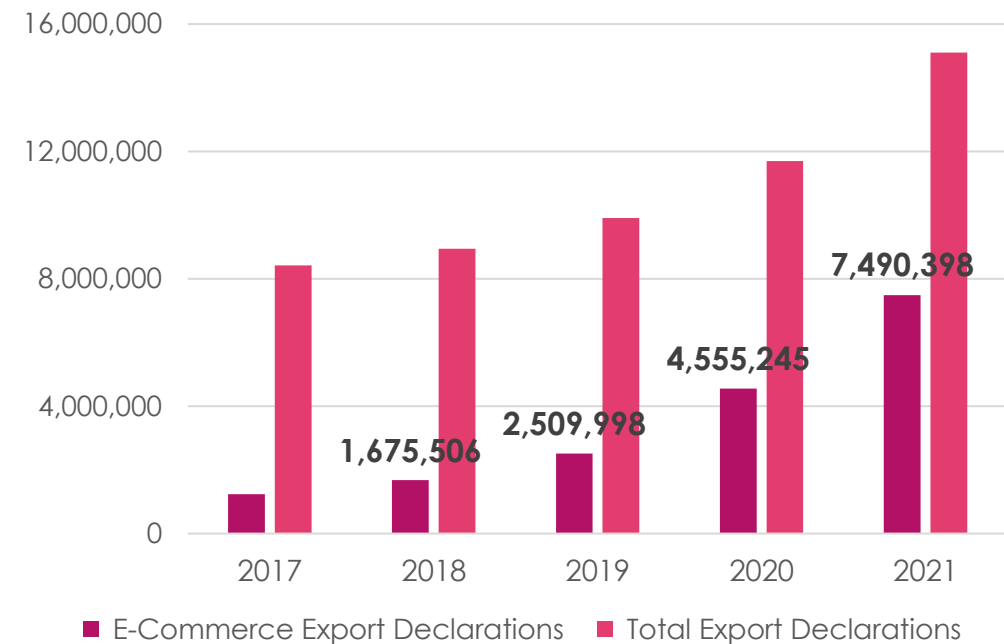
# Global Business Has Never been Easier for SMEs

- ▶ Online marketplaces such as Amazon, eBay, Qoo10 allowed small businesses to sell their goods to global consumers.
  - ▶ Digital technologies have reduced transaction costs to participate in the global supply chain and reach larger customer bases.
  - ▶ Being global does not require a physical presence in the target market and
  - ▶ Advances in cross-border E-Commerce have replaced the roles of intermediaries in traditional transactions, helping manage orders, payments, and logistics and increasing the productivity of global businesses.
- ▶ The global market becomes much more accessible than before for SMEs(Small and Medium-sized Enterprises)<sup>1)</sup>, as evidenced by SMEs accounting for 77% of Korea's E-Commerce exports in 2021. (Trade Statistics Service, 2022)

1) SMEs (Small and Medium sized Enterprises) are companies defined under several Korean laws including 'Enforcement Decree Of The Framework Act On Small And Medium Enterprises. (Presidential Decree No. 29552, Feb. 12, 2019)'. Article 3 of the Decree defines SMEs with two standards. First, average annual sales revenue of a company should be less than the standards described in the Decree, which differs by main types of business. Second, the company asset amount should not exceed 500 billion won (USD 387 M, as of December 20, 2022).

# It Has Never been Harder for Customs Administration

- ▶ Customs administration, however, encounter challenges, handling the sheer volume of e-commerce transactions.
- ▶ Export declarations filed for E-Commerce surged 4.5 times from 2018 to 2021, charging about 50% of the total.
- ▶ The declarations often include inaccurate and erroneous data, and
- ▶ E-Commerce exporters, mostly SMEs, do not have enough experience and knowledge to comply with customs laws and regulations.
- ▶ Customs authorities often lag in resources and risk failing to facilitate cross-border e-commerce.



Source : Trade Statistics Service (2022)

# Can Customs Facilitate SMEs' Cross-Border E-Commerce?

- ▶ To accommodate the growth of E-Commerce, Customs introduces new procedures and measures for 'risk management'
  - ▶ In the customs field, 'risks' include the potential for non-compliance with customs law and failure to facilitate international trade. (Widdowson, 2005)
- ▶ 'Risk management' deals with means
  - ▶ to reduce the risks through communication between related public agencies and stakeholders and
  - ▶ to increase organizational efficiency by risk-based regulation,
  - ▶ which enables resources to be directed to where risks are assessed to be higher. (Power, 2004)

# Measures for Facilitating Cross-Border E-Commerce

## ▶ *De minimis* Threshold

- ▶ Refers to 'the maximum customs value of goods below which goods can be processed through customs, duty-free, with minimal formal clearance procedure, and simplified declaration forms for import'. (Tavengerwei, 2018)
- ▶ Mostly deals simplification of procedures of the revenue collection in imports

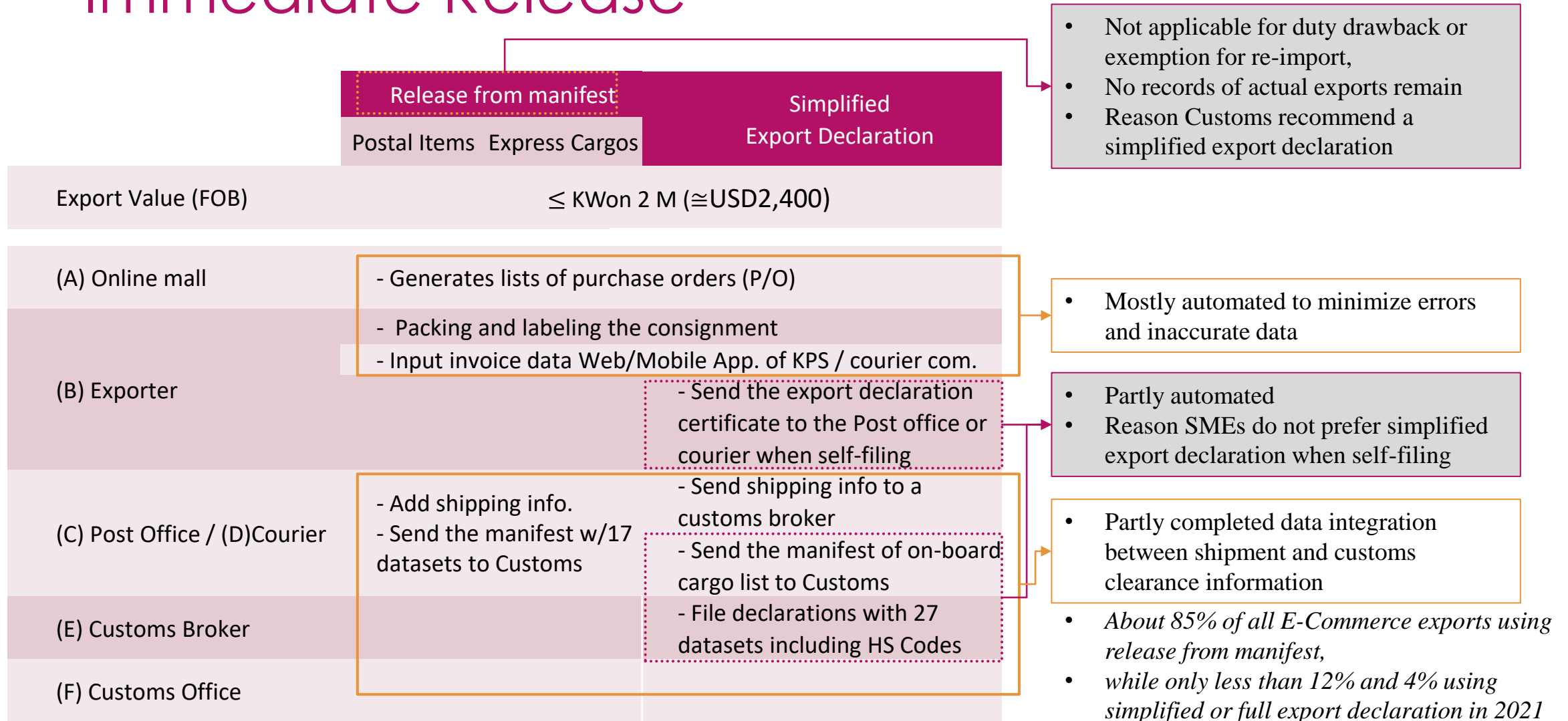
## ▶ Immediate Release

- ▶ Immediate release refers to a series of release procedures that can expedite customs clearance for multiple low-value shipments transported via courier or express mail service. (WCO, 2018)
- ▶ Deals with minimizing information required for import and export declaration, documentary examination and physical inspections for consignment assessed as having low risks.

The Korea Customs Service (KCS) introduced an 'immediate release procedure' in 2004 and recently reinforced it with detailed trade facilitation measures to support Korean E-Commerce exporters.



# Export Declaration Procedures for Immediate Release



# Reasons for Recommending SMEs to File an Export Declaration

- ▶ Despite various government support and measures for SMEs, SMEs commonly fail to scale their cross-border E-Commerce and survive as profitable businesses in the global market. (Rayport, 2022)
- ▶ SMEs' revenue from cross-border E-Commerce has been at insignificant levels for many years. As of 2021, Korean SMEs' export share through cross-border E-Commerce is only around 0.6%. (Kim, 2022)
- ▶ For scaling up cross-border E-Commerce and surviving as profitable businesses in the global market, SMEs need to have capability to file an export declaration and comply with customs rules and regulations.
  - ▶ 'Duty drawback' reduces costs, and 'Exemption for re-import' relieves the burden of refund or returns of goods
  - ▶ 'Actual export records' is a critical criterion for SMEs to be applicable for an export loan.
  - ▶ B2B e-commerce, which requires an export declaration, has a significant advantage in the global e-commerce market, inducing an economy of scale.

# Facilitation Trade for SMEs' Growth in Cross-Border E-Commerce – Opportunities for Cooperation

- Trade facilitation measures for cross-border E-Commerce should support SMEs to build voluntary compliance capacity with customs laws and rules.
- When considering the global nature of cross-border e-commerce, SMEs need to not only comply with domestic laws but also to have the ability to comply with the laws of the trading partner country.

## ► Risk-based Regulation

- Pre-arrival cargo data exchange
- Cooperate with couriers and postal service agency to automate full process of immediate release
- Harmonize programs of couriers and postal service agency with the WCO Data Model
- Add a function to report immediate release cargos to Single Window for postal items and courier cargos
- Enhance the scope of AEO(Authorized Economic Operator) to include couriers.

## ► Risk Communication

- Transparency - publicize rules and regulations in digestible manner about *de minimis* threshold and immediate release, customs clearance procedures, and licenses and permissions required for import and export
- Training and consultation for rules and regulations for import and export clearance