How aid for trade helps reduce the burden of trade costs on SMEs

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SMEs: the backbone of economic activity

- In OECD countries, SMEs represent:
  - Over 95 per cent of the number of firms
  - Around 60-70 per cent of employment

- … in developing countries the employment share of SMEs can be even higher (in particular if informal SMEs are included). Examples include (ADB, 2013):
  - Thailand: 77% of employment
  - Lao PDR: 81% of employment
  - Indonesia: 97% of employment
SMEs find it hard to participate in and benefit from global trade

Source: OCE calculations from World Bank ES dataset

Exporter is defined as a firm with 10% or more of sales exported (direct plus indirect)
Fixed costs affect small exporters disproportionately

- Unlike large companies, most SMEs do not possess in-house trade or international departments with experts who know how to efficiently overcome relevant trade costs.

- SMEs tend to have limited resources and a lower threshold to absorbing risks, especially when operating in intensely competitive markets (OECD, 2006).

- More generally, the fact that SMEs tend to trade smaller quantities implies that fixed trade costs often make up a larger share of the unit cost of their goods and services when compared to rivals exporting larger volumes.
Learning more about fixed costs affecting SME exporters

Whether and how to address bottlenecks to exports will depend on the nature of those bottlenecks
What are the three factors in which you would most value improvements: SMEs versus large firms

- i. Access to information about export opportunities
- ii. Access to information about procedures and regulations
- iii. Tariffs, fees and other charges
- iv. Costs related to overcoming NTMs and regulatory burdens
- v. Border procedures in your country
- vi. Border procedures in destination country
- vii. Transportation systems
- viii. Network infrastructure in your country
- ix. Access to trade finance

Access to information and Access to finance are highlighted.
NTMs as obstacles to trade: a private sector perspective

Figure 3.3 Exporters’ affectedness by NTM-related obstacles, by company size

<table>
<thead>
<tr>
<th>Company Size</th>
<th>Number of Companies</th>
<th>Affectedness</th>
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</thead>
<tbody>
<tr>
<td>Micro (1-10)</td>
<td>3,117 companies</td>
<td>54%</td>
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<tr>
<td>Small (11-50)</td>
<td>4,361 companies</td>
<td>48%</td>
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<tr>
<td>Medium (51-250)</td>
<td>3,195 companies</td>
<td>42%</td>
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<tr>
<td>Large (&gt;250)</td>
<td>1,372 companies</td>
<td>42%</td>
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NTMs as obstacles to trade: a private sector perspective

Figure 3.5 Reason making NTMs burdensome for exporters, by sector

- Agriculture:
  - Too strict: 25%
  - Both: 40%
  - Procedural obstacles: 35%

- Manufacturing:
  - Too strict: 19%
  - Both: 58%
  - Procedural obstacles: 23%
What are the three factors related to border procedures in which you would most value improvements?

- Information
- Transparency
- Consultations
- Efficiency

<table>
<thead>
<tr>
<th>SME priorities</th>
<th>Large</th>
<th>SME</th>
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<tbody>
<tr>
<td>...</td>
<td></td>
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<tr>
<td>xiii. Business voice in the design and implementation of...</td>
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<td>xii. Customs cooperation</td>
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<td>xi. Transit efficiency of goods moving through intermediate...</td>
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<td>x. Bureaucracy/complexity connected with trading operation</td>
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<td>ix. Movement of goods under customs control</td>
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<td>viii. Border agency coordination</td>
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<td>vii. Efficient release and clearance of goods</td>
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<td>vi. Consistent and reasonable application of fees and charges...</td>
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<tr>
<td>v. Transparency of controls and inspections</td>
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<td>iv. Ability to challenge decisions taken by customs authorities</td>
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<td>iii. Advanced rulings regarding classification and origin of...</td>
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<td>ii. Consultation on new regulations regarding border...</td>
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<td></td>
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<tr>
<td>i. Publication and availability of information regarding...</td>
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Aid for Trade: addressing trade costs for SMEs

Finding the buyer: The important role of Trade Support Institutions

Delivering to the buyer:
- Access to information about product and service requirements
- Firm level capacity to meet regulatory and standard related requirements
- The need for commensurate technical infrastructure at the national level
- Addressing Non-Tariff Barriers and Procedural Obstacles for more Efficient Cross-Border Procedures
  - Promoting Inter-Agency Coordination
  - Enhancing Transparency and Predictability
  - Simplifying Documents and Procedures and Reducing Charges and Fees
To conclude

- Trade costs (in particular those taking the form of fixed costs) can affect SMEs disproportionally.
- Survey evidence shows that costs related to access to information, access to trade finance or regulatory burdens are particularly burdensome for SMEs.
- Trade Support Institutions have traditionally played an important role in providing trade-related information and may deserve increased attention in an AfT context.
- Global information platforms are also contributing to facilitating access to information notably regarding Non-Tariff Measures.

- The Trade Facilitation Agreement foresees the creation of private-public dialogue mechanisms at the national level. Ensuring an SME-voice in these dialogues would be in line with current thinking at the B20 level (e.g. Task Force on SMEs and Entrepreneurship).