OECDpublishing

Please cite this paper as:

Fliess, B. and C. Busquets (2006-12-01), “The Role of Trade Barriers in SME Internationalisation”, *OECD Trade Policy Papers*, No. 45, OECD Publishing, Paris.
http://dx.doi.org/10.1787/246707602042

OECD Trade Policy Papers No. 45

The Role of Trade Barriers in SME Internationalisation

Barbara Fliess

Carlos Busquets

OECD

NON CLASSIFIE UNCLASSIFIED

OECD OCDE

OECD Trade Policy Working Paper No. 45

THE ROLE OF TRADE BARRIERS IN SME INTERNATIONALISATION

By

Barbara Fliess and Carlos Busquets

Organisation for Economic Co-operation and Development 2006
Organisation de Coopération et de Développement Economiques

ABSTRACT

This paper discusses trade barriers that SMEs are likely to encounter in export markets and available policy tools aimed at their reduction or elimination. Drawing on recent work in the Trade Directorate and elsewhere, key types of barriers are identified based on a review of business surveys and other studies recently undertaken. The paper also explores how governments deal with trade barriers and how SME participation in the trade policy process can be facilitated.

As far as barriers in export markets are concerned, firms, large and small, continue to face import tariffs. Non-tariff barriers matter equally, if not more, with customs procedures and domestic regulations emerging as widely noted impediments to trade and less direct and visible procedural barriers also playing a role. Due to their size SMEs are in a vulnerable position in relation to trade barrier impact.

Overcoming trade barriers requires significant investment both in time and resources, which can constrain SME participation in the trade policy process. National experiences with consultation schemes and other support programmes that help exporting SMEs diagnose trade barriers or present the opportunity to raise issues, related to trade barriers, directly with policymakers suggest ways for enhancing SME participation in the policy process. Business and trade associations also can give voice to SME interests with governments at home and abroad. This paper offers recommendations on how governments can take SME concerns better into account and support the internationalisation of their business activities.

Keywords: Small and Medium-sized Enterprises (SMEs), trade barriers, non-tariff barriers (NTBs), tariffs, business surveys, exports, export markets, OECD, non-OECD, trade policy, negotiations, consultations, trade advocacy, trade associations.

ACKNOWLEDGEMENTS

The paper was co-authored by Barbara Fliess, Senior Analyst in the OECD Trade Directorate, and Carlos Busquets, Consultant. An earlier version was presented at the Workshop on External Barriers to Internationalisation of the OECD/APEC Global Conference on Removing Barriers to SME Access to International Markets taking place on 6-8 November 2006 in Athens, Greece. The paper was one of many contributions solicited by the OECD Centre for Entrepreneurship, SMEs and Local Development, responsible for organising the Athens conference. The paper has drawn on work prepared under the OECD Trade Directorate programme of work on non-tariff barriers to trade in goods; however, *the analysis and opinions expressed are those of the authors* and do not necessarily represent the views of the OECD or its Members.

TABLE OF CONTENTS

Boxes

EXECUTIVE SUMMARY

SMEs are a major source of job creation and economic growth but tend to be underrepresented in their share of international trade flows relative to their contribution to national and regional economies. Building on the results of the OECD/APEC paper on "Removing Barriers to SME Access to International Markets" and drawing on work that the Trade Directorate has undertaken, this paper provides a deeper analysis of the trade barriers faced by SMEs in foreign markets. It reviews other existing business surveys and studies for more detailed information about trade barriers. The paper also explores how governments deal with trade barriers and how SMEs participation in the trade policy process can be facilitated.

Many business surveys on trade barriers draw attention to the fact that tariffs continue to cause problems for companies, large and small, that wish to access foreign markets. They also indicate that non-tariff barriers matter equally, if not more, with customs procedures and domestic regulations emerging as widely noted impediments. Furthermore less direct and visible procedural barriers can, by themselves, influence market access significantly. Because of their size, SMEs are in a vulnerable position in relation to trade barriers, which discourages internationalisation.

Overcoming trade barriers requires significant investment in both time and resources. As a result, an SME may be unable or unwilling to fully engage and take advantage of available government consultation mechanisms and strategies for dealing with barriers in foreign markets, such as engaging trading partners in negotiations, launching legal proceedings or pursuing trade advocacy.

Active SME participation can be enhanced in several ways. Some government have created programmes that actively assist firms, both large and small, in overcoming trade barriers and SME interests also can be given voice by business and/or trade associations. Ways forward should include continued trade negotiations as well as regulatory co-operation among governments to reduce compliance costs. In addition, SMEs would benefit from open, balanced, and transparent government-business consultations as part of the trade policy process.

THE ROLE OF TRADE BARRIERS IN SME INTERNATIONALISATION*

A. Introduction

1. In line with other trends of globalisation, Small and Medium-sized Enterprises (SMEs) are increasingly involved in international business. They not only account for a significant share of exports but also import and link up to global production networks.

2. As they attempt to internationalise, SME often encounter substantial barriers. These barriers are complex and can be both internal to a particular firm or emanating from the larger business environment in which SMEs operate, including trade policy barriers.

3. Jointly with APEC, OECD has studied and explored ways of "*Removing Barriers to SME Access to International Markets*". The aim of this project, whose findings and policy recommendations were presented at a conference in Athens, Greece on 6-8 November 2006, is to gain better understanding of the barriers to internationalisation[1] faced by SMEs, and to share knowledge of government programmes aimed at addressing barriers and helping SMEs to access international markets. The data on barriers to access to international markets were collected by means of two surveys that asked economic policymakers and SMEs, respectively, for their perceptions. Policymakers furthermore were asked to provide information on existing support programmes.

4. One key finding of this project is that a majority of SMEs surveyed rated barriers related to internal capabilities and access as being the most significant towards internationalisation and those related to business environment (including trade policy) as being of lesser importance. However, a shift in perception occurs when SME responses are broken down according to their level of activity in international markets. Non-active exporters tended to be mostly concerned with financial and access barriers whereas firms with export experience had increased concerns regarding their operating business environment.[2]

5. Building on the results of the "Perceptions of SME Survey" (please see Annex 13 of "Removing Barriers to SME Access to International Markets") and drawing on work that the Trade Directorate has undertaken, in recent years, this paper provides a deeper analysis of *trade policy related barriers* faced by SMEs in foreign markets. While barriers related to finance, access, and internal capabilities are detrimental to SME development and internationalisation, tariff and non-tariff trade barriers can be particularly damaging for SMEs since these barriers are generally outside of their direct control and are difficult to overcome. And while trade barriers do not only affect SMEs nor generally do they necessarily target SMEs, as usually they are faced by both large and small firms, it is SMEs who are especially vulnerable and need an open and transparent environment in which to operate.

---

* A preliminary version of this paper was presented a Workshop B: External Barriers to Internationalisation, of the OECD/APEC Conference on "Removing Barriers to SME Access to International Markets" in Athens, Greece on 6-8 November 2006.

1 Internationalisation is defined as all those constraints that hinder the firm's ability to initiate, to develop, or to sustain business operations in overseas markets.

2 OECD (2006), Background Draft Report of the OECD-APEC Joint Project on "Removing Barriers to SME Access to International Markets". CFE/SME (2006)9/REV2, Paris, p. 46

6. Drawing on recent work undertaken by the OECD Trade Directorate, this paper will review what available data from business surveys around the world and other relevant studies reveal about the types of trade barriers faced by exporting firms, with a focus on SME vulnerability to these barriers and the potential loss of competitiveness they represent. Furthermore, the paper explores how governments deal with trade barriers and how SMEs can influence the trade policy process. Towards this end, the public consultation processes utilised in a sample of countries is reviewed and several governmental and other international assistance programmes analysed that can assist SMEs overcome trade barriers.

B. Trade barriers faced by SMEs: more evidence

7. A key conclusion in the OECD/APEC joint project is that a majority of SMEs rated barriers related to internal capabilities and access as being more significant obstacles to internationalisation than those related to business environment. Specifically, when asked to rate a list of 47 barriers according to the degree to which they acted as an impediment to their ability to access international markets, SMEs participating in the survey considered problems "internal" to the firm to be more important barriers to access to international markets than barriers stemming from the home and foreign/host environment within which firms operate, including policy barriers (tariffs and regulations). None of the trade barriers covered in the survey figures among the top 10 barriers ranked by SMEs.

8. However, there appears to be a distinction between firms in terms of export activity. Non-active exporters tend to be more concerned with financial and access barriers, whereas firms that are already exporting prioritised issues related to overall business environment, including trade barriers.[3] This distinction between inexperienced and experienced exporters is also present in other studies which indicate that firms with experience with foreign markets tend to pay more attention to barriers outside their control.[4]

9. These results suggest that SMEs undergo a learning process as they internationalise. Once firms overcome internal constraints they become more aware of other challenges in their business environment, including tariffs and other trade regulation. [5]

I. What types of barriers have SMEs encountered?

10. In relative terms, although the overall response results of the OECD/APEC survey of SMEs did not rank trade barriers as high as internal barriers, some of the trade barriers received more attention from respondents than others. For example, **unfavourable foreign rules and regulations**, **high tariff barriers** (mainly restrictions related to national security) and **inadequate property rights protection** are ranked higher relative to such items as arbitrary tariff classification and unfavourable quotas and/or embargos. High costs of **customs administration** and **restrictive health, safety and technical standards** fall in between.[6] These are broad categories of regulation at or behind the border which the survey report does not analyse further.

11. A better understanding of the specific types of trade barriers that exporting firms encounter is desirable since the relative significance of these types of barriers increases with the level of international

3 Ibid p. 6.

4 Moini, A.H. (1997), "Barriers Inhibiting Export Performance of Small and Medium-Sized Firms", in Journal of Global Marketing, Vol. 10, p. 84.

5 OECD (2006), Background Draft Report of the OECD-APEC Joint Project on "Removing Barriers to SME Access to International Markets". CFE/SME (2006)9/REV2, Paris, p. 53.

6 For relative ranks see Annex 12 of OECD (2006), Background Draft Report of the OECD-APEC Joint Project on "Removing Barriers to SME Access to International Markets". CFE/SME (2006)9/REV2, Paris, p. 91.

experience of SMEs. Towards that end, the findings of other available business surveys focusing on trade barriers were reviewed.

12. Often carried out on behalf of public authorities, these surveys typically ask exporting firms to describe trade barriers which they encounter in foreign markets. Very few of these studies focus exclusively on SMEs and others do not report and analyse findings separately for SMEs, in part because the incidence of trade policy barriers normally is equal for small and large companies, even though the constraint that this poses for selling products competitively abroad is likely to be more severe for smaller producers.

13. The findings from available surveys and some other studies focusing on trade barriers lend support to three propositions:

1. Import tariffs still matter to exporting, in many sectors and markets

14. Many business surveys on trade barriers draw attention to the fact that import tariffs continue to cause problems for companies that wish to access foreign markets. Consider the following:

- 37% of small U.S. manufacturing exporters participating in a 2004 poll by the National Federation of Independent Business reported that tariffs limited their ability to increase export sales.[7] Other surveys conducted in other countries and regions (*e.g.* Sweden, MENA, APEC[8]) confirm that tariff rates, although significantly lower than a few decades ago, remain an issue for exporting firms.

- Based on OECD work on tariffs affecting merchandise trade, developing-country SMEs seeking to export to other developing countries are likely to face a tariff rate that is almost three times higher (11%) than those encountered in developed country markets by either developing-country or developed-country exporters (5% and 4.4% respectively).[9]

- The practice of tariff escalation[10] is of importance to SMEs, who often sell processed goods rather than semi-processed or raw materials.

- Tariff rates differ across individual sectors and countries, in at times unexpected patterns. For example, a study mapped the level of protection resulting from tariffs that East Asian countries applied in 2002 to goods traded within their region. It found not only that the level of protection was uneven and very significant for certain countries and some sectors (especially agriculture, light industry and food and beverages), but perhaps most surprisingly, that in many sectors East

7 National Federation of Independent Business (NFIB) (2004), International Trade, NFIB National Small Business Poll, Volume 4, Issue I, 2004, p. 4.

8 Kerstin Bergloef, National Board of Trade (Kommerskollegium) (20001), Trade barriers faced by Swedish firms on the Single Market and in third countries, Stockholm, April 2001; Council on Foreign Relations Study Group on Middle East Trade Options (2002), Harnessing trade for development and growth in the Middle East, New York; Asia Pacific Foundation of Canada (for the APEC Business Advisory Council) (2002), Survey on customs, standards and business mobility in the APEC region. Vancouver, Canada, September 2002.

9 OECD (2006), South-South trade: Vital for development, Policy Brief August 2006, Paris.

10 Tariff escalation refers to the situation where import tariffs are absent or low on primary products and then increase (or escalate) as the product undergoes processing.

Asian exporters faced higher tariffs in East Asian markets than in the markets of EU and NAFTA.[11]

2. ***NTBs matter equally if not more than import tariffs, with customs procedures and domestic regulation being widely noted impediments.***

15. For non-agricultural products, as tariffs have been lowered over time, non-tariff barriers to trade have become more prominent, both in terms of business perceptions and international trade policy discussions. This is reflected in the last few rounds of multilateral trade negotiations of GATT/WTO, which have resulted in enhanced disciplines in this area. Efforts to remove or discipline measures that negatively impact on trade have been taken at bilateral and regional levels as well. Despite this, surveys of exporting firms of all sizes underline that companies remain concerned about a range of policies or measures other than import tariffs. **Annex 1** reports results from a number of surveys of businesses operating in different regions of the world.

- In the perception of many businesses and governments, nowadays it is less import restrictions applied at the border than domestic regulations and other internal (behind-the-border) policies that pose problems for firms seeking to sell abroad. Domestic regulation can become a barrier to trade and discriminate against imports either incidentally, when regulations aim at other objectives (such as the health, safety, sanitation, environment, consumer information) or intentionally, when they are deliberately designed to discriminate against imports in favour of domestic firms. The kinds of special product requirements or requirements for testing or certification of a product that businesses often encounter are illustrated in **Box 1**.

- A comparative analysis carried out by OECD of 12 business surveys around the world capturing perceptions about trade barriers, in particular NTBs, found that **technical measures (including health and phytosanitary regulation)** and **customs rules and procedures** are areas of shared concern for the companies participating in the surveys. Other broad categories of NTBs reported relatively consistently across surveys are **internal taxes or charges** and **competition-related restrictions on market access (i.e., monopolistic trade measures, such as state trading, distribution restrictions as well as restrictive business practices)**.[12]

- Certain trade barriers mentioned in the OECD/APEC survey more frequently than others show up only moderately in other surveys investigating business perceptions. For example, concerns about **protection of intellectual property** focus usually on specific markets, most often developing and transition economies where insufficient measures are taken to assure the protection of designs and models (Russia and China are mentioned in OECD/APEC survey). IPR issues often arise where legislation is in conformity with the TRIPS Agreement but enforcement is weak. There is also some evidence that foreign-owned firms that seek to obtain patents in foreign markets face greater administrative delays than domestic firms, and that additional administrative delays differ across countries.[13]

---

11 Michael Freudenberg and Thiery Paulmier (2004), A comparison of tariff and non-tariff barriers in East Asia, EU and NAFTA. Paper prepared for the International Workshop on East Asia's de-facto Economic Integration at the Institute of Developing Economies, JETRO, Japan, on January 19, 2005. Level of tariff protection was calculated taking into account *ad valorem* duties, specific duties and tariff quotas.

12 OECD (2005), Looking Beyond Tariffs: The Role of Non-Tariff Barriers to World Trade, OECD Trade Policy Studies, Paris, p. 21.

13 See Pierre M. Regibeau and Katherine E. Rockett (2006), Administrative delays as barriers to trade, Contributions to Economic Analysis & Policy, Vol. 5, No. 1, Article 27.

Box 1. Certification requirements in EU market perceived as costly and burdensome

A manufacturer of meat products located in an EU country reports having difficulty exporting meat products. Authorities in the export market, which is also a member of EU, do not accept the certificates of fulfillment of sanitary regulations for food products obtained in the home country of the exporting firm. As a consequence, the firm is required to utilise the inspection service in the host country, which is annual and costs about €1,200 plus additional charges. Also, the authorities in the export market require a label in only one language, although the company labels in four.

A SME that manufactures sound instruments exports 80-85% of its product to Europe and the United States. According to the firm, despite the fact that European Directives cover all products manufactured by this firm these have to undergo different national certification procedures. The tests are mandatory and each costs about €14,000-18,000 for every new product, plus yearly inspection fees.

More generally, an interview-based survey of some 200 mostly manufacturing companies, two thirds of which had less than 250 employees, asked, inter alia, what types of barriers these firms continued to meet in their daily business in the single market:

- 11 companies reported they had to meet mandatory national requirements that resulted in product changes
- 92 reported they had to meet requirements for extra national testing/certification of products
- 34 reported meeting other requirements, such as extra or different documentation.

Overall, 65 of the 200 companies felt that the Internal Market had led to more regulation, due to detailed documentation requirements, national requirements remaining and increasing in parallel with EU regulations, different interpretation of regulation and new EU regulation in areas not previously regulated (*e.g.* environment).

Source: "It's the Internal Market, stupid! A company survey on trade barriers in the European Union", UNICE 2004.

3. Less direct and visible "procedural" barriers can, by themselves, influence market access significantly

16. Because they are less direct and often not visible, **procedural barriers** to trade are difficult to document and to remove. They can take many different forms, depending on the area of trade policy. It can be policy implementation procedures, the attitudes and behaviour of regulatory authorities and public officials, poor administrative practices promoting corruption and discrimination, or weak domestic institutions (*e.g.* legal and judicial systems).

17. A business survey on trade barriers carried out in 1997/98 of 19 economies belonging to the Pacific Basin Economic Council (PBEC), found that many of the barriers reported by the participating exporting firms were **implicit in nature** and took the form of administrative procedures (*e.g.* excessive documentation) or problems arising from interpreting or implementing government regulations (*e.g.* lack of transparency in the application of government regulations). Half of the top 10 most frequently reported NTBs were procedural barriers embedded in the lack of due diligence or the discretion of government officials in implementing trade regulations. When respondents were asked to indicate the degree of difficulty in overcoming the NTBs encountered, the two most difficult items mentioned related to transparency and implementation issues (inconsistency or confusion in regulation, and inconsistency or confusion in implementation).[14] Similarly, the position taken by EuroCommerce, which represents the retail, wholesale and international trade sectors in Europe, on what the DDA negotiations should achieve in the area of trade facilitation highlights a host of procedural problems, including simpler customs and

14 Stephen Chingt, Clement Yuk-Pang Wong & Anming Zhang (2004), Non-tariff barriers to trade in the Pacific Rim, Pacific Economic Review, 9:1.

international payment procedures, simpler export/import documentation, increased transparency and predictability of regulations, and easier access for all to information on customs requirements.[15]

18. Other more recent surveys confirm the incidence of procedural barriers, for example in the areas of customs administration and technical measures (**see Box 2**). Slow or complex/cumbersome administrative processes and practices are frequent business complaints. Where implementation of regulations is the issue, this often is linked to the question of whether a country has sufficient well-trained staff and adequate implementation and enforcement infrastructure.

Box 2. Procedural barriers to trade reported in business surveys

In the area of <u>customs classification and clearance:</u>[16]

Swedish survey in respect to select export markets outside EU (2001)	- Too much documentation required - Lack of predictability of rules and procedures
New Zealand survey of global market (2001)	- Arbitrary enforcement of rules - Data or documentation requirements - Insufficient information about requirements - Irregular additional payments expected to obtain customs clearance
ABAC/APEC survey of 21 APEC export markets (2000)	- Complex customs regulations - Lack of information on customs laws, regulations, administrative guidelines and rulings - Problems with mechanism for appealing customs decisions
Morocco survey of 56 export markets of Organisation of the Islamic Conference (OIC) (2001)	- Arbitrary customs valuation, not based on invoice - Subjective interpretations and arbitrary decisions of clearing goods through customs

In the area of <u>standards and other technical barriers to trade:</u>[17]

Australia survey of markets of Indian Ocean Rim Region, (2000)	- Non-transparent / inconsistent of technical requirements - Delays in testing procedures - Non-transparent / inconsistent quarantine services
CEEI business survey of Canadian market (2002)	- Lack of transparency of standards at provincial level and hence difficulty to know about them - Insufficient information on the procedures to obtain required phytosanitary certificates - Delays and burdensome procedures for obtaining certain veterinary certificates

15 See "WTO and SMEs", Presentation given by Dr. Peter Bernert, President of EuroCommerce, at the SME Union Conference on 19 June 2003.
http://www.eurocommerce.be/media/docs/6/151594363312447361471639623324152391703 6f1729v1.doc

16 The surveys are: Kerstin Bergloef, National Board of Trade (Kommerskollegium) (20001), Trade barriers faced by Swedish firms on the Single Market and in third countries, Stockholm, April 2001; ACNielsen consultants on behalf of Standards New Zealand, the Ministry of Foreign Affairs and Trade, the Ministry of Economic Development, the Ministry of Agriculture and Forestry, and Trade NZ (2001), Assessing the presence and impact of non-tariff trade barriers on exporters, Wellington, New Zealand, June 2001; Asia Pacific Foundation of Canada for the APEC Business Advisory Council (ABAC) (2000), Survey of customs,

II. Heightened vulnerability of SMEs to trade barriers

19. For several reasons, SMEs are more vulnerable to the effects of trade barriers than larger companies. Large companies possess the resources to leverage internationalisation risks in various ways; by diversifying operations, possessing in-house trade or international departments, creating economies of scale, and strongly lobby for favourable laws and regulations. SMEs tend to have limited resources and a lower threshold to absorb risks, especially when operating in intensely competitive markets.[18] When faced with trade barriers, SMEs:

- may have to bypass a market completely, forgoing an opportunity to grow their business, hence becoming more susceptible to increasing import pressure in their home market;
- have limited capabilities to influence the trade policy process;
- may find it difficult to make production changes in response to fixed-cost barriers;
- incur additional variable costs that could impair their competitiveness;[19]
- may be unable to benefit from participating in global value chains.

20. Globalisation and increasing liberalisation have added to the competitive pressure some SMEs face in their home market, creating incentives to export. At the same time it should be noted that an often understated aspect of trade barriers for firms, including SMEs, is the inflated costs of imports due to protective measures in their home markets.

21. Historically in some markets, SMEs, (for example in sectors like textiles, footwear and agriculture) have responded to import pressure by demanding, from their home government, protection against foreign competition often through tariffs or non-tariff measures. However, with increasing integration of global value chains and time-sensitive or "just in time" manufacturing, firms including SMEs are increasingly turning to imported components or raw materials to produce and remain competitive. This creates a need to have reliable and affordable access to imports. Imports are often overlooked in government support programmes for SMEs, which tend to have an export focus, and are not at all addressed in business surveys.[20]

---

standards and business mobility in the APEC region, September 2000; Association Marocain des Exportateurs (2001), Les exportateurs marocains face aux barrieres non-tarifaires dans le cadre inter-islamique, Casablanca, June 2001.

17 Australia South Asia Research Centre (RSPAS) at the Australian National University (2000), Enhancing the trade and investment environment in the Indian Ocean Rim, December 2000; Centre d'Etudes Economiques et Institutionnelles (CEEI) (2002), Business survey on conditions to access to the Canadian market, Final report. Brussels, 2 December 2002.

18 See Etemad, Hamid (2004), "Internationalization of Small and Medium-Sized Enterprises: A Grounded Theoretical Framework and an Overview", in Canadian Journal of Administrative Sciences, Vol 21; Part 1, p. 1; Goh, Mark, (2002), "Issues Facing Asian SMEs and their Supply Chains" in Asian Cases on Supply Chain Management for SME. ed. By Dr. Mark Goh, Asia Productivity Organization, Tokyo. p. 40.

19 Requena-Silvente, Francisco (2005), "The Decision to Enter and Exit Foreign Markets: Evidence from U.K. SMEs", in Small Business Economics 25: 237-253, p. 239.

20 OECD (2006), Background Draft Report of the OECD-APEC Joint Project on "Removing Barriers to SME Access to International Markets". CFE/SME (2006)9/REV2, Paris, p. 9. In one of its regularly conducted National Small Business Polls, US-based National Federation of Independent Business (NFIB) points out that

C. Options for addressing trade barriers

22. When facing trade barriers, SMEs can choose from multiple options. They can attempt to deal with a barrier themselves, e.g. by meeting the specific product standard of the export market. When measures or regulations are judged to be unjustified, discriminatory or unusually burdensome, firms can either approach the host country authorities to seek change[21], seek assistance from home-country government or industry associations.

I. How can home governments address barriers in export markets?

23. Governments can utilise various methods to remove or reduce trade barriers for their exporters. Some of the primary tools are active engagement in multilateral and bilateral negotiations, recourse to international legal proceedings to resolve disputes, and aggressive trade advocacy.

24. ***International Negotiations:*** Governments can address trade barriers by organising and participating in multilateral (WTO), regional or bilateral trade negotiations. Governments in consultations with private sector representatives identify key objectives and subsequently enter into negotiations with trading partners to seek compromises that reduce or eliminate trade barriers. In addition, governments may attempt to negotiate specific agreements to reduce tariffs sectorally (such as the *WTO Information Technology Agreement*) or enter into cooperative regulatory relationships to reduce excessive compliance costs, (such as the *US-EU Regulatory Cooperation Agreement*).

25. ***Legal Proceedings:*** Governments may raise perceived foreign-country trade barriers or other issues considered to be inconsistent with international obligations before the WTO Dispute Settlement Body (DSB) or similar regional or bilateral fora. Such steps are usually taken after diplomacy has failed to resolve the issue. In general, these proceedings concern major trade policy issues and involve complex, legal questions that may be too costly and time-consuming for individual SMEs to become involved.

26. ***Trade Advocacy*:** Governments also pursue trade policy advocacy as a means to remove trade barriers. Many governments catalogue trade barriers cited by their exporters in foreign markets and periodically issue reports (such as the *U.S. National Trade Estimate Report* or the *Report on the WTO Inconsistency of Trade Policies by Major Trading Partners* issued by the Japanese Ministry of Economy, Trade and Industry). Moreover, home-country governments can play an active role in assisting exporters overcome trade barriers by directly interceding on exporters' behalf with foreign government officials. This can entail various actions including active in-market representation by consular staff, meetings by high-level government officials or discussion in multilateral fora.

27. These are just some of the key components of a government's toolkit for dealing with trade barriers. However, before directly addressing barriers, governments usually develop their strategy in close consultation with various national actors, offering an opportunity for firms, including SMEs, to actively influence priorities and objectives.

II. How can SMEs influence the trade policy process?

28. Business interests and firms (both SMEs and large firms) try to influence the development of a country's overall trade policy agenda by actively advocating their interests on specific trade issues. This is

---

governments support programmes usually aim to encourage small businesses to institute or expand foreign sales but often discourage importing activities (National Small Business Poll, Volume 4, Issue I, 2004, p. 2.)

[21] Often times firms, particularly SMEs, are wary approaching host country government agencies with complaints for fear of reprisal.

an important activity for any firm but **even more critical for SMEs** due to their vulnerabilities and the potential negative effects of trade barriers.

29. Governments set trade policy priorities in consultation and negotiation with various domestic interests, including business, labour/trade unions, civil society and in consideration of a country's economic performance and development. It is a complex process involving many actors and subject to continuous pressure.

30. Firms invest financial resources and managerial expertise into lobbying activities and often take proactive positions in international negotiations. Various strategies can be pursued but generally involve:

- monitoring policy developments abroad;
- building a case in favour of an interest and presenting it to policymakers;
- assisting government negotiators by providing technical support and information;
- building relationships with key policymakers;
- evaluating the benefits obtained in negotiations and promoting them domestically.[22]

31. A SME may feel relatively weak in its ability to influence trade policy and decide it is not worth the additional time and investment required.[23] Overcoming tariffs and other trade barriers **requires significant investment both in time and resources** and there are various reasons why SMEs may be reluctant to engage:

- Financial constraints – given their limited resources, SMEs will allocate funds to areas where they can get a quick return, generally not the case for trade policy.
- Human resource constraints – trade and regulatory issues often are extremely technical and require expertise. SMEs would have to allocate scarce human resources to constantly monitor and review proposed regulations or legislation at home and abroad.
- Lack of interest – SMEs may consider trade policy to be biased towards larger firms and become apathetic.
- Lack of advocacy expertise – SMEs do not have the experience to develop sophisticated advocacy strategies and may be financially reluctant to hire outside counsel.

32. Recently, the rise and participation of new actors such as environmental groups and non-governmental organisations (NGOs) has added greater complexity.[24] Moreover, trade policymaking encroaches on important domestic policy matters that raise sensitive questions of sovereignty, health policy, labour issues, and environmental concerns. All these factors make the process often politically difficult and can also discourage participation by SMEs.

---

22 ITC (2002), Business Advocacy and Trade Policy-Making: How the Business Community in Developing Countries Can Benefit from the Doha Development Round?, ITC, Geneva, p. 3.

23 Garth Whyte (2005), "Should SMEs be at the International Policy Table? Lessons learned in North America" presented at the 2005 International Small Business Congress, Washington D.C. June 17, 2005.

24 ITC (2002), Business Advocacy and Trade Policy-Making: How the Business Community in Developing Countries Can Benefit from the Doha Development Round?, ITC, Geneva, p. 14-15.

33. SME constraints can be overcome through a **framework that facilitates SME integration into the trade policy process.** This is not to imply the need for direct government intervention singling out SME trade policy issues, but rather the creation of a more cooperative and facilitating relationship. This relationship must comprise two elements of government-private sector interactions; (1) SME participation in governmental mechanisms for public consultation, and (2) programmes that assist firms to understand and overcome trade barriers. A common SME concern is that their views are not always fully represented within these processes.

1. Public consultation process

34. Governmental public consultation models vary and are closely tied to a country's history, economic system, growth and other variables. There are various models but generally include both formal and informal consultative mechanisms and are usually a reflection of the role of the state in a particular country. For example, centralised states tend to be less open to business advocacy while those that place more emphasis on open markets or export growth tend to accept higher levels of business input.[25]

35. OECD countries in general have more formalised and extensive consultative mechanisms involving business interests in both overall policy discussions and technical matters. Some governments provide for formal SME groups to solicit specific trade policy advice, such as the Industry Trade Advisory Committee on Small and Minority Business (ITAC 11) in the United States. Other examples are the SME Envoy in the European Union and the Canadian SME Advisory Board, whose mandate is to promote SME needs and perspectives in government policies, including on trade issues. Such groups provide a voice for SMEs, enabling them to engage in a formal and systematic dialogue with government.

36. In contrast, the public consultation mechanisms of many developing countries tend to suffer from resource constraints that limit private sector participation and often translate into defensive positions in relation to globalisation and import competition. Even here, however, international trade negotiations at the multilateral and regional level have helped focus attention on the need to develop and open, balanced consultative process for trade policy. As nations adopt more open trading regimes, business input becomes more important. This dynamic can be seen in Latin America, where various countries have developed more robust government-private sector consultative mechanisms. **Box 3** provides illustrations of national consultative mechanisms.

37. Greater involvement in the process would give SMEs a greater stake in policy outcomes that favour trade liberalisation and consequently greater opportunities for participation in the global marketplace, even if these processes may involve many national actors that could dilute SME positions. Moreover, the ability of trade officials to seek solutions to trade barriers depends crucially on identification and documentation of such barriers, which hinges on input coming from exporting firms, including SMEs.

---

[25] IBID, p.19.

Box 3. National experiences with consultative mechanisms

Mexico – much of the structure was established as a result of the North American Free Trade Agreement (NAFTA) negotiations and was generally considered to be very effective in bringing private sector views and advice to government negotiators.[26] However several aspects of the consultative process were later criticised by SME associations, (though these tended to represent defensive positions) for not taking their views into account.

Argentina – appears to have what can be characterised as a more informal approach to trade policymaking. Most input is provided on an ad-hoc basis and business interests intervene via informal channels.[27] The MERCOSUR and FTAA processes have helped to structure and focus attention on the development the consultative processes.[28]

Canada – has developed a mix of formal and informal consultative mechanisms. There are several formal consultative committees at varying political levels as well as advisory committees comprised of private sector groups that provide input on trade policy and technical issues. There are also informal mechanisms that seek input from all actors including private citizens. The system is considered to work well, although some non-business actors opposed to overall trade liberalisation have been critical.[29]

European Union – although results vary, due to differing consultative procedures in the 25 Member States a 2004 European Commission study found that consultations had significantly improved in recent years but that the level of business involvement into law and policy making differs from country to country and is relatively weak in some members. The main issue that business organisations faced during the consultation process was not enough time to prepare a contribution, not enough human resources, and not enough technical expertise, with several of the new member states less satisfied than the EU 15.[30]

Nigeria – lacks resources to fully develop public consultation within its policymaking structure. While formal structures exist, governmental trade policy resources are limited. Private sector consultation also is limited, tends to be informal, is based on personal relationships and mostly defensive in nature.[31]

2. Programmes to assist SMEs overcome trade barriers

a. Government programmes

38. In addition to the export promotion programmes identified by the OECD/APEC survey focusing on internal barriers and financing, some governments have programmes that assist exporters to diagnose and overcome trade barriers.

---

26 Alba, Carlos V. and Vega, Gustavo C. (2002), "Trade Advisory Mechanisms in Mexico", in The Trade Policy-Making Process Level One of the Two Level Game: Country Studies in the Western Hemisphere. Inter-American Development Bank (IADB), Washington DC. p. 63.

27 Bouzas, Roberto and Avogadro, Enrique (2002), "Trade-Policy Making and the Private Sector: A Memorandum on Argentina", in The Trade Policy-Making Process Level One of the Two Level Game: Country Studies in the Western Hemisphere, IADB, Washington DC., p. 7-8.

28 Ibid p. 9.

29 Dawson, Richard and Symond William A. (2002), "The Consultative Process in the Formulation of Canadian Trade Policy", in The Trade Policy-Making Process Level One of the Two Level Game: Country Studies in the Western Hemisphere, IADB, Washington DC., p. 29-30.

30 European Commission (2005), Consultation with Stakeholders in the shaping of National and Regional Policies Affecting Small Business: Final Report of the Experts Group. Brussels, p.5-6.

31 Jerome, Afeikhena (2005) "Institutional Framework and the Process of Trade Policy Making in Africa: The Case of Nigeria" presented at "African Economic Research Institutions and Policy Development: Opportunities and Challenges" conference Dakar, January 28-29, 2005. National Institute for Economic Policy, p. 4 -10.

39. Many of these programmes, some of which Box 4 illustrates, are in OECD countries and often are linked to negotiating objectives in multilateral and bilateral agreements aimed at reducing trade barriers. They can provide an active element allowing firms to raise issues or problems directly with their home-country governments who (subject to review) will intercede with foreign governments or provide an option for legal proceedings when appropriate.

40. Some programmes may not necessarily be intertwined with export promotion programmes and export promotion officials may not be as familiar with trade policy barriers as opposed to finance and access barriers.

b. International organisation programmes

41. Multilateral programmes can be useful, particularly for developing country exporters, but are primarily informational. They provide assistance in capacity-building and help encourage SMEs towards internationalisation by building relationships with policymakers, academia and other international actors. A good example is the *World Tr@de Net* administered by the International Trade Centre UNCTAD/WTO in Geneva. *World Tr@de Net* is an online portal aimed at helping firms understand complex trade issues. It brings together national networks of government and business interests, facilitates government-private sector exchanges and organises research and practical capacity-enhancement seminars on various trade issues.

Box 4. Select support programmes

European Union – Trade Barriers Regulation (TBR) is a legal instrument that gives rights to European Union firms, association, industries and member states to lodge complaints with the European Commission. It is aimed at opening third-country markets by eliminating obstacles to trade for EU exporters. In addition to the TBR, the EU maintains the Market Access Database (MAD) which collects data on trade barriers in third countries. Firms and business groups have the possibility to enter data on export conditions and report trade barriers. European Commission staff examines complaints and can engage trading partners to remove them.[32]

United States –The Office of the U.S. Trade Representative (USTR) coordinates U.S. monitoring of trade agreements along with other government agencies (*e.g.* Department of Commerce, State, and Agriculture). USTR can initiate WTO Dispute Settlement Cases (DSB), invoke U.S. trade law (*e.g.* Section 301), utilise trade agreement provisions, and other measures to assist U.S. firms overcome trade barriers. The Department of Commerce's Trade Compliance Centre (TCC) runs a programme as part of the overall U.S. trade enforcement strategy that presents firms with the opportunity to report trade barriers, consult U.S. trade agreements, receive updates on foreign technical regulations, and market information. Like the EU MAD, the TCC offers the opportunity to approach foreign government officials on behalf of U.S. industry regarding a trade barrier.[33]

China – The Chinese government publishes annually the "Foreign Market Access Report" detailing the "trading regimes and practices of trading partners". The report compiles information from government, the private sector and other sources and can be used by consular staff in discussions with foreign governments.

New Zealand –The Trade Access Support Programme (TASP) funds efforts to remove trade barriers faced by exporters. TASP objectives include international negotiations but also research and funding of government efforts to promote exports including multilateral negotiations, participation in international conferences, funding technical issues, research studies, and technical cooperation.[34]

---

32 Information taken from http://ec.europa.eu/trade/issues/respectrules/tbr/index_en.htm

33 Information taken from http://tcc.export.gov and http://www.ustr.gov

34 Information taken from http://www.mfat.govt.nz/trade-and-economic-relations/trade-and-economic-analysis/0-trade-access-support.php

c. *Business or trade associations*

42. Business and/or trade associations give voice to SME interests in various forms. SMEs can opt to pursue several strategies, for example via closer cooperation with large firms or in SME-only organisations. There are variances to these strategies that can affect SME participation.

43. **Cooperating or grouping with large firms** can provide greater visibility and clout for SME policy positions. Examples include MEDEF, UNICE, AMCHAM, U.S. Chamber of Commerce, Japan Chamber of Commerce, etc. However weighted representation may favour large firms and association staff may give greater consideration to the views of larger members.[35]

44. **SME-only organisations** on the other hand can suffer from too narrow or parochial views on trade issues, especially if they are sector-based. Moreover, they are subject to internal pressures among members, particularly if they include competitors, which may delay action on specific issues. But their concerns and positions would convey SME-focused viewpoints. Trade associations that cater to SMEs include the Small Business Exporter Association in the United States, the Federation of Independent Business in Canada, the National Federation of Small Business Association in Japan, and the European Association of Craft, Small and Medium-Sized Enterprises in the European Union. In addition, several groupings operate at the global level, such as the International Council of Small Business, and the International Network for SME.

D. Conclusions

45. SMEs are fast-paced, entrepreneurial, research and design intensive firms, making it probable that those which survive the business initialisation process and seek to internationalise are highly capable and well suited to perform in a competitive global marketplace. However the traits that are vital to their growth also make them especially vulnerable to the effects of trade barriers. This creates an opportunity for governments to assist SMEs in overcoming trade barriers.

46. Government - business consultations on trade policy should be open, balanced, and transparent, providing a clear channel for SME participation. Governments should review best practices to find the models that are most clearly aligned with their domestic political system and create mechanisms that encourage and facilitate SMEs to become active participants in the trade policy process.

47. In terms of programmes, governments should try and assist exporting SMEs to diagnose and understand the operating business environment they face in host countries, including trade barriers. Also governments or trade associations should explore avenues to enhance SMEs technical capabilities that would allow them to actively participate in the consultative and regulatory development processes.

48. SMEs on their part should work closely with their home governments, to identify trade barriers that can then be acted upon. Trade policymakers rely on private sector trade barrier identification as input into the trade policy process.

49. Governments should continue to negotiate and successfully conclude ongoing multilateral trade negotiations, thus opening markets, reducing trade barriers and promoting a stable and transparent trading environment. This includes not only large scale negotiations like those at the WTO, but also the

[35] Teufelsbauer, Werner (2005). "Optimal Organisation of Cross-Sectoral SME Peak Associations" European Association of Craft, Small and Medium-sized Enterprises (UEAPME) with the Support of the European Commission, Avignon, France. p. 2.

development of regulatory co-operation agreements among governments to reduce trade-related compliance costs.

50. When drafting and implementing regulations governments should keep the constraints of SMEs in mind. In particular, governments should collect the views of all stakeholders, including SMEs, and provide mechanisms for transparency about regulations and how they are implemented. Reference tools available include the OECD Guiding Principles for Regulatory Quality and Performance.[36]

51. International organisations and national governments should cooperate to provide support for developing country exporters (primarily SMEs) whose home government may lack available means and resources to fully understand trade policy issues and practices.

36 OECD (2005), OECD Guiding Principles for Regulatory Quality and Performance, Paris.

Annex 1: Concerns about trade barriers reported in business surveys

Survey	India (2004)	New Zealand (2001)	Thailand (2001)	ASEAN (undated)
Export Market	Africa, Asia, Latin America, Baltic countries	Global	Asia and Pacific	ASEAN countries
Data Set	Unspecified number of firms	381 firms exporting goods and services (of 1591 approached)	Unspecified number of SMEs	331companies (of 2000 approached)
	Legalisation of documents	Standards and certification: data certification and testing requirements; labelling; marking or packaging problems; delays in approval	Increased competition from other APEC nations (9.3 out of 10)	Monopolistic practices
	Registration of imports	Customs procedures: arbitrary regulations; misclassification; excessive documentation requirements; delays due to lack of automation	Lack of advanced technological production processes (9.0)	Trade documentation and customs procedures
	Government monopoly	Food safety and health requirements	Lack of investment (8.0)	Other levies and charges
	Packaging and labelling requirements	Import quotas or prohibitions	International trade regulations (7.7)	Import restrictions
	Certification and testing (delays, discrimination)	Cargo handling and port procedures and requirements	Little knowledge of foreign market characteristics (7.5)	Import licensing/permits
	Customs delays and fees	High internal taxes or charges	Difficulty of obtaining government support (6.6)	Standards and other technical requirements
	Inspection	Subsidies or tax benefits given to competing domestic firms	Lack of financial resources to market products overseas (6.5)	Customs classification and valuation
	Import restrictions	Distribution constraints in importing countries	Language barrier (5.6)	
	Heavy fines	Import licensing	Ineffective/unclear government export promotion policy (6.3)	
	Health rules	Irregular ' additional payments' expected to effect imports	Complicated export and shipping documentation (5.4)	
	Regional Trading Agreements	Other items	Improper packaging (5.2)	

Note: For most of the surveys shown, items are listed in ascending order based on the frequency of responses per item (items on top of list are mentioned by more respondents in a survey than are items shown further down the list.)

Sources: Ministry of Commerce and Industry (2004), Highlights of the latest NTB study, in : India's Foreign Trade, New Delhi; Association of Southeast Asian Nations (ASEAN) (undated); Non-Tariff Barriers; ACNielsen consultants on behalf of Standards New Zealand, the Ministry of Foreign Affairs and Trade, the Ministry of Economic Development, the Ministry of Agriculture and Forestry, and Trade NZ (2001), Assessing the presence and impact of non-tariff trade barriers on exporters, Wellington, New Zealand, June 2001.

Survey	**Sweden (2000)**		**ALADI (2001)**	**CARICOM (2002)**
Export Market	European Union	Set of non-EU economies in Eastern Europe, Asia, North and South America, Middle East, plus Australia	ALADI economies (Argentina, Bolivia, Brazil, Chile and others)	Caribbean Community economies
Data Set	189 Swedish exporters of non-agricultural goods		30 SMEs (of 220 approached)	Broad consultation of private sector and other actors
	Technical barriers	Customs procedures (especially too much documentation, takes too long, lack predictability)	Product standards – lack of information	Para-tariff measures (customs charges, internal taxes, other)
	Services restrictions	Technical barriers (especially product requirements, testing, certification and labelling)	Customs and bureaucratic procedures	Price control measures (administrative price fixing)
	Competition problems	Services restrictions (especially domestic regulations, recognition of foreign standards/education/titles, limits on market access, anti-competitive behaviour)	Finance and payments mechanisms	Finance measures
	Taxes and fees	High tariffs (especially machinery and electrical materials, non-precious metals and derived goods)	Non-tariff barriers – not specified	Import licensing (automatic and non-automatic)
	Government support	Investment restrictions(especially requirements of national content in production, direct FDI restrictions)	Competition in costs and production	Quotas and prohibitions
	Other	Competition problems (especially abuse of dominant position, collusion, cartels)	Transportation: costs, frequency, insecurity	Monopolistic measures (single channel for imports)
		Public procurement (especially lack of openness /information, discrimination, local content requirements)	Regulations and regional agreements – lack of information	Technical measures
		Taxes and fees (especially discrimination)	SPS and heterogeneous technical measures	Countervailing duties
		Foreign exchange measures (especially restrictions on inflow and outflow of capital)	Asymmetrical physical and technological infrastructure	
		Rules of origin	Political and economic instability	
		Government support to domestic enterprises		
		Quantitative import restrictions		
		Other items		

Note: For most of the surveys shown, items are listed in ascending order based on the frequency of responses per item (items on top of list are mentioned by more respondents in a survey than are items shown further down the list.)

Sources: Kerstin Berglöf, National Board of Trade (Kommerskollegium) (20001), Trade barriers faced by Swedish firms on the Single Market and in third countries, Stockholm, April 2001; Non-Tariff Barriers;ALADI (2001), Informe sobre los requerimientos de las PYMES para impulsar el comercio intraregional que podria desarrollar la ALADI, Montevideo, Uruguay; Caribbean Export Development Agency (2002), Inventory on Non-tariff, trade restricting measures applied by Member States, CARICOM Secretariat, Georgetown, Guyana.