WORLD TRADE ORGANIZATION

WORLD TRADE REPORT 2016

Levelling the trading field for SMEs

Overview

Today's increasingly interconnected global economy is transforming what is traded and who is trading. International trade has long been dominated by large companies. But thanks to dramatically reduced trade barriers, improved transportation links, information technologies and the emergence of global value chains, many small and medium-sized enterprises – SMEs – now have the potential to become successful global traders as well. Participation in international trade, once exclusive, can progressively become more inclusive.

The *World Trade Report 2016* examines the participation of SMEs in international trade. In particular, it looks at how the international trade landscape is changing for SMEs, where new opportunities are opening up and old challenges remain, and what the multilateral trading system does and can do to encourage more widespread and inclusive SME participation in global markets.

The Report finds that small businesses continue to face disproportionate barriers to trade and highlights the scope for coherent national and international policy actions that would enhance the ability of SMEs to participate in world markets more effectively. It underlines that participation in trade has an important role to play in helping SMEs become more productive and grow. For open trade and global integration to fully benefit everyone, it is crucial to ensure that all firms – not just large corporations – can succeed in today's global marketplace.

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I hope this report will inform discussions and help to ensure that SMEs' interests are always remembered, so that we can continue building a more open and inclusive trading system, the benefits of which are available to all.

Roberto Azevêdo
WTO Director-General

Key facts and findings

- In every country's population of firms, most are small. Small and medium sized enterprises – SMEs (excluding micro enterprises, non-employers and informal firms) – account for 93 per cent of enterprises in non-high income, non-OECD countries. Micro firms and SMEs account for over 95 per cent of all enterprises in OECD countries.

- Micro firms constitute the bulk of MSMEs in all countries. On average, 83 per cent of the more than 12 million firms covered by the IFC's MSME Country Indicators are micro firms. Information for five developing countries indicates that, among informal firms, the overwhelming majority (between 80 and 95 per cent) are micro firms.

- Most MSMEs (85 per cent of micro firms and 72 per cent of SMEs) operate in the services sector, and in particular in wholesale and retail trade.

- MSMEs account for around two-thirds of total employment in developing and developed countries alike. Their contribution to GDP is lower, at around 35 per cent in developing countries and around 50 per cent in developed countries. This is due to the fact that small firms are 70 per cent less productive than large firms.

SMEs in international trade

- Trade participation of SMEs in developing countries is low, with exports accounting for 7.6 per cent of manufacturing sales, compared to 14.1 per cent for larger firms.

- MSMEs account for 34 per cent of exports on average in developed countries. There is a positive relationship between enterprise size and export participation, with lower rates of participation for micro (9 per cent) and small enterprises (38 per cent) than for medium-sized (59 per cent) and large enterprises (66 per cent).

- In developing economies, indirect exports in the manufacturing sector of SMEs were estimated, on average, at 2.4 per cent of total sales, a level three times lower than the estimated share of direct exports. Most manufacturing SMEs in developing countries have low levels of integration in global value chains, with few backward and forward linkages in production.

- In developed economies, the direct contribution of SMEs to domestic value-added exports is predominant over their contribution to indirect exports.

- Electronic commerce expands opportunities for SMEs to participate in international trade. On average, 97 per cent of internet-enabled small businesses export. Meanwhile export participation rates for traditional SMEs range between 2 per cent and 28 per cent in most countries.

- In developing countries, there is an inverse relationship between the number of employees that a firm has when it begins operations and the number of years before it starts to export. For large firms that started as SMEs, it took 17 years to export for those that began with five employees or less, compared to five years for those that had 60-100 employees.

Dynamics of internationalization processes of SMEs

- There is no unique theoretical framework able to characterize and explain the dynamic process of internationalization of SMEs, mainly because of the heterogeneity characterizing SMEs.
- Some SMEs experience a gradual internationalization, starting with sporadic exports. Conversely, certain SMEs engage in international business activities from the outset or soon after their creation. Other SMEs are able to integrate into global value chains.
- SMEs may be more strongly affected than larger firms by barriers to foreign market entry, which may deter them from participating in international trade. SMEs engaged in international markets tend to be more productive than domestic SMEs, as they need to be able to incur the fixed cost component associated with exporting.
- Although internationalization, and in particular exporting, is often viewed as an important strategic development option for SMEs, empirical evidence on the impact of internationalization on SME performance is limited.
- Some recent studies on African firms show that participation of SMEs in international markets can result in higher growth and employment through economies of scale and in enhanced productivity and innovation through learning effects.

Trade obstacles to SME participation in trade

- Tariffs and non-tariff restrictions affect the ability to participate in trade of SMEs more adversely than that of large enterprises.
- Trade facilitation promotes the entry of SMEs into export markets. Small exporting firms profit relatively more when trade facilitation improvements relate to information availability, advance rulings and appeal procedures.
- Services SMEs are relatively more impacted by barriers on “establishment” than by barriers on “operations”, notably when these concern mode 4 trade (movement of natural persons).
- Logistics tend to cost more for SMEs than for large enterprises. For example, in Latin America, domestic logistics costs can add up to more than 42 per cent of total sales for SMEs, as compared to 15-18 per cent for large firms.
- SMEs face more credit rationing, higher “screening” costs and higher interest rates than larger enterprises. SMEs are also the most credit constrained. It is estimated that half of their requests for trade finance are rejected, compared to only 7 per cent for multinational corporations.

- The benefits from the ICT revolution are particularly high for SMEs. However, there are some unique costs of online trade, such as the costs of accessing ICTs and the need for certainty and predictability in regimes governing global data transfers. Small firms in LDCs only attain 22 per cent of the connectivity score of large firms in LDCs, compared to 64 per cent in developed countries.

- GVCs help SMEs to overcome some of the difficulties they face in accessing international markets. However, lack of skills and technology, together with poor access to finance, logistics and infrastructure costs and regulatory uncertainty make it difficult for SMEs to participate in GVCs.

Cooperative approaches to promoting SME participation in trade

- Reference to SMEs in RTAs has increased over the years. Almost half of the notified RTAs currently in force include at least one provision relating explicitly to SMEs.

- The importance and scope of SME-related provisions has also increased in recent years. The two most common categories of SME-related provisions are cooperation activities and exemptions for SMEs from certain provisions of the RTA.

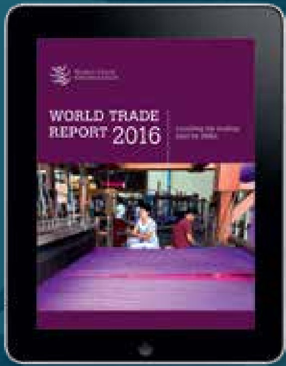
- Although SMEs are not always specifically mentioned in WTO agreements, multilateral rules have the effect of levelling the trading field, alleviating some major constraints faced by SME traders and thereby fostering SME participation in international trade.

- Multilateral rules reduce both the variable and fixed costs of trade that hinder SMEs from entering foreign markets. Since the establishment of the WTO, members have successfully reduced average MFN applied tariffs to an average of 9 per cent, representing a cut of nearly a third since 1998. The SPS and TBT agreements, among other WTO agreements, include information-related provisions that reduce the fixed costs of accessing foreign markets and thereby help smaller firms.

- WTO rules include a number of flexibilities that, in a similar fashion to the exemptions included in RTAs, address the public policy concerns of governments wishing to support SMEs. They make it easier for a member to exercise its rights when it acts on behalf of SMEs; they allow them to continue providing financial contributions to SMEs; they give members greater leeway to promote the technological development of their SMEs; and they allow members to provide preferential treatment to their SMEs.

Available as an app

The *World Trade Report 2016* will soon be available as an app. This will comprise the full text of the Report plus the underlying data for all charts and tables contained in the Report. It will also contain a video and photos of the launch event. The app will be available for downloading onto your iPad/Android tablet or mobile phone.



The Report is available in English, French and Spanish:

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