



HOW DO NTMS AFFECT SME PARTICIPATION IN GVCS IN ASEAN?

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Navigating Non-Tariff Measures toward Sustainable
Development
Bangkok
July 2019

Context

- GVC participation in ASEAN has been a driver of economic development.
- However questions remain about whether or not these gains are accruing to SMEs or if it is large companies that are benefitting.
- Previous analysis showed that:
 - **SMES tend to import less than larger firms**, suggesting that there might be constraints limiting their ability to source foreign inputs, affecting their competitiveness.
 - ASEAN SMEs tend to be **more specialised than larger firms in the production of intermediates** sold into GVCs (but their participation through this channel remains low).
 - **Indirect exporting represents an important channel through which ASEAN SMEs internationalise** (especially in GVC intensive sectors such as electrical equipment and transport equipment)

Context

- Non-tariff measures are likely to be an important determinant of participation, but little is known about how...
- Aim of this work is to identify what impact NTMs have on different modes of participation of SMEs in GVCs
- We first map NTMs in ASEAN and then estimate how these impact participation of firms in trade and GVCs.



MAPPING NTMS IN ASEAN

» The number of NTMs is growing...

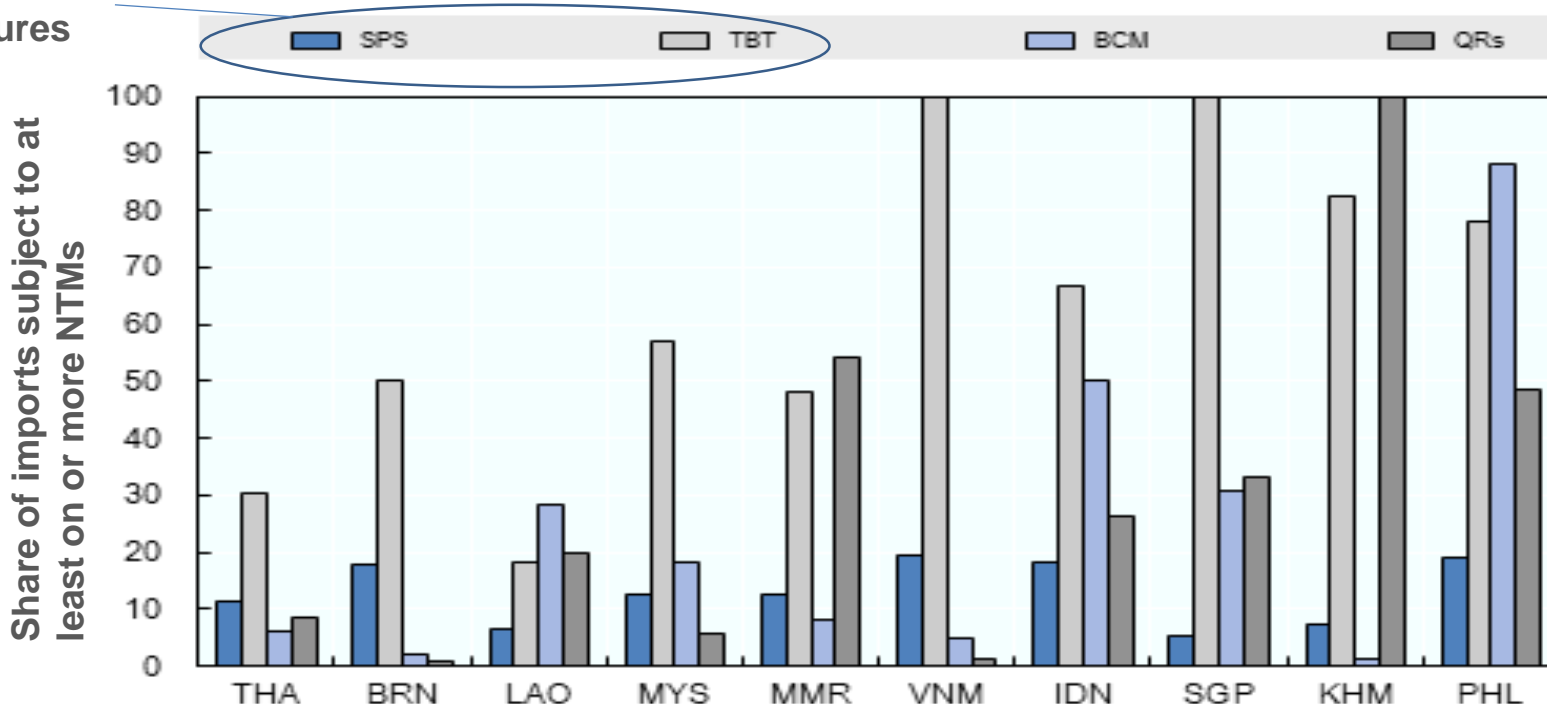
- While tariff rates have fallen considerably in ASEAN, the number of NTMs has grown from 1,634 measures in 2000 to 5975 measures in 2015.
- These apply to both domestically produced and imported products.
- They can have a negative effect on production and trade:
 - Increase production costs, by increasing product standard-related compliance costs
 - Increase the costs of importing, by requiring inspection and testing that lead to additional costs and delays.
- However, NTMs can also have positive effects:
 - They can be market “catalysts” (Cadot et al. 2018). When quality of suppliers is unknown, regulations and standards can help firms signal they conform to quality.

» The presence of NTMs **varies considerably** in the region

- Technical measures are most widespread
- Non-technical measures, esp. in KHM, PHL, LAO, IDN unlikely to result in positive effects

Technical measures

Coverage ratio for four types of NTMs in 2015



Note: The coverage ratio refers to the share of imports subject to at least one or more NTMs.

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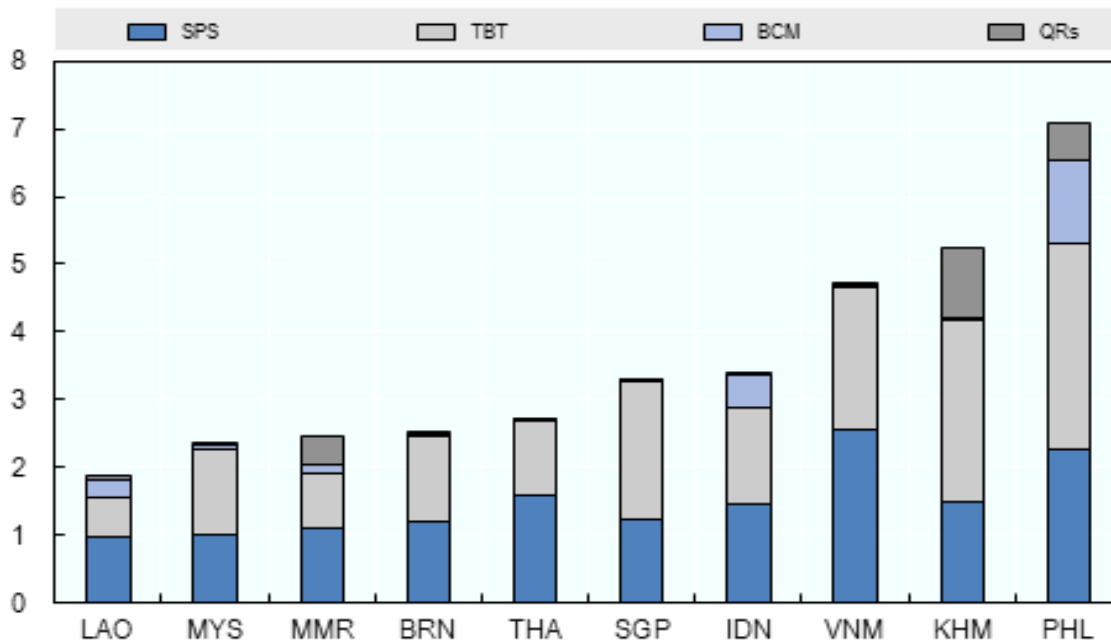
Source: OECD calculations based on MAST database

» The **accumulation of NTMs** may be especially burdensome for SMEs

- Higher compliance costs can also arise from the accumulation of different non-tariff measures on a single product.
- For instance, a can of tuna could be subject to:
 1. a specific sanitary standard (SPS);
 2. a technical measure related to the fishing method (TBT); and
 3. several licensing requirements (QRs).
- The greater the number of NTMs applied to a single product, the higher the burden of compliance for SMEs, especially those with a lower scale of operations.

Affecting intra-regional exports/imports

Average number of NTMs per product in ASEAN (2015)



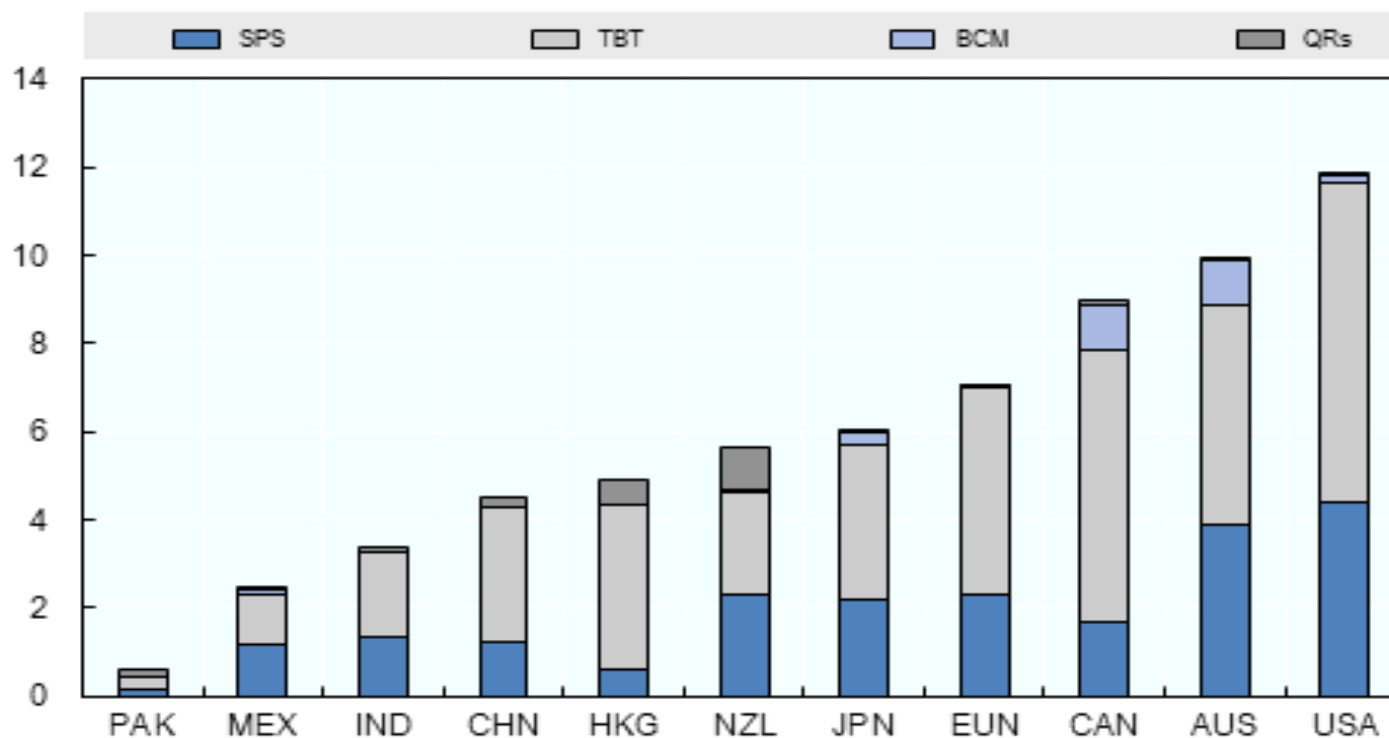
Note: The figures capture the average number of NTM types applied to a single product.

Source: OECD calculations based on MAST database.

- E.g. Products sold in Malaysia face, on average two NTMs, one SPS and one TBT.
- In Philippines, 6 NTMs (2 SPS, 3 TBT, rest BCM/QR)
- More difficult to sell in some markets

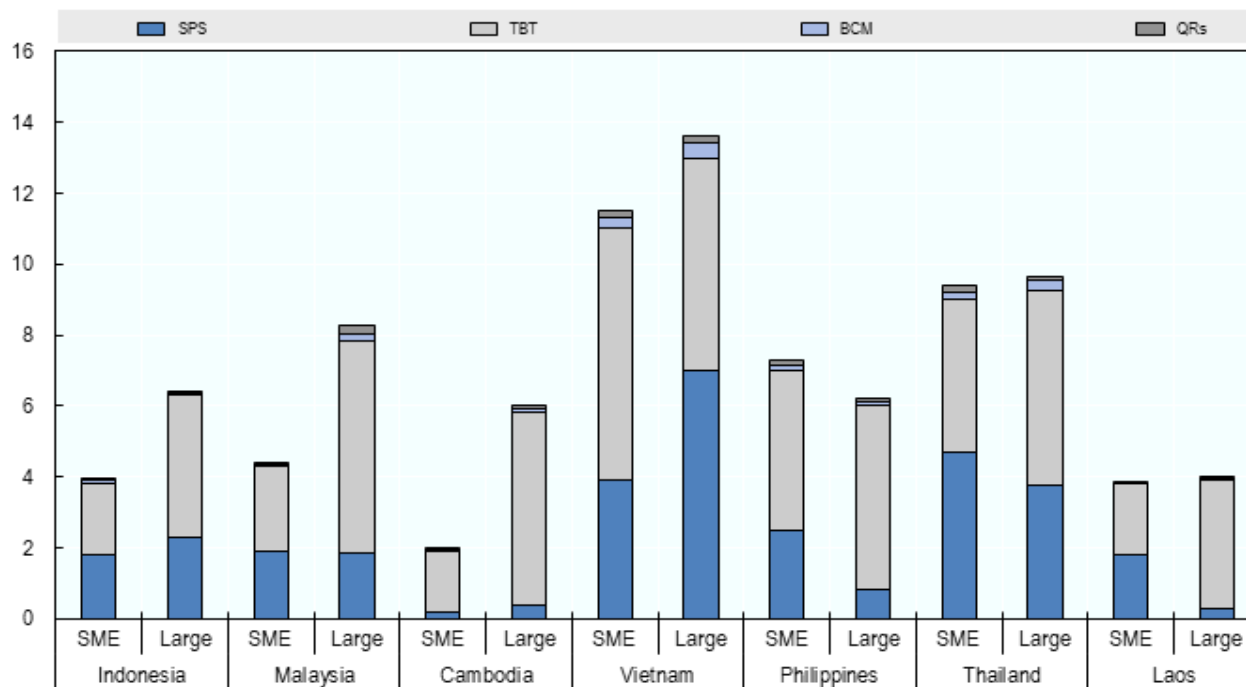
And extra-regional exports

Average number of NTMs per product in other export markets (2015)



But SMEs operate in different sectors than larger firms, often facing fewer NTMs

Potential number of NTMs faced by exports



Note: Values identify the average number of NTMs applied abroad in the sectors of operation of firms of different size.

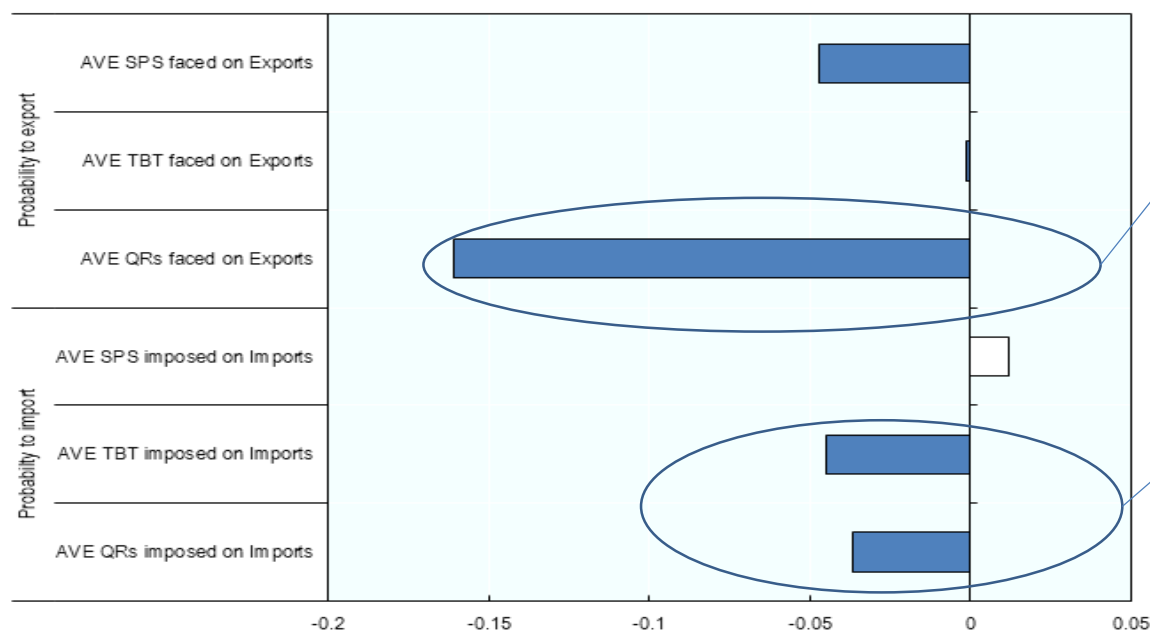
Source: OECD calculations based on MAST database and World Bank Enterprise Survey.



IDENTIFYING THE IMPACT OF NTMS ON TRADE AND GVC PARTICIPATION

NTMs (AVE) reduce the ability of ASEAN SMEs to become importers or exporters

Impact of ad-valorem equivalents of NTMs on the probability of ASEAN SMEs to trade



Quantitative restrictions have a strong negative effect on export propensities

TBTs and QRs have a strong negative effect on import propensities

Note: The figure shows significant standardised coefficients from a probit regression. White bars identify non-significant coefficients. WBES data

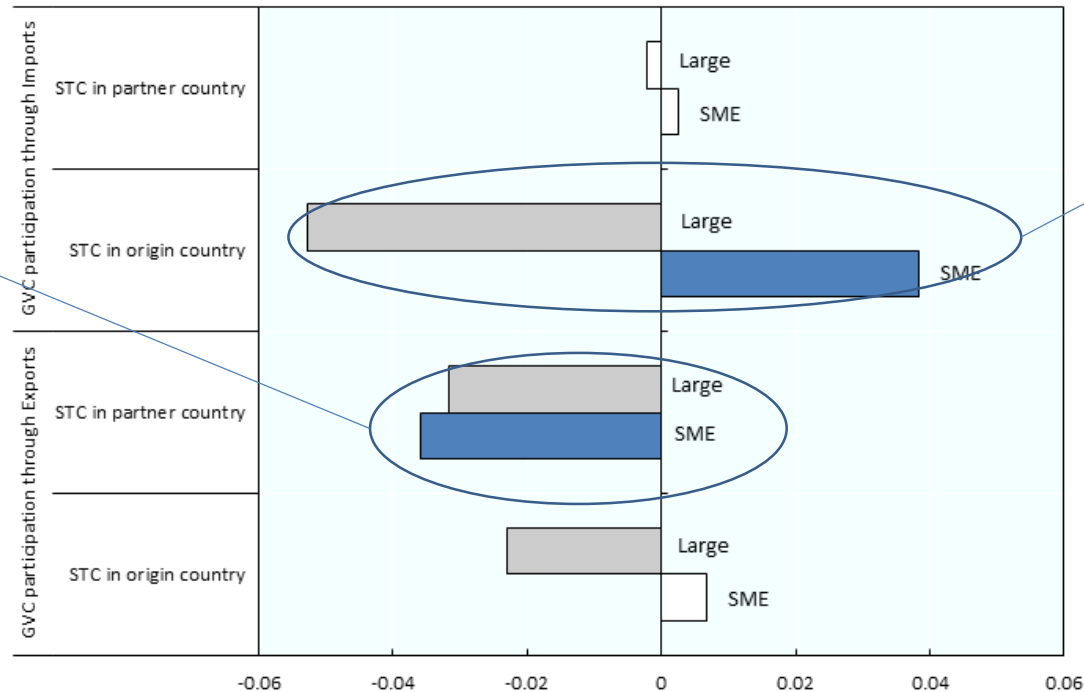
Source: OECD calculations based on AVE of NTMs estimated in Cadot et al. (2018) and World Bank Enterprise Survey.

Presence of NTMs notified at the WTO has a significant impact on SME participation in GVCs

NTM impact on GVC integration

In terms of exports, the presence of NTMs at destination reduces value of intermediates sold into GVCs

+
Larger impact on SMEs (as theory would suggest)



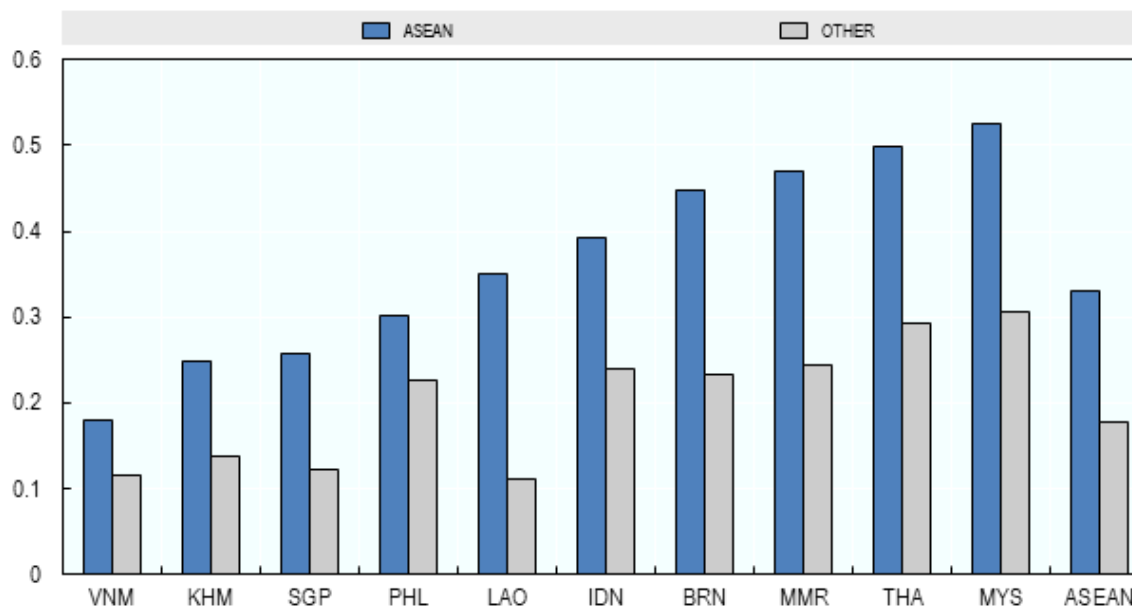
Presence of NTMs at home increases propensity of SMEs to import but reduces propensity of large firms (unclear why)

Note: The figure shows significant standardised coefficients from a gravity regression. White bars identify non-significant coefficients.

Source: Authors' calculations

Regulatory heterogeneity can increase trade costs

- Data show that ASEAN countries are more similar with each other than with respect to other countries

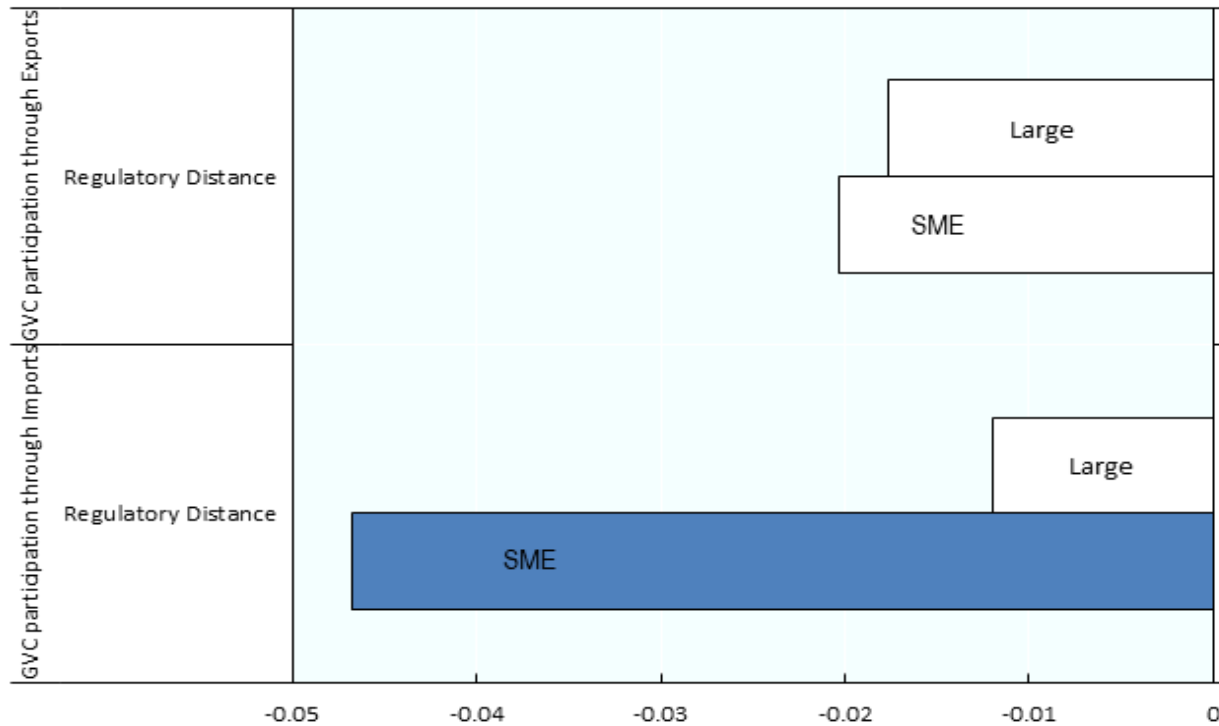


Note: The index give the percentage share of similar regulation, see Cadot et al. (2018)

Source: OECD calculations based on MAST database

» These seem to disproportionately affect SMEs, especially backward participation (importing)

Regulatory distance effect on GVC integration



What does this all mean?

- NTMs can act as barriers to GVC integration of ASEAN SMEs.
- Large compliance costs may arise from the accumulation of different NTMs and regulatory heterogeneity
- On aggregate SMEs that face stronger and more numerous NTMs are less likely to export and import
- Further analysis is needed to better understand transmission mechanisms.
- However, negative impact of regulatory distance suggests that there might be value in promoting further ASEAN wide harmonisation with a view to helping SMEs in the region better integrate into GVCs

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