F. Conclusions

Micro firms and SMEs are heterogeneous by nature, ranging from small producers of non-tradable services to born-global suppliers of digital products, from low-productivity farmers to producers of fine specialty crops, and from informal tailor shops to formal garment assembly factories.

International trade has long been dominated by large companies, because they have the critical mass, organizational reach and relevant technologies needed to access and supply foreign markets. But thanks to the Internet and the rise of international production networks, many innovative and productive small firms now have the potential to become successful international traders as well. Participation in international trade, once exclusive, can therefore progressively become more inclusive.

The opportunities to connect to world markets created by the information and communication technology (ICT) revolution are particularly relevant for SMEs. E-commerce reduces the costs related to physical distance between sellers and consumers by providing information at a very low cost. Through online platforms, smaller businesses, including from developing countries, can connect with distant customers. The rise of international production networks and of trade in global value chains (GVCs), which has, to a large extent, been made possible by the ICT revolution, also holds great potential to facilitate the internationalization of SMEs. While SMEs may find it difficult to compete along an entire line of activities, they can more readily integrate into GVCs by performing tasks in which they have a comparative advantage.

There are benefits from more inclusive firm participation in international trade. Exporting can improve firm productivity. This is especially true in African countries, where exporting has been found to raise productivity by between 25 per cent and 28 per cent. The quality of SME products can also benefit from involvement in international trade. Furthermore, access to foreign intermediate inputs can increase firms' efficiency, as it allows them to use more diverse and higher quality inputs. Consumers may also benefit from more inclusive firm participation in international trade, due to the wider variety of available goods, including artisanal and custom-made products. And SME participation is a way to share the gains from trade more broadly across society, generating distributional benefits from trade.

Indirect forms of internationalization, through GVC participation, can also greatly benefit SMEs. Through GVCs, SMEs can overcome knowledge gaps about the type and quality of products and technologies required by global markets. They can find customers and reduce the uncertainties and risks associated with operating in foreign markets. This is particularly relevant for SMEs in developing countries, which tend to be more information-constrained. The prospect of participating in GVCs provides incentives to innovate. Furthermore, to become suppliers of large multinationals, SMEs are increasingly required to adhere to codes of conduct and programmes for sustainable supply chain management, including best practices on issues such as health and safety, labour rights, human rights, anti-corruption practices and environmental impact. This can create benefits for society at large.

New trade theories suggest that only the most productive firms export and that exporting is concentrated, with a few very large firms accounting for most exports. SMEs are, on average, less productive than large firms. Accordingly, this report has shown that relatively few SMEs export (compared to large firms) and that they account for a relatively small fraction of overall exports. In developing countries, the sum of direct and indirect exports by SMEs represents on average just 10 per cent of total manufacturing sales, compared to 27 per cent for large manufacturing firms. In developed economies, the share of SMEs in gross exports ranges from 28 per cent (taking only direct exports into account) to 41 per cent (including indirect exports).

This report has argued, however, that SME participation in trade is neither well documented nor well understood. First, there is no consistent definition of SMEs. Second, there is a general lack of internationally comparable data. Third, SME participation in trade through GVCs can be underestimated if the direct or indirect sales of intermediates by SMEs to exporting firms in their home countries – a form of indirect GVC integration along domestic value chains – are not appropriately taken into account. Fourth, existing data on e-commerce do not allow for quantification of the effects of e-commerce on SME export activities. Better data collection and more research are therefore needed to be able to characterize the various forms of SME participation in trade.

Various obstacles hinder the participation of SMEs in trade, despite the emergence of new opportunities and the benefits that can be expected from the connection of SMEs to world markets. Most obstacles are internal to firms, as they are related to managerial skills, workforce capacity and the capability to adopt new technologies, to innovate and, ultimately, to increase productivity. Other obstacles are external. Access to information about foreign distribution networks, border regulations and standards are among the main obstacles to SME participation in exports. All these trade costs mostly include a fixed component. It is not surprising that they fall disproportionately on small, rather than large, firms. More surprisingly, this report has presented evidence suggesting that variable costs – such as transport and logistic costs and tariffs – also disproportionately affect SMEs.

There are also obstacles specific to access to e-commerce and GVC participation. Problems related to the logistics for shipping a good or delivering a service, ICT security and data protection, and payment-related problems are the major issues SMEs face relative to web sales. Logistics and infrastructure costs, regulatory uncertainty and access to skilled labour are among the major challenges for SMEs attempting to join production networks.

While the literature on trade agreements has only recently started to consider firm heterogeneity, in reality SMEs figure prominently in multilateral and preferential trade agreements and in the work programmes of international organizations. Many governments, particularly in developing countries, use SME support programmes as second-best policy tools to remedy those market failures that particularly affect SMEs. Governments may want to preserve such programmes even as they sign up to international agreements. This is reflected in the various SME-related exemptions found both in regional trade agreements and in WTO agreements.

The primary objective of international cooperation on SMEs, however, is the creation of a more inclusive trading system that contributes to unlocking SMEs' trading potential. Multilateral rules that reduce both the variable and fixed costs of trade, such as those contained in the WTO Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, the Technical Barriers to Trade (TBT) Agreement and the Trade Facilitation Agreement (TFA), have the effect of levelling the trading field, alleviating some major constraints faced by SME traders. Transparency provisions help reduce the information burden of most WTO agreements on SMEs, from developing and developed countries alike. The WTO's work in the area of capacity-building, which tries to expand trading opportunities of its developing country members, has a prominent SME component. As argued in Section E, internationally-oriented SMEs from least-developed countries (LDCs) are also likely to particularly benefit from duty-free and quota-free market access, the preferential rules of origin for LDC exports and the services waiver adopted at the Tenth WTO Ministerial Conference in Nairobi in 2015, and the recently launched initiative aimed at enhancing existing trade finance facilitation programmes.

This report has argued that progress can be made in a number of areas. Transparency mechanisms could be further enhanced with a view to make it easier for SMEs to access information. More research is needed to establish clearly what works and what does not when it comes to SME-related provisions in trade agreements, including multilateral ones. The outcome of this research would be invaluable to policy-makers and to trade negotiators. Last, but certainly not least, cooperation and coordination among international organizations should be deepened, so as to make their efforts directed at SME internationalization more complementary with one another.