

# WORLD TRADE ORGANIZATION

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## COMMUNICATION FROM THE UNITED STATES

### Small and Medium-Sized Services Enterprises

The following communication has been received from the delegation of the United States with the request that it be circulated to the Members of the Council for Trade in Services.

#### **I. INTRODUCTION**

1. The United States presents this proposal on small and medium-sized services enterprises (SMEs) for consideration of all Members. It is intended to stimulate discussion and liberalization for SME services exporters, a vital part of global trade in services.

#### **II. IMPORTANCE OF SMALL AND MEDIUM-SIZED SERVICES ENTERPRISES**

2. Small-medium-sized enterprises (SMEs) are generally classified by number of employees. An OECD study defined SMEs as “non-subsidary independent firms which employ fewer than a given number of employees.” (OECD Policy Brief, “Small and Medium-Sized Enterprises: Local Strength, Global Reach”, June 2000). For research purposes, the U.S. Small Business Administration often defines SMEs as firms with fewer than 500 employees, small firms having fewer than 100 employees and medium firms with 100-499 employees. SMEs can also be defined by asset value and annual sales, with small enterprises having total assets of up to \$3 million and total annual sales of up to \$3 million, and medium enterprises having total assets of up to \$15 million and total annual sales of up to \$15 million. (International Finance Corporation’s Small and Medium Enterprise Department).

3. SMEs are the drivers of global economic growth and employment and play a key role in the services sector in both developed and developing countries. In OECD countries, over 95% of enterprises are SMEs, accounting for 60-70% of employment. The approximately 24 million SMEs in the United States have provided virtually all of the 20 million net new jobs since 1992.

4. In much of the developing world, the private economy is almost entirely comprised of SMEs. The International Finance Corporation’s Small and Medium Enterprise Department cites Ecuador as an example, where 99% of all private companies have no more than 50 employees.

5. SMEs also play a crucial role in income generation and technology development. A February 2002 report by the U.S. Small Business Administration states that in the United States, SME share of private, non-farm GDP increased to 52% over the last decade, with the growth driven by shifts in the economy towards small business-dominated sectors, including services. The report found that SMEs constitute 68% of the service sector and 65% of wholesale and retail trade. SMEs are prominent in various services sectors, from engineering and management services, construction services,

distribution services (including wholesale and retail trade), hotel and restaurant services, to communication and business services. Fast growing service sectors where SMEs are increasingly present include information technology services and biotechnology. Firm downsizing, outsourcing of services, and advances in information technology, the Internet, and electronic commerce will continue to provide business opportunities for services SMEs.

6. While international trade statistics often include both goods and services (due to the lack of services data, including for SMEs), services SMEs play an important role in international trade. Roughly 97% of total U.S. exporters are SMEs. Since 1990, the number of SMEs that export goods and services has tripled, while the value of SME exports increased by 300% between 1992 and 1997. Despite the relatively large number of SMEs engaged in exporting, small business exports account for only 30% of total U.S. export sales, and nearly two-thirds (64%) of U.S. SMEs export to only one market, primarily to Canada and Mexico. Fast growing markets for U.S. SME exports include Argentina, Brazil, Canada, China, Hong Kong, Israel, Malaysia, Philippines, Thailand, and United Kingdom.

### **III. SME TRADE BARRIERS AND PROPOSAL FOR GATS NEGOTIATIONS**

7. Services SMEs face trade barriers similar to those of larger service suppliers; however, these barriers disproportionately impact small business, which lacks the capital, human resources, technical expertise and presence in foreign markets necessary to overcome barriers. Key barriers affecting SMEs, and recommendations for addressing them in the GATS negotiations, include:

#### **A. TRANSPARENCY IN DOMESTIC REGULATION**

8. The APEC-SME Business Forum held in Ottawa, Canada in September 1997 identified access to international markets as the greatest challenge faced by SMEs, citing regulations and “red tape” as major structural barriers to trade and investment. Discriminatory, non-transparent regulations or extensive and complicated regulatory paperwork increase compliance costs for SMEs. Delays in the administration and processing of applications for licenses, as well as arbitrary and unexplained denials of licenses, are barriers restricting SME market access. Small business must understand foreign legal and regulatory environments, with access to timely, clear, and accurate information on new and existing laws, regulations, and procedures affecting their business.

9. Transparency requirements designed to permit notice and comment opportunities on the same basis afforded domestic providers can address these concerns. An initial step is to ensure that, where institutional capacity permits, information on new and existing regulations, procedures, and measures affecting SME business interests is readily available on the Internet. Access to information on domestic regulations will assist SMEs to comply with regulatory requirements in a more efficient, less costly manner.

10. In addition to providing access to information, domestic regulations should afford SMEs and others meaningful notice and the opportunity to comment on new regulatory measures prior to implementation, provide procedural reviews and remedies in the event of disputes and with simple, publicly available procedures for obtaining, renewing or relinquishing licenses.

#### **B. COMMERCIAL PRESENCE REQUIREMENTS**

11. As Canada noted in its SME proposal (S/CSS/W/49), size and capital constraints result in SMEs supplying services primarily through Mode 1 (cross-border) and Mode 4 (movement of natural persons). With technology advances and increasing use of the Internet for transacting business, SMEs are able to leverage small size and adaptability to provide services cross-border, often through out-sourcing from larger service suppliers. Thus, requirements in country schedules that foreign

service suppliers maintain a local presence or other commercial presence requirements raise the cost of doing business for services SMEs, often preventing entry into foreign markets.

12. Examples of commercial presence requirements to be addressed in the negotiations include residency requirements and mandatory requirements for partnerships with local providers as a condition of establishment (e.g. U.S. lawyers required to partner with host country lawyers to establish a law firm in certain jurisdictions), and obstacles to establishing non-resident local currency or foreign currency accounts. Removing Mode 3 commercial presence requirements should not interfere with a Member's right to regulate to meet national policy objectives, such as protection of consumers.

#### C. MOVEMENT OF NATURAL PERSONS

13. SMEs have cited restrictions on the movement of natural persons (Mode 4) as a significant trade barrier. As SMEs often rely upon Mode 4 to deliver services, improvements in commitments for movement of natural persons are vital to SMEs. Delays in visa processing is one important area restricting the mobility of SME business personnel.

14. Providing greater access to information and procedural transparency with respect to entry and stay provisions for temporary personnel will assist services SMEs. In addition, WTO Members may wish to consider arranging multiple entry business visas (providing stays of one year or less) and short-term work permits for business personnel (professionals and highly skilled employees), as means to expedite business travel by persons from SMEs.

#### D. ELECTRONIC DELIVERY OF SERVICES

15. Increasing use of the Internet and other vehicles of electronic commerce have given SMEs a global reach, allowing them to compete in global markets, expand their customer base, and improve business efficiency. SMEs use electronic commerce to customize services and manage supplies and inventory efficiently. Internet-based commerce is especially important to providers of information technology services, many of which are SMEs that provide computer-related services on an out-sourcing basis. Barriers such as burdensome licensing requirements which raise costs and impede access to the Internet, are obstacles to SME trade.

16. Governments should refrain from unnecessarily regulating electronic commerce thus encouraging the entry of new market participants, including SMEs, that are using technology advances to compete globally. As noted in the Doha Declaration, WTO Members recognize the importance of creating and maintaining an environment which is favorable to the future development of electronic commerce. In this regard, Members should maintain a domestic environment that promotes the entrepreneurship of SMEs and promotes the development of new technologies.

#### E. COMMITMENTS IN RELATED SERVICES

17. SMEs rely upon a number of related services (from distribution, express delivery, computer, advertising, financial, telecommunications services, advertising, legal services, and accounting services) to enter foreign markets. Therefore, trade barriers which exist in these related service sectors will restrict SME market access.

18. In financial services, expanded commitments will facilitate SME cross-border transactions by stimulating competition in financial services markets, creating more funding choices and higher quality services for SMEs, particularly greater access to equity and venture capital, a major impediment to SME growth. Stronger financial services commitments will also provide SMEs access

to needed services such as brokers, financial advisers, insurance, credit bureau, and risk rating services.

19. Members should also strive for full and immediate liberalization of telecommunications services. Telecommunications liberalization can reduce the costs to SMEs of providing services in foreign markets. SMEs will also benefit from improved commitments in education and training services, primarily distance learning, which will make training opportunities more available and affordable to small business. Partnerships among public and private educational enterprises, as well as financial assistance for Internet access and training, will benefit services SMEs.

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