

## THE INTERFACE OF THE WTO DISCOURSE IN THE MSME'S ENVIRONMENT: A CASE OF SOUTH AFRICA

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TRADE & INDUSTRIAL POLICY STRATEGIES



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# Objectives

- Provide a background to the MSME environment in SA to determine whether rulemaking at the WTO could solve country-specific challenges.
- Unpack the WTO Mandate to establish:
  - I. whether the WTO can formalise discussions on MSME challenges at a multilateral level.
  - II. whether the WTO, with its rule-making function, can respond adequately to MSMEs' challenges identified in the MSME discussion.

# Methodology

The methodology is a mixture of qualitative content and archival analysis.

A general search from the available literature on MSMEs and archival reports of the WTO were used.

The search was narrowed to SA and reports of the informal group on MSMEs that are publicly available.

Finally, a synthesis of the two methods was conducted.

SA was subjectively chosen based on the documented challenges of the MESME environment.

# Introduction

- Worldwide, the pivotal role played by MSMEs is always on the economic development agenda.
- According to the OCED (2020), micro, small and medium enterprises (MSMEs) are the main form of enterprise in emerging countries like South Africa.
- MSMEs in such countries account for 99% of all firms and are a significant source of employment, equating to 70% of jobs on average.
- Bvuma and Marnewick (2020) posit that small, medium, and micro businesses have always been the stimulants of the economic development of South Africa.
- **The major challenge of the environment of MSMEs is the various definitions that mostly leave potential economic players on the margins.**

# Challenges of MSMEs

- Berisha and Pula (2015) state that the primary challenge of developing a cross-country analysis of SME data is the lack of a universal definition of what constitutes an SME.
- This is mainly due to the country-specific, political, economic, and social environment.
- In the SA environment, the National Small Business Act of South Africa of 1996, as amended in 2003, defined SMEs as:  
***“Small businesses are a separate, distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including branches or subsidiaries if any is predominately carried out in any sector or subsector of the economy mentioned in the schedule of size standards and can be classified as SME by satisfying the criteria mentioned in the schedule of size standards.”***
- The definitions of MSMEs differ from country to country depending on the country’s economic status, performance, and challenges.
- Given these nuances, it is still unclear how a mandate of the WTO could be shaped to deal with such complexities, to respond to the specific needs of MSMEs.

# Strategies for MSMEs intervention: SA

- The unjust previous policies of South Africa marginalised and discouraged the potential growth of MSMEs.
- Guliwe and Maphela (2022) found that even after democracy, the playing field was still highly unequal,
- It was difficult for MSMEs to compete with larger and well-resourced businesses without being afforded the necessary boost.
- Their level of development in many aspects such as, the level of development, entrepreneurship cognition, resources, and capabilities challenged.
- Though the SA policymaking has deliberated on gearing SMEs towards growth, NISED (2022) found that the performance of SMEs remained elusive, resulting in ill-designed programs and support to match the needs of SMEs.
- This led to the review of SME development policies where emphasis was put on regulatory support and education and training.

# Proposed turnaround strategies: SA

- The National Integrated Small Enterprise Development (NISED) was devised to level the playing field for the MSMEs.
- The Small Enterprise Development Agency (SEDA) focussed on developing a thriving entrepreneurial culture in the South African MSME environment.
- The Development Finance (DFI) also added the role of financing emergent and historically disadvantaged entrepreneurs through various institutions (Khadiagala,2015)
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- Black Economic Empowerment (BEE), Broad-Based Black Economic Empowerment (BBBEE), and Preferential Procurement Policy Framework Act (PPPFA).

# Results to date

- To date, literature informs us that 75% of MSMEs fail in the first year.
- The highly unequal society, unemployment, and poverty seem to indicate that the strategies are not yet yielding the results as expected.
- The MSME environment is still mired by challenges such as access to capital and unfair competition, regardless of the preferential policies.
- Their teething challenges make them not even qualify for Developmental Finance, as their sustainability is always challenged when it comes to compliance.
- Struggles with compliance shut the doors to possible growth and sustainability.
- SA, a member of the World Trade Organisation (WTO), is not part of the ongoing negotiations of the informal group on MSMEs.
- Since South Africa is a member state of the WTO, if SA joins the MSMEs informal group, it can be inferred that the MSMEs environment of SA will also be negotiated in that platform, where its challenges are much more numerous than what meets the eye.



# WTO Mandate and Functions

- Set out in the Marrakesh Agreement, including plurilateral Agreements.  
Negotiate, implement, and enforce WTO Agreements.
- MSMEs 103 of 166 members but not a plurilateral (Why?)  
Agreement by Ministerial Conference on new negotiations.
- The 63 remaining WTO members have not agreed to join and cite concerns that:
  - Structure with no common understanding of the scope and rationale for such a discussion under the WTO Framework.
  - Elements of a proposal not clearly defined, including the definition of the subject matter.
- The assumption is that the benefits of this debate shall/will accrue to all MSMEs (developed, developing and least-developed countries) SDT is mentioned but not defined.

# An Intentional MSMEs Definition

- Whenever MSMEs is defined esp at a multilateral level – the definition aligns with the purpose it is intended for. Criteria often quantitative and with measurable indicators.

For example World Trade Report (2016) MSMEs were defined only for the purpose of that report.

- Informal Group is considering the broad challenges faced by MSMEs. The WTO facilitates but does not respond directly.
- Caution needed / A pragmatic view and grounded understanding of the legacies of different economies esp in African countries. Otherwise, several informal MSMEs (that do not engage in international trade, industrial integration and GVCs) will be left out of a possible def. or classification and therefore forfeit the benefits.

# WTO issues in the MSMEs Proposals

## Information Exchange on MSMEs Domestic Regulation for Trade Policy reports

- Trade Policy Review (TPR) – Purpose

To contribute to improved adherence to rules, disciplines and commitments under the MTS and where applicable Plurilateral Agreements, leading to smoother functioning of the MTS, greater transparency, and understanding of members' trade policies and practices.

- When the group is formalized, it will become a plurilateral.
- MSMEs domestic policies adherence to rules, disciplines and commitments.
- Most Favoured Nation (MFN) and National Treatment

## Technical Assistance and Capacity Building

The priority for the WTO technical assistance and capacity building is that developing countries and least developed countries are supported to understand and implement WTO Agreements to take full advantage of the benefits offered by the multilateral trading system

The WTO does not provide direct technical assistance and capacity building to MSMEs but collaborates with other institutions to facilitate such training. Therefore, the provision of technical assistance and capacity building to MSMEs might not fall directly within the ambit of the WTO.

# Conclusion and Recommendations

- Country-specific challenges, social setups present a legacy of the country that has the potential to hinder MSMEs strategies. Hindrances are not the same as those of developed countries
- Without an accepted definition, the WTO cannot adequately respond to the challenges experienced by MSMEs.
- The WTO mandate and its rule-making functions do not cater for a deliberative function on MSMEs that leads to negotiations within the formal structures of the WTO.
- The SDT mandate does not mention MSMEs but developing and least-developed countries.
- The outcome could provide equal benefits to the unequal environments of developed and developing countries' MSMEs. Mainly because the proponents indicate that the discussion under the work program is intended to favour horizontal and non-discriminatory solutions, which are likely to yield benefits for MSMEs' participation in international trade, taking the specific needs of developing countries and least-developed countries into account. The solution can not be a one size fits all.
- Developing countries will have to set out their priorities in the WTO by ensuring that any negotiations on MSMEs do not close up the policy space required to develop the MSMEs sector they are trying to support. Any trajectory for MSMEs should be based on country-specific trade challenges and preferably regulated by domestic policies rather than multilateral agreements.

*Thank you*

# Trade & Industrial Policy Strategies

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