Helping SMEs internationalise through trade facilitation

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Context

- SMEs are significant contributors to economic activity and employment in both developed and developing countries.

- However, their participation in international trade remains limited relative to larger firms:

<table>
<thead>
<tr>
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<th>Developed</th>
<th>Developing</th>
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<tbody>
<tr>
<td>Exports</td>
<td>33%</td>
<td>18%</td>
</tr>
<tr>
<td>Imports</td>
<td>40%</td>
<td>38%</td>
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*Source: Lopez-Gonzalez and Sorescu (forthcoming) based on OECD TEC database and World Bank Enterprise Survey.*

- This suggests that their ability to benefit from globalisation might also be limited relative to larger firms.
Aim

- To identify how at-the-border costs condition SME participation in international trade.
- Focus on SMEs engagement as exporters but also as importers, looking at both the intensive and extensive margins.
- Cross-country approach, looking at wide set of both developing and developed countries (combination of methods and datasets).

**Internal and external challenges for SMEs in getting goods to markets**

a) Trade related internal challenges

- Access to scale and low productivity
- Lack of experience
- Adoption of technology

b) Trade related external challenges

- To-the-border
- At-the-border
- Beyond-the-border

Border procedures $\rightarrow$ OECD Trade Facilitation Indicators

*Note:* The figure is for illustrative purposes and non-exhaustive; many other challenges arise whether internal or external. *Source:* Authors’ elaboration.
Linking specific trade facilitation policies to SMEs internationalisation

OECD Trade Facilitation Indicators (TFIs)

- (a) information availability
- (b) Consultations with traders
- (d) Appeal procedures
- (e) Advance rulings
  - (f) Documents
  - (g) Automation
- (b) Procedures
- (i), (j) Border agency cooperation
- (e) Fees and charges
Cross-country approach

- World Bank Enterprise Survey (WBES)
  - SMEs and trade participation
  - wide coverage of developing countries
  - indicators of trade engagement of small firms
  - sometimes limited number of firms surveyed by country
  - good coverage of developed economies
  - proxies for trade engagement of small firms
  - reflects official statistics and has been collected and processed consistently with countries' other statistics
  - due to legal confidentiality constraints, data cannot be disaggregated along more than 2 dimensions

- OECD Trade by Enterprise Characteristics (TEC)
In developing economies, smaller firms appear to benefit more from aggregate TF improvements.

Effect of a 0.1 TFI improvement (average index of all 11 trade facilitation areas) on the probability of exporting or importing.

Source: Lopez-Gonzalez and Sorescu (forthcoming).
But some **specific TF measures** matter more

Effect of a 0.1 TFI improvement (by area) on the probability of SMEs (developing economies) engaging in international trade

Source: Lopez-Gonzalez and Sorescu (forthcoming).
In developed economies, SMEs also benefit from overall TF improvements and relative impacts of specific reforms are also different.

Effect of a 0.1 TFI improvement (by area) on SMEs (developed economies) engagement in international trade

Source: Lopez-Gonzalez and Sorescu (forthcoming).
How can trade facilitation help reduce costs of importing and exporting for SMEs?

- The analysis suggests that TF reform can help:
  - Reduce fixed trade costs, helping SMEs become importers and exporters.
  - Reduce variables trade costs, helping SMEs that already export and import increase volumes.

- The evidence also suggests that TF reform might not only lead to overall efficiency gains, but also may contribute to levelling the playing field between large and smaller firms.

- Of the range of TF reforms, measures such as streamlining of procedures, automation of the border process, simplification of fees, or consultations with traders could have the largest differentiated impacts on SMEs relative to larger firms.
What can policy-makers do?

• **Continuing trade facilitation reforms** in the areas covered by the WTO Trade Facilitation Agreement (TFA) and beyond will promote increased benefits from international engagement for SMEs, including in terms of:
  → Direct exports and imports
  → Indirect exports
  → Participation in GVCs

• However, many of the constraints that SMEs face in internationalising relate to *access to information, skills, technology or finance*, underscoring the importance of continued action to address them.

• Promoting digital connectivity by *increasing the quality of digital infrastructure* and decreasing the cost of access, will be key in an increasingly digitized world.

• As the global economy becomes more interconnected and globalized, further international cooperation is needed to provide an international operating environment where SMEs can flourish.
Thank you for your attention!

For further information:
Small and medium-sized enterprises and trade
OECD Trade Facilitation Indicators

Access all of the information from the Trade & Agriculture Directorate at:
www.oecd.org/tad

You can reach us via e-mail by sending your message to the following address:
tad.contact@oecd.org

We invite you to connect with us on Twitter by following:
@OECDtrade
@OECDagriculture
There are other channels through which SMEs can benefit: indirect exporting

- Indirect exporting, selling intermediates to larger firms that export, represents an important channel through which SMEs can internationalise, especially in GVC intensive sectors.

Direct and Indirect exports of SMEs in Viet Nam (2012)

Source: López-Gonzalez et al. (forthcoming) analysis based on splitting TiVA database using firm level data.
And helping smaller firms become more integrated in GVCs

- More efficient customs procedures help large and small firms integrate into GVCs, but they also help SMEs more

Determinants of SME participation in GVCs as buyers

Source: López-Gonzalez et al. (forthcoming) – standardised coefficients
SMEs account for a larger share of value added in international trade when indirect exports are taken into account.