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Redesigning Canadian  
Trade Policies for  
New Global Realities



Edited by Stephen Tapp, Ari Van Assche and Robert Wolfe

## About this chapter

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*Redesigning Canadian Trade Policies for New Global Realities*, edited by Stephen Tapp, Ari Van Assche and Robert Wolfe, will be the sixth volume of *The Art of the State*. Thirty leading academics, government researchers, practitioners and stakeholders, from Canada and abroad, analyze how changes in global commerce, technology, and economic and geopolitical power are affecting Canada and its policy.

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## **Technology-Enabled Small Business Trade in Canada: New Evidence from eBay Marketplaces**

*Usman Ahmed and Hanne Melin*

**T**RADE AND GLOBALIZATION HAVE INCREASED JOBS AND WEALTH AROUND THE WORLD, but until now the primary participants and beneficiaries of the trading system have generally been large multinational companies. Small businesses wishing to participate in the global economy were often relegated to providing an intermediate product as part of a larger multinational supply chain. This “two-tier” model for trade is a natural consequence of the large up-front fixed costs and resources traditionally required for businesses to develop an international consumer base and to deliver products and services efficiently across borders.

But technology is transforming the face of global trade as a new parallel model is emerging. The key enabling factors are increased information flows, connectivity and trust to engage in online transactions. The most obvious development is the Internet and its potentially democratizing power, which provides instant access to over 3.3 billion people globally.<sup>1</sup> Online marketplaces allow businesses of all sizes to connect and trade directly with one another and with consumers around the world. Customer satisfaction ratings and reliable payment systems engender trust between traders. And efficient global logistics providers can deliver physical products directly to consumers, while providing low-cost, quick delivery featuring digital tracking services. In sum, these developments have rapidly increased the flow of information, lowered the costs of communicating, searching and entering new markets and, in so doing, are effectively shrinking the impact of distance on trade (Lendle et al. 2016).

Working with external economists, our team at eBay Inc. has spent several years studying this emerging trade paradigm. Our research has uncovered new traders that are significantly different from traditional ones. In this new system, businesses — typically, smaller firms that we call “technology-enabled small businesses” — can

maintain their local presence, while increasing their revenue by tapping into a global customer base, all without large physical operations or necessarily integrating into international production networks. In this chapter, we describe this ongoing shift in international trade by focusing on Canadian small businesses' exporting activities via eBay Marketplaces. We discuss the unique features of this type of trade and the challenges these entrepreneurs face, and we propose some policy responses.

Our research results suggest that technology-enabled small businesses in Canada can scale up quickly. They are more likely to export, and they export to far more countries than their offline counterparts. Moreover, these emerging trade patterns are more inclusive than is traditional trade: not only are there more new entrants, but market outcomes are less concentrated, with the top firms capturing less market share.

As technology allows businesses of all sizes to enjoy the benefits of trade, we see a particularly important role for policy to support small business traders in Canada. Technology-enabled small businesses face unique issues that must be better integrated in contemporary trade discussions in order to realize the full potential of these new trends. For example, customs processes were designed for a time when commercial trucks and massive shipping containers carried the products of large companies along well-established trade corridors. These regimes are not well suited to the burgeoning trade that features millions of small packages sent daily by hundreds of thousands of small businesses to idiosyncratic locations all over the world. Postal policy traditionally has sat outside trade policy discussions, but the experiences of technology-enabled small businesses suggest this topic needs to be brought inside the trade policy agenda. Financial services and payment systems also have a significant impact on businesses that engage frequently in cross-border financial flows. Finally, efficient trade depends crucially on consumer laws and international regulatory policies that allow customers and businesses to be confident in their rights and obligations when transacting across borders.

## **Results for Technology-Enabled Small Business Trade in Canada on eBay Marketplaces**

**F**OR OUR RESEARCH OF TECHNOLOGY-ENABLED SMALL BUSINESS TRADE IN CANADA, we used an anonymous dataset of eBay sellers based in this country.<sup>2</sup> The dataset covers the period between 2008 and 2013, and contains information on

sales, the number of transactions, destination countries, product categories and locations. We restricted the sample to sellers with annual sales of at least \$10,000. Although we do not have detailed information on these businesses — such as their operational structure, number of employees and so on — it is important to note that, for some firms, eBay is only one of several distribution channels; they might also use other marketplaces, operate their own website and/or maintain a physical store.

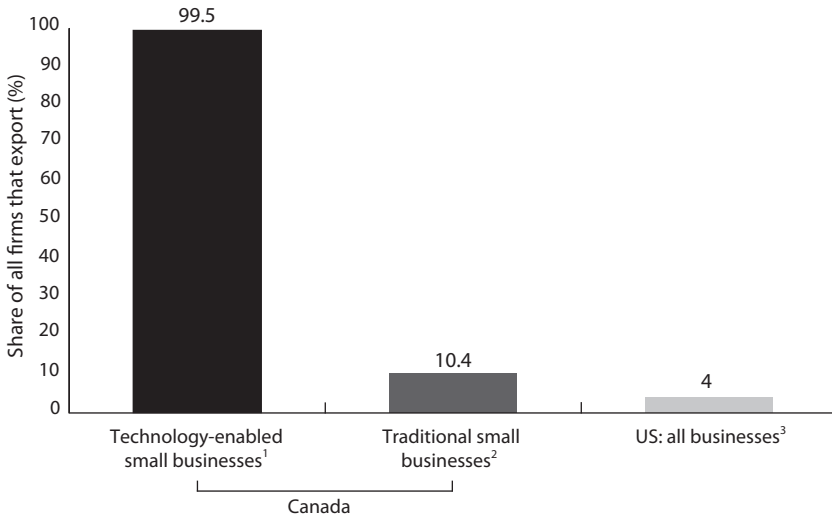
The sellers in our dataset are located across Canada, and their geographic distribution largely reflects the distribution of the country's population. These businesses sell a wide range of product categories on eBay, with the top export categories over the study period being auto parts, computers, clothing and accessories.

To facilitate comparisons, we also describe the export experiences of “traditional businesses.” We have drawn these results from several sources, including reports from Statistics Canada and Canadian government departmental research, based on data that are broadly similar to our eBay dataset. That said, what follows is not intended to provide perfect apples-to-apples comparisons. Rather, the traditional trade results represent a useful benchmark, or reference point, that allows us to better identify the key characteristics that distinguish technology-enabled trade. For a more comprehensive comparison of eBay trade versus offline trade for 62 countries, see Lendle et al. (2016).

### **Higher export propensities**

A widely established fact, shown across time and for various countries in the academic literature, is that most firms do not export.<sup>3</sup> Studies typically find that far less than half of firms are exporters. In many countries, less than 10 percent of firms export — for example, only about 4 percent of US firms do so, and similarly low numbers are found across Europe (Bernard et al. 2007; Eaton et al. 2011). Although Canada is a small, trade-dependent and relatively open economy, its results are not that different. Small and medium-sized enterprises (SMEs) make up the vast majority (99.8 percent) of businesses in Canada, yet an Industry Canada survey estimates that only 10 percent of SMEs in Canada exported in 2011 (Industry Canada 2013). Our data from eBay Marketplaces tell a much different story: they show that practically all of the technology-enabled small businesses exported (figure 1).

Figure 1

**Export propensity**

<sup>1</sup> Data for 2008-13; authors' calculations based on e-Bay data for sellers in Canada with annual sales of at least \$10,000.

<sup>2</sup> Data for 2011; Industry Canada (2013).

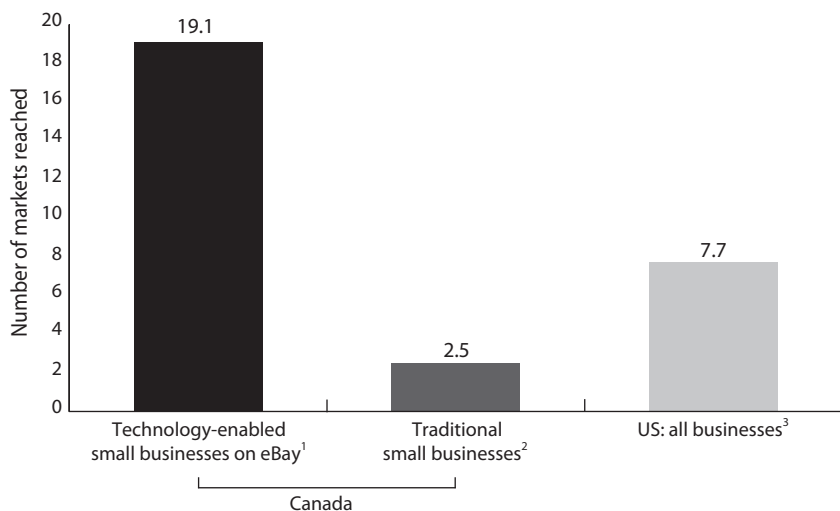
<sup>3</sup> Data for 2000; Bernard et al. (2007).

**More export markets**

Traditional exporters often reach only a few different countries. For instance, a wide-ranging survey by the World Bank of exporters in 45 countries for the 2006-08 period finds that traditional exporters reached only 2.8 different countries on average (Cebeci et al. 2012). Canada was not included in that survey, but the pattern is quite similar: Chen and Yu (2010) find that Canadian traditional exporters sold to only 2.5 different markets on average in 2006. Interestingly, even the group of larger traditional exporters in Canada — those with 200 or more employees — reached fewer than 8 markets on average.

In contrast, we find that technology-enabled small exporters in Canada on eBay reached an average of 19 different markets (figure 2). Even the smallest 10 percent among this group reached an average of 11 different markets, while the largest 10 percent sold to 38 different markets on average, with one business selling to no fewer than 133 different markets.

Figure 2

**Average number of export markets reached**

<sup>1</sup> Data for 2008-13; authors' calculations based on e-Bay data for sellers in Canada with annual sales of at least \$10,000.

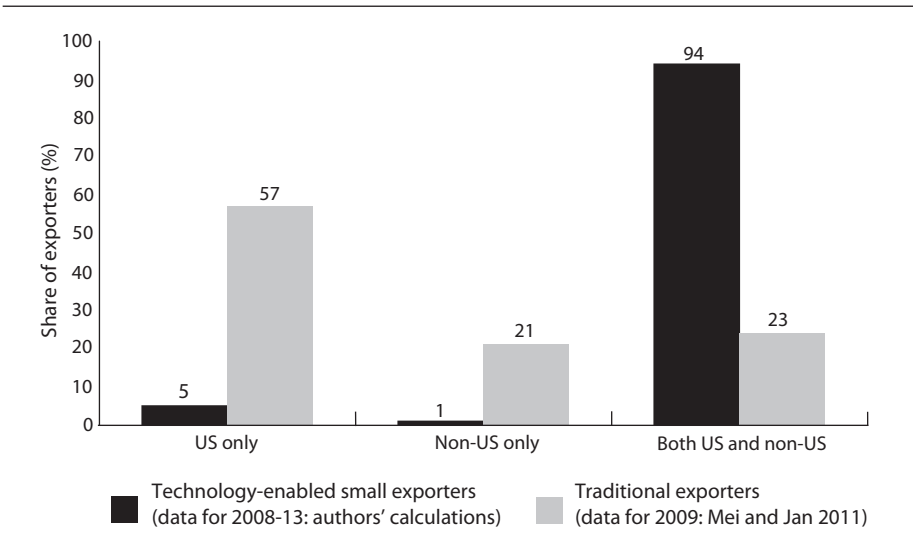
<sup>2</sup> Data for 2011; Industry Canada (2013).

<sup>3</sup> Data for 2000; Bernard et al. (2007).

In Canada, reflecting strong links to the US market, in 2009 most traditional exporters (57 percent) sold exclusively to the United States, 21 percent exported only to non-US markets and the remaining 23 percent exported to both the United States and elsewhere (Mei and Jan 2011). The fact that so few traditional exporters are able to reach beyond the United States shows just how difficult it has been for them to capture global markets beyond that of Canada's southern neighbour. Once again, the reach of technology-enabled exporters in Canada that use eBay Marketplaces is much more expansive (figure 3): only 5 percent of them sold exclusively to the US market, while 94 percent exported to both the United States and other countries.

With regard to export growth, although Canada avoided the worst of the 2008-09 global financial crisis, its exports generally have struggled since then, with overall exports in 2014 still 2 percent lower than in 2008 (Statistics Canada 2014). Over the same period, in contrast, exports of technology-enabled small businesses in our dataset grew by 14 percent. Importantly, this export growth

Figure 3  
**Destination share of exports**



was particularly pronounced to emerging markets — something that has been a major government policy objective as part of efforts to diversify Canada’s export mix. Specifically, we observed export growth to Africa of 146 percent, to South America of 125 percent and to the Asia-Pacific region of 66 percent.

**Less-concentrated markets**

International trade generally has been dominated by a small number of very large, well-established firms. World Bank data, for example, reveal that, in 45 countries considered, the largest 5 percent of exporters by value accounted for an average of 81 percent of total exports (Fernandes, Freund and Pierola 2016). For instance, in Canada, there were just over 41,200 goods-exporting enterprises in 2014.<sup>4</sup> However, just a handful — the top 10 exporters by value — accounted for almost one-quarter (24.8 percent) of the total value of goods exported, while the top 50 exporters generated more than half (54.5 percent).<sup>5</sup> Although there is certainly some turnover in these results over time — with some entry by new firms that grow to be large and some exit by firms that contract in size or disappear — it seems clear that the traditional global trade environment is particularly challenging for small firms.



Importantly, our analysis of the export activities of technology-enabled Canadian small businesses on eBay reveals that the technology-enabled marketplace is far less concentrated than is the traditional export market. The largest 3.3 percent of traditional exporters accounted for an astonishing 82 percent of all sales abroad, but the share of overall exports by the largest 3.3 percent of technology-enabled exporters was just 36 percent.

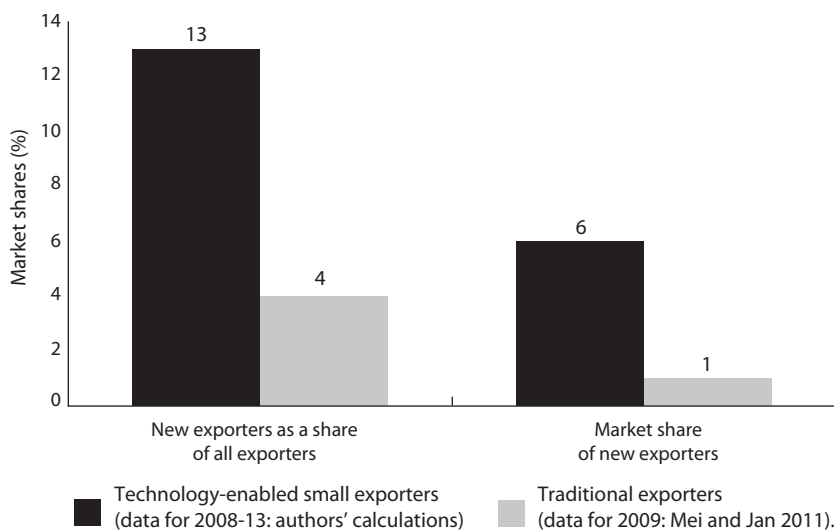
### Newcomers' higher market share

A related feature of traditional export markets is that “newcomers” — here defined as firms that did not export in the previous year — typically account for a minuscule share of overall exports. This is essentially the flip-side of the results we show above — namely, that most exports are by firms that are large and typically long-established exporters. Indeed, newcomers to traditional export markets generally account for less than 5 percent of exports by value.<sup>6</sup> In Canada, only around 4 percent of all exporters are newcomers, and their share of total exports is only around 1 percent (Mei and Jan 2011).

For technology-enabled Canadian small businesses, there are marked differences once again. In 2013, newcomers accounted for about 13 percent of the marketplace and for 6 percent of total exports after their first year (figure 4).

Figure 4

#### New exporters as a share of all exporters and of the market



These firms are also able to reach customers immediately in several different foreign markets. For example, 83 percent of newcomers sold to two or more markets in their first year of operation, whereas less than 10 percent of newcomers among traditional exporters reached more than one foreign market in their first year (Chen and Yu 2010).

## Policy Implications

CANADA'S TRADE POLICY TRADITIONALLY HAS FOCUSED ON SECURING POSITIVE OUTCOMES for its major export industries, such as energy, minerals and forestry products (Ai and Burt 2012). This was evident in the government's Global Commerce Strategy, launched in 2007, to support Canadian firms as they pursued opportunities in global markets (Canada 2009). This strategy described the importance of the energy and metal sectors to the Canadian economy, as well as foreign direct investment and global value chains, but it had little to say on small businesses in global trade. Encouragingly, Canada's Global Markets Action Plan of 2013 included the objective of assisting SMEs "in successfully making the leap to exporting," and specifically highlighted the goal of expanding their footprint in emerging markets (Canada 2013). Thus far, the new government that took power in 2015 has not yet announced any major adjustments to this overall strategy, but the public mandate letter from Prime Minister Justin Trudeau to Minister of International Trade Chrystia Freeland included the objective of developing a new Canadian trade and export strategy. We note, however, that, so far, these strategic documents have failed to emphasize how technology can enhance the ability of SMEs to engage in global markets; neither do they speak to the unique nature of, and barriers against, technology-enabled SMEs. The United States International Trade Commission recently recognized the role of technology-enabled SMEs by dedicating a significant portion of part 2 of its *Digital Trade* report to the role of SMEs in digital trade (2014); Canada could look to this report as an example.

The Internet and technology-based services are important enablers of SME exporting, and many Canadian firms are using technology to expand their operations into multiple foreign markets. More generally, technology can help break the dominance of large companies in exporting and make far-away markets more attractive destinations. Indeed, Lendle and Vezina (2013, 2) suggest that technology-enabled trade has "similar effects as trade liberalization" and that "the eBay platform can be seen as an example to overcome traditional trade barriers, most likely

related to destination-specific fixed costs.” Research from the World Economic Forum finds that using technology platforms can reduce the costs that small businesses face when selling overseas, and increase cross-border small business sales by 60 to 80 percent (World Economic Forum 2013). Lendle and Vezina (2013) also conclude that, although technology — in the form found, for instance on eBay Marketplaces — can reduce certain trade barriers, others barriers will remain and new ones will arise due to the different characteristics of technology-enabled trade. Among these barriers, the Swedish National Board of Trade (2012) cites lack of information about, and differences in, customer and sales laws and taxation, among others. For instance, technology-enabled exporters are generally quite small, often falling on the very low end of the typical definitions of an SME.<sup>7</sup> Second, as we reported above, these firms export to a large number of different markets. International sales are often a key part of a firm’s business plan, but specific export destinations are not always specified and many markets are entered into as a result of the customer’s finding the firm, rather than the other way around (Lendle and Vezina 2013). Third, this type of exporting does not entail setting up physical establishments in foreign markets. Firms and consumers enter into and conclude their transactions over the Internet. Fourth, as we also noted above, the share of newcomers is substantial among technology-enabled exporters. By definition, these firms are new to exporting and lack experience. Fifth, these shipments tend to be infrequent and to varying destinations, in contrast to more regular shipment patterns to predetermined countries in traditional trade.

These particular trade characteristics raise different trade policy implications. For a start, the current policy focus on facilitating trade by signing bilateral and regional free trade agreements (FTAs) does little to support small businesses that wish to leverage technology for exporting. Other approaches are needed. Since 2006, Canada has implemented new FTAs with 10 countries, and has recently concluded two mega-deals — the Comprehensive Economic and Trade Agreement (CETA) with the European Union and the Trans-Pacific Partnership — that, if implemented, will add 35 more countries to Canada’s free trade relationships. Research indicates, however, that FTAs are more helpful for offline than online trade (Lendle et al. 2016). Trade by Canadian SMEs is not particularly strong: in 2014, SMEs made up almost 97 percent of Canadian goods exporters, but they were responsible for only 26 percent of the total value of exports.<sup>8</sup> The 2013 Global Markets Action Plan reports that only 41,000 of the almost 1.1 million SMEs operating in Canada were exporters. This suggests that

Canada's trade strategy needs to acknowledge and address the issues SMEs face in their pursuit of global markets.

As a more general point, global trade by SMEs carries tremendous positive economic, social and political potential. From an economic perspective, firms that trade perform better: one study finds that SMEs that trade internationally are twice as likely to outperform in their market as those that do business only domestically (DHL 2013). As well, exporters usually pay higher wages than do their non-exporting competitors (OECD 2012). From a social perspective, smaller businesses that traditionally have been left out of the benefits of globalization can now be brought into the global system, creating a more inclusive marketplace. Not to be overlooked, consumers can benefit from the processes of globalization. Finally, from a political perspective, Canada and other countries are often criticized that making trade deals harms local businesses, particularly small firms. The rise of technology-enabled small exporters could help to counter some of this criticism (Blanchfield 2014), and help mobilize the SME sector — which traditionally has been more averse to free trade deals — to become a stronger supporter of trade liberalization.

## **Policy Proposals**

**W**E BELIEVE THERE IS A GREAT DEAL OF ROOM FOR GROWTH IN THE TECHNOLOGY-enabled trade sector in Canada, and a prominent role for trade policy to complement technology's "trade liberalization" effect, particularly for small businesses.

In 2012, the House of Commons Standing Committee on Industry, Science and Technology released a report on the state of electronic commerce in Canada (House of Commons 2012). That report's survey of SMEs found that, although nearly 90 percent of such firms used the Internet, only 18 percent reported making online sales. It also highlighted access to finance and the cost of implementing an e-commerce platform as obstacles Canadian SMEs face in taking their business online. That House of Commons report focused almost exclusively, however, on Canadian businesses that use the Internet to sell products and services to Canadian consumers. There is a much larger global marketplace, and Canadian companies would benefit from expanding their reach abroad. Not surprisingly, given the nature of fixed trade costs, the World Economic Forum finds that SMEs "face proportionately more barriers"

when they attempt to build international operations (World Economic Forum 2013). Technology-enabled small businesses selling abroad do indeed face unique issues. But these are not insurmountable, and are better viewed as an opportunity to maximize the economic, social and political potential of global trade.

The design of better policies to leverage technology-enabled trade begins with acknowledgement that this type of trade is occurring, that continuing to grow this trade would benefit the overall economy and that trade policy has a role to play to support growth in this sector. We think specific measures are required in several policy areas, and we propose prioritizing reforms in four key areas: customs, postal, financial services and regulatory policies.

### **Customs policy**

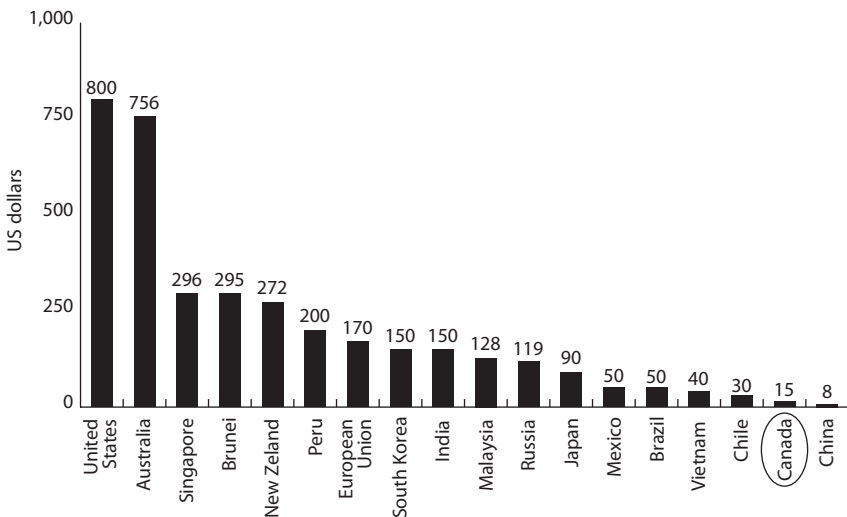
People often assume that the e-commerce chapters increasingly found in twenty-first-century trade deals address all the issues e-commerce businesses face. In reality, many of the highest barriers technology-enabled businesses face fall outside the e-commerce chapter. Instead, such exporters regularly report delays in customs as their most significant barrier to trade (eBay, 2013). Consider that the Internet is an interconnected global network of computers wherein any computer can communicate with any other computer regardless of its location as long as it uses the same standard protocols. The services that exist on top of the Internet all use the same web protocols so that they can communicate with users over the World Wide Web. By contrast, customs systems were designed individually by national governments in a fragmented, not a borderless, international system. Such systems tend to require divergent data sources and cannot communicate with systems in other countries. The result is that technology-enabled exporters can often deliver their information to customers around the world seamlessly, but sometimes they cannot deliver their physical products, or only at great cost.

#### ***Recommendation: Raise customs import duty exemption thresholds***

One obvious policy that would help facilitate cross-border exporting by technology-enabled SMEs is to raise customs import duty exemption thresholds, not only in Canada, but around the world; some countries are already moving in this direction. Any international commercial transaction can be subject to an import duty, but many countries waive these taxes for small shipments that fall below a certain value, called the low-value threshold (LVT).

The thresholds that determine whether a transaction is small enough to be exempt vary significantly across countries (figure 5). For example, Australia applies a fairly high LVT of AU\$1,000. In 2016, the United States — a major market for Canadian technology-enabled businesses — raised its threshold significantly from US\$200 to \$800; above this value, applicable import duties may be charged in addition to a handling charge of US\$5.50. On the other hand, Canada applies a very low LVT of C\$20, which has remained unchanged in nominal terms since 1985. Any shipment valued above \$20 is subject to import duties and a handling fee of \$9.95 applied by Canada Post. Other jurisdictions, including the European Union, also apply relatively modest LVTs. This matters when trading lower-value products in Canada and in these other countries, because taxes and handling fees can represent a significant percentage of the final delivered cost, and quickly deter international trade of these items. Moreover, the administrative costs of collecting taxes on small shipments can also be high — it might easily cost customs authorities more to assess a single shipment than it collects in duty revenue. In 2013, when the US threshold was US\$200, a Senate committee report recommended analysing the costs and benefits of increasing Canada’s threshold for low-value shipments, suggesting that

Figure 5  
**De Minimis values of selected countries, 2016**



Source: Global Express Association (2016).

this move could narrow price discrepancies for certain goods between Canada and the United States (Senate 2013). Mallett's commentary (in this volume) similarly recommends that Canada waive customs duties on small-valued shipments. Indeed, the Asia-Pacific Economic Cooperation (APEC) forum has found that higher LVTs can reduce the time, cost and uncertainty of moving goods across borders (APEC 2011). Recent model estimates suggest that raising Canada's LVT would benefit Canadian consumers and business — particularly SMEs — and would essentially be fiscally neutral for the government of Canada, depending on how the cost savings are deployed (McDaniel et al. 2016).

Finally, not only are Canadian technology-enabled SME traders negatively affected by low thresholds in their destination markets; less obvious, the low Canadian LVT can be a barrier for Canadian traders who want to offer international customers the ability to return a good — an essential requirement by customers in the modern marketplace — but who report forgoing returns to avoid high import duties and fees.

The recent Trade Facilitation Agreement of the World Trade Organization (WTO) includes language on expedited shipments that encourages member states to set *de minimis* shipment values,<sup>9</sup> and an APEC pathfinder initiative on supply chain connectivity created consensus among several economies to implement a *de minimis* of at least \$100 for express and postal shipments (APEC 2011). We note that Canada's FTAs generally do not include language related to *de minimis*, but the growth of technology-enabled small business trade ought to shift the calculus on the need for Canada to include such provisions in its trade negotiations.

### ***Recommendation: Integrate SMEs into trusted trade programs***

Exports by small traders could be further facilitated by better integrating SMEs into trusted trader or Authorized Economic Operator (AEO) programs. These are collaborative programs where the private sector shares in the security responsibilities of customs in return for trade facilitation benefits, such as faster processing of goods by customs officials due to a lower rate of physical examinations. Canada's Partners in Protection program is a trusted trader program covering exporting and importing and, following its modernization in 2008, it is compliant with the standards of the requirements for trusted traders of the World Customs Organization (WCO).

The WCO notes that the position of SMEs in trusted trader programs "has been recognized as a special case" (2010, 5). It points to the challenges of reaching

and educating SMEs about these programs and the cost impact of security investments as “unquestionably” proportionately greater on SMEs than on larger companies. Accordingly, when the WCO gathered in 2014 for its second global AEO conference to engage stakeholders, a key topic was ensuring the participation of SMEs. Although there was agreement on giving more attention to SMEs, the solutions discussed remained education and information about trusted trader programs and providing adequate assistance to SMEs entering the validation process — in fact, the Trade Facilitation Agreement bars countries, to the extent possible, from restricting the participation of SMEs in trusted trader programs (WTO 2013) — but such language does not create specific measures to help SMEs take advantage of these programs.

We have not found details on how Canada’s Partners in Protection program encourages the participation of SMEs. However, a 2011 evaluation of the program remarks that its members “represent only a small proportion of companies involved in cross-border trade,” and concludes that “there is scope to considerably expand program reach” (Canada Border Services Agency 2011, 3, 20). Plans to improve these types of programs include simplifying applications through automation and streamlining processes; a web portal to simplify program application, administration and information exchange; and consulting more with the private sector on their use and needs (WCO 2014). We certainly believe that new thinking is needed on how to design trusted trader programs to be more relevant for technology-enabled trade between SMEs and consumers. This requires going beyond proposals on information, education and assistance. It demands more fundamental inquiries into how to expand customs-business partnerships to secure and facilitate global, technology-enabled small business trade.

A key element is revisiting customs risk assessment. A 2014 summary report by the Organisation for Economic Co-operation and Development on better regulation to enhance trade (2014a) suggests taking a more risk-based approach and leveraging data sharing. As we have described, technology-enabled trade is often undertaken by small firms with little exporting experience and without foreign establishments, irregularly dispatching many small shipments to a large number of destinations. Customs risk assessments should be updated to reflect these new trading realities and not necessarily presume that such activity is higher risk. In fact, the very digital environment in which technology-enabled small businesses operate provides an opportunity for better customs risk assessment and management. Valuable information not readily available for traditional



trade — such as feedback scores, ratings and performance as measured by intermediaries and platforms — could be used to inform a firm's trusted trader status.

Changes in the scope of trusted trader programs, however, should be developed with Canada's bilateral trading partners, and within international organizations such as the WCO and the WTO. The real benefits of trusted trader programs are ultimately reaped when countries conclude Mutual Recognition Agreements (MRAs), which the WCO strongly urges and which are generally premised on the operational compatibility of various programs (WCO 2014). Under such an agreement, being a recognized trusted trader by one country's customs administration would allow that firm to be recognized by other parties to the agreement, with mutually recognized and reciprocal benefits.

Indeed, the ultimate goal of the WCO is a global system of mutual recognition. Although this is obviously a long-term endeavour, the benefit of such a system is clear for any firm, but particularly for technology-enabled SMEs that have different trade patterns. Canada could take the lead in such a process, working with and through the OECD, the WCO and the WTO.

In parallel, and in the context of pursuing a closer trade relationships under CETA, Canada and the European Union should explore these trusted trader procedures as part of the customs cooperation agreement that entered into force between the two parties in November 2013.

Finally, Canada should continue pushing for Internet-based publication obligations in FTAs — as, for example, in the trade agreement with Peru — which would ensure that Canadian firms can read and understand foreign customs policies, LVTs and administrative fees.<sup>10</sup> Technology-enabled SMEs do not have the trade expertise of traditional businesses, and any efforts governments can make to simplify the process would greatly benefit them.

### **Postal policy**

Postal policy traditionally has sat outside the purview of trade policy. Technology-enabled traders, however, regularly use postal services to export their products, with potential implications for the Canadian postal industry. Canada Post reported an operating loss of \$193 million in 2013, and a 30 percent drop in the volume of mail (CBC 2014). The Conference Board of Canada estimates that the Crown corporation will have lost \$1 billion by 2020 as a result of falling mail volumes (Gill, Hoganson and Stewart-Patterson 2013). There is, however, some positive news

for Canada Post: a 7 percent annual increase in 2013 in the amount of parcels delivered (CBC 2013). This parcel delivery segment is where technology-enabled traders sit. The Conference Board highlights the shift in communications from physical to digital as a major detriment to the growth of the postal service. But technology is also driving the rise in parcel shipments, which could be a boon for the ailing postal system. Since many of the technology-enabled shipments going through the postal system are exports, trade policy could play a role in facilitating cross-border parcel delivery.

The Conference Board's report highlights how other countries' postal services are seeing gains by aggressively investing in their sector. The most innovative and successful investments are multinational postal partnerships that harmonize data elements across postal services, enable terminals to operate in foreign markets and offer end-to-end tracking services (Gill, Hoganson and Stewart-Patterson 2013). These are all multinational arrangements where trade policy should play a significant role.

Postal policy, in fact, is not a new trade area. The 1999 FTA between Europe and South Africa includes important language on postal policy: Article 56 promotes cooperation on postal services through the exchange of information on regulatory and policy decisions, cooperation on technical assistance promotion and implementation of joint projects (European Community and South Africa 1999). This provision recognizes that policy, regulation and technology all have a role to play in creating a more efficient multinational postal regime. The global postal system is going to become more important to global trade as technology-enabled trade continues to grow. Institutions such as the Universal Postal Union are trying to improve cross-national postal policies. But trade policy can also play a role in promoting increased harmonization and simplification of postal practices. Focusing on improving the system to facilitate the movement of parcel shipments through domestic policy-making and trade agreements would benefit Canadian technology-enabled traders.

### **Financial services policy**

Reliable and trusted means of payment are key parts of any commercial transaction, and even more so for technology-enabled trade, which can occur without face-to-face contact and across international borders. Consumers will not engage in these transactions if they do not feel that their financial information will be kept

secure and that payment can be delivered in a secure manner. The WTO's General Agreement on Trade in Services (GATS) covers electronic payments, but the commitments in the GATS do not address some of the new competition, security and regulatory issues affecting the payments landscape.

Canada is a world leader in electronic payments, but there is room for growth. The Canadian Task Force for the Payments System Review (2012) predicts that a shift towards electronic invoicing and payments, and a resulting drop in the use of cheques, would lead to direct annual savings of between \$7 and 8 billion by 2020. Canadians are still major users of cheques, with more than a billion written annually. Large corporate enterprises, SMEs and governments account for almost 60 percent of the total volume (Task Force for the Payments System Review 2012).

The task force recommends replacing obsolete payments regulation with new regulation that supports the growth of digital payments, and suggests six principles for future of payments policy: 1) open and inclusive; 2) standards based; 3) safe and secure; 4) responsive to consumer and merchant needs; 5) focused; and 6) sustainable. These central tenants should be adopted in any payments policy going forward, with the addition of one other important principle: *technological neutrality*. New innovations in technology are enabling payments to be conducted in unique ways. Policy should not stem such activity; instead, it should seek to treat equally different actors in the ecosystem, regardless of the technology used.

The success of electronic payments in card form in Canada has been slow to translate into the new online and mobile payment mechanisms. A Canadian Chamber of Commerce survey of small businesses that use technology to engage in commerce revealed that, although 96 percent of Canadian companies had a website for business purposes, only 27 percent were able to accept online payments (Canadian Chamber of Commerce 2010). According to a 2014 Bank of Canada study, "e-money" products are not broadly used, and most of the competition with cash still comes in the form of debit and credit cards (Fung, Molico and Stuber 2014).

The federal Department of Finance and the government as a whole are looking into electronic and online payments policy. Significant benefits, in terms of security, efficiency and traceability, would accrue from increased merchant acceptance of online payment methods. Jim Flaherty, as finance minister, recognized this, stating, "More and more, Canadians want innovative payment tools

that are in step with the latest technologies, are fast and efficient, and stand up to the highest standards of safety and soundness” (Department of Finance Canada 2012). A risk-based regulatory approach that takes into account performance would be better able to achieve the important goals behind financial services regulation (PayPal 2013).

### **Regulatory policy**

A 2012 OECD survey found that increased trade flows and reduced costs of economic activity are the two most important potential benefits of enhanced international regulatory cooperation (OECD 2013). Such cooperation also has associated societal benefits, such as supporting joint research and promoting solidarity across countries.

Technology-enabled trade is significantly reducing the extent to which distance limits trade. In a study covering 62 countries, Lendle et al. (2016) estimate that the negative effect of distance on cross-border trade is 65 percent lower on eBay Marketplaces than in offline trade. One reason is that the fixed costs of exporting can be significantly lower for technology-enabled trade. Lendle and Vezina (2013) suggest that, although traders make substantial investments and efforts to reach and serve customers in specifically targeted countries (or consciously decide not to serve certain countries), the destination of their exports is also determined by the activity of consumers.<sup>11</sup> In this way, through active consumer choices made possible by the global visibility that online marketplaces afford traders, Canadian firms on eBay can find themselves serving customers in as many as 133 different countries.

Online trade involves more countries — including less frequently trading country pairs — and therefore demands new forms of international regulatory cooperation. The OECD suggests that modern regulatory cooperation should be about finding flexible options to manage cross-border interactions, rather than fixating on the complete harmonization of regulation across countries (OECD 2013). We agree, and argue for a multipronged approach to regulatory cooperation with formal structures that are leveraged to find flexible solutions.

Canada has taken a proactive approach in this area. The Treasury Board’s 2007 Guidelines on International Regulatory Obligations and Co-operation promote developing compatible approaches with international counterparts and

thinking strategically about how international regulatory cooperation can help achieve regulatory outcomes. In 2011, Canada and the United States created an umbrella mechanism in the Regulatory Cooperation Council, whose mandate includes a working group on taking better account of the needs of small businesses when developing regulations, and finding ways to minimize regulatory burdens and achieve greater alignment. (On other forms of international regulatory cooperation, see Hoekman, and Wolfe, in this volume.)

Consumer policy is an area well suited for flexible international regulatory cooperation, which, in the context of technology-enabled trade, would promote societal as well as economic and administrative benefits. Addressing divergences in consumer protection laws would reduce complexity and costs for firms, while strengthening consumers' trust and willingness to engage in cross-border transactions.

The OECD (2014) describes one approach that we suggest should be tried. The idea is that a non-national consumer rights and sales law would be available as an option for businesses and consumers transacting internationally. Such a law would avoid the need to fully harmonize laws internationally; instead, it would offer an alternative in cross-border situations when the parties involved agree that it will apply. The law would make it less complex for Canadian firms to serve consumers in foreign markets; and it would strengthen the trust of foreign consumers when transacting with Canadian firms.

This solution could be tried between Canada and the European Union, building on the regulatory cooperation structure now in place between the two trading partners — the European Union previously considered this type of instrument but opted for full harmonization of targeted issues (European Commission 2016). Such an instrument could also gradually form part of bilateral or regional trade agreements. Moreover, in the context of Canada-EU trade, it would create a framework for further cooperation in the area of consumer policy supported by both regulatory and non-regulatory stakeholders. We envisage Canada and the European Union, working with and through relevant international organizations, translating the legal rights and obligations set out in the legal instrument into symbols or icons that traders can use in their communications with customers. The symbols or icons would create a common language, facilitating transactions between traders and consumers using a variety of electronic devices.<sup>12</sup>

The aim of translating legal rights and obligations into informational icons is to transform a legal instrument into a practical tool for Canadian and European traders and consumers, to facilitate uptake and to ensure understanding. At the same time, there is value in the very process of reaching a common taxonomy. The 2013 OECD report highlights how “common language and definitions contribute to trust building and form the foundations of collaborative relations” and make up one out of ten critical elements of successful international regulatory cooperation (OECD 2013, 111). We propose that the taxonomy process take place at the level of national authorities, private actors and civil society.

A particularity of technology-enabled trade is that consumers have a determinative role in how many and to which markets a trader exports. We therefore argue that flexible regulatory options, in the form of non-national legal instruments in the area of consumer policy, would be specifically valuable to technology-enabled trade. This option could first be piloted between Canada and the European Union, and thereafter extended bilaterally, regionally and eventually multilaterally.

## **Conclusion**

**T**HIS CHAPTER DESCRIBES A SHIFT IN TRADE PATTERNS IDENTIFIED FROM OUR RESEARCH based on transaction-level data from Canadian firms using eBay Marketplaces. Examining the experiences of these businesses reveals that Canadian SMEs increasingly are leveraging technology to export and that existing policies might be creating unintended or unrecognized obstacles to this trade. Technology enabled firms export at a higher rate to more countries, and with faster growth, than their offline counterparts. These trends could reduce the traditional dominance of large and established firms in exporting — because newcomers to exporting are more common in technology-enabled marketplaces, and they can gain market share immediately by reaching many export destinations even though their footprint might be negligible in traditional export markets.

Unfortunately, existing trade rules do not address well the new and unique considerations of these technology-enabled traders. We think Canada’s trade strategy can and should do more to recognize the potential economic, social and political benefits of technology-enabled trade. We suggest prioritizing four policy areas — customs, postal, financial and international regulation policy — and we offer the following recommendations:

- > Raise significantly Canada's very low customs import duty exemption threshold of \$20, which is a barrier to small businesses wanting to participate in global trade. Raising the threshold — as the United States has done — would help counter excessive transaction costs for customs authorities, and, for traders, reduce the time, cost and uncertainty of moving lower-value shipments across borders.
- > Expand partnerships between customs agencies and businesses, and amend customs risk assessment methodologies to secure and facilitate global, technology-enabled and small business trade.
- > Bring postal systems into mainstream trade policy discussions — since they are increasingly being used in trade, simplifying and harmonizing them across countries is essential.
- > Devise a financial services policy that recognizes the importance and rapid development of online payments systems, and, crucially, that adopts a technologically neutral, risk-based approach to this arena.
- > Undertake a flexible international regulatory cooperation approach, such as in the form of a non-national legal instrument in the area of consumer protection law, perhaps between Canada and the European Union, or between Canada and the United States.

With these changes, and with increased efforts to raise awareness of these emerging trade opportunities, we see vast potential for Canadian small business traders to leverage technology and expand their global reach.

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## Notes

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1. As of November 30, 2015 (Internet World Stats n.d.).
2. The economic analysis of eBay data was conducted in collaboration with economists Simon Schropp and Andreas Lendle of Sidley Austin LLP.
3. For Canadian empirical evidence on exporting in the manufacturing sector, see the chapter on trade and productivity by Baldwin and Yan, in this volume.
4. “Trade by Enterprise Characteristics: Exporters in Canada, 2014 (Provisional Estimates),” from a Statistics Canada dataset at <http://www23.statcan.gc.ca/imdb/p2SV.l?Function=getSurvey&SDDS=5124>.
5. Note that the 10 largest enterprises by export value had complex business structures, together representing about 220 declaring units.
6. Authors’ calculations from the World Bank’s Exporter Dynamics Database, <http://econ.worldbank.org/exporter-dynamics-database>.
7. Statistics Canada defines a small enterprise as having 0-19 full-time employees and a medium enterprise as having 20-99 full-time employees. Industry Canada defines a small goods-producing enterprise as having fewer than 100 employees and a small services-producing enterprise as having fewer than 50.
8. Calculations based on “Trade by Enterprise Characteristics: Exporters in Canada, 2014 (Provisional Estimates),” from a Statistics Canada dataset at <http://www23.statcan.gc.ca/imdb/p2SV.l?Function=getSurvey&SDDS=5124>.
9. See Article 7, Section 8 (WTO 2013); however, this provision is non-binding, specifies no minimum amount for the de minimis and applies only to expedited shipments.
10. Fliess (2014), a checklist promoting good practices on the transparency of export restrictions, identifies publication on the Internet as the preferred option to make information accessible.
11. Lendle and Vezina (2013) apply a “balls-and-bins” statistical model that predicts firm-level export patterns to various destinations; see Armenter and Koren (2010) to better understand technology-enabled trade, which displays a higher degree of “randomness” than does traditional trade.
12. This is similar to the informational function of apparel and textile care symbols and the process towards harmonization of such symbols carried out within the North American Free Trade Agreement. See, for example, Innovation, Science and Economic Development Canada (2009).



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