

SME trade: the next frontier?

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Questions to address

1. What are the benefits and costs of trade?
2. How does SME and large firm trade differ?
3. Do we need more SMEs traders? Why?
4. What tools might help more SMEs to engage internationally?

One motivation for SME trade

Demands for more inclusive growth/trade



The upside of global engagement

Small domestic market, by population



The upside of global engagement

Large global market, by population



SME exporter performance benefits

	Exporters	Non-exporters	Exporter premium (% difference between exporters and non-exporters)
Revenue (\$ millions)	3.5	1.6	121
Pre-tax profits (%)	13	11	18
<i>Firms that invested in (%)</i>			
Research and development	24	7	222
New information and communications technology	60	41	46
New machinery and equipment	42	40	5
Training	46	35	33
<i>Percentage of firms that innovated</i>			
Product	40	21	90
Process	26	13	100
Organizational	27	14	93
Marketing	28	15	87
Imported	49	23	113
Outsourced	13	2	529
Were part of a global value chain ¹	13	4	212
Engaged in foreign direct investment	2	1	157

***Dual causality:
Better firms trade
and trade makes
firms better***

Plenty of potential trade costs

- Gather market knowledge
- Attract new customers
- Vet foreign suppliers
- Financing
- Transportation/logistics
- Import duties
- Comply with:
 - int'l regulations
 - rules of origin
- Distance/culture/language
- Awareness, use of gov't trade support programs

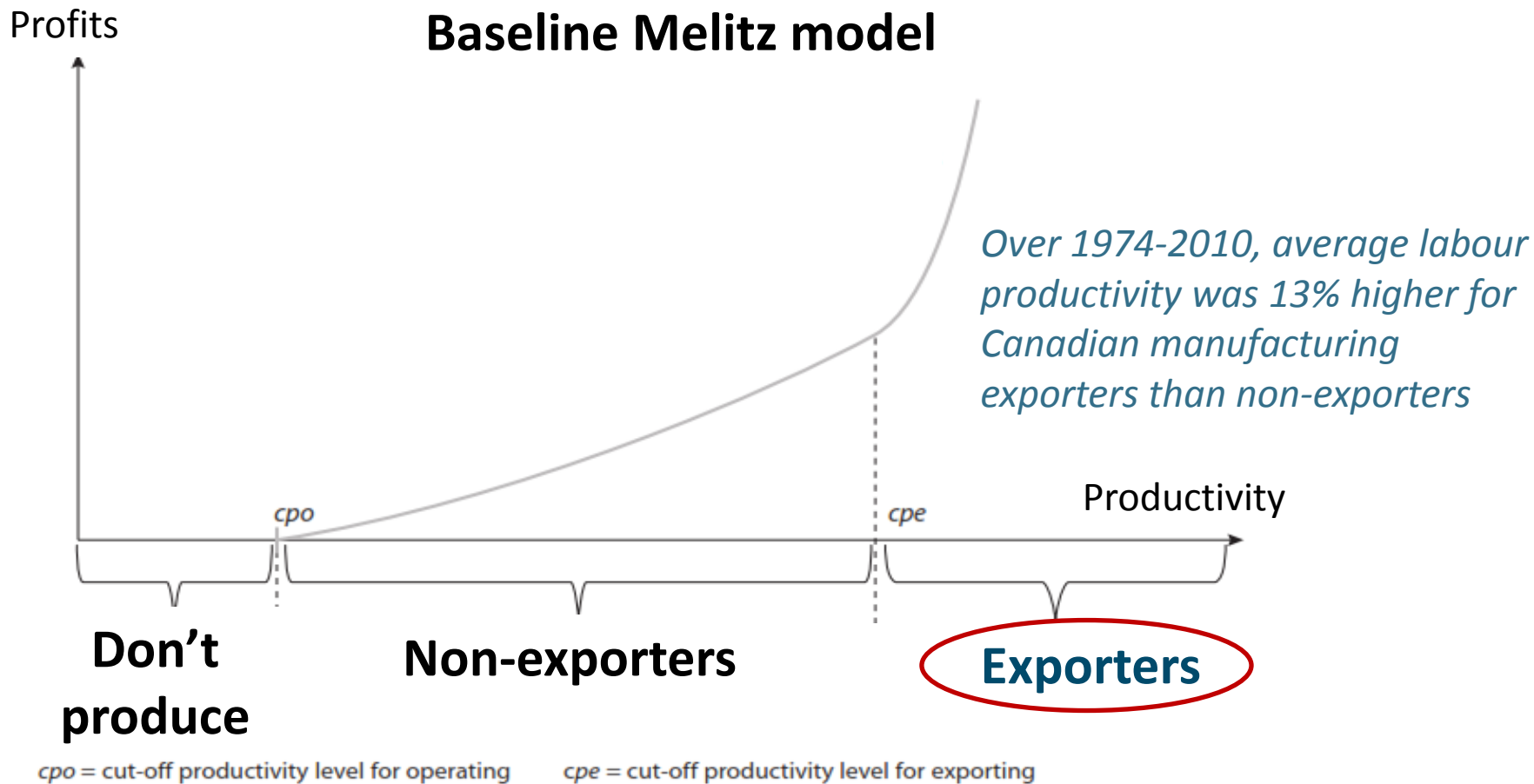
A key feature of trade costs

Disproportionately restrain SMEs

More acute obstacles for first-time traders

- information
- capacity/resource constraints
- finance

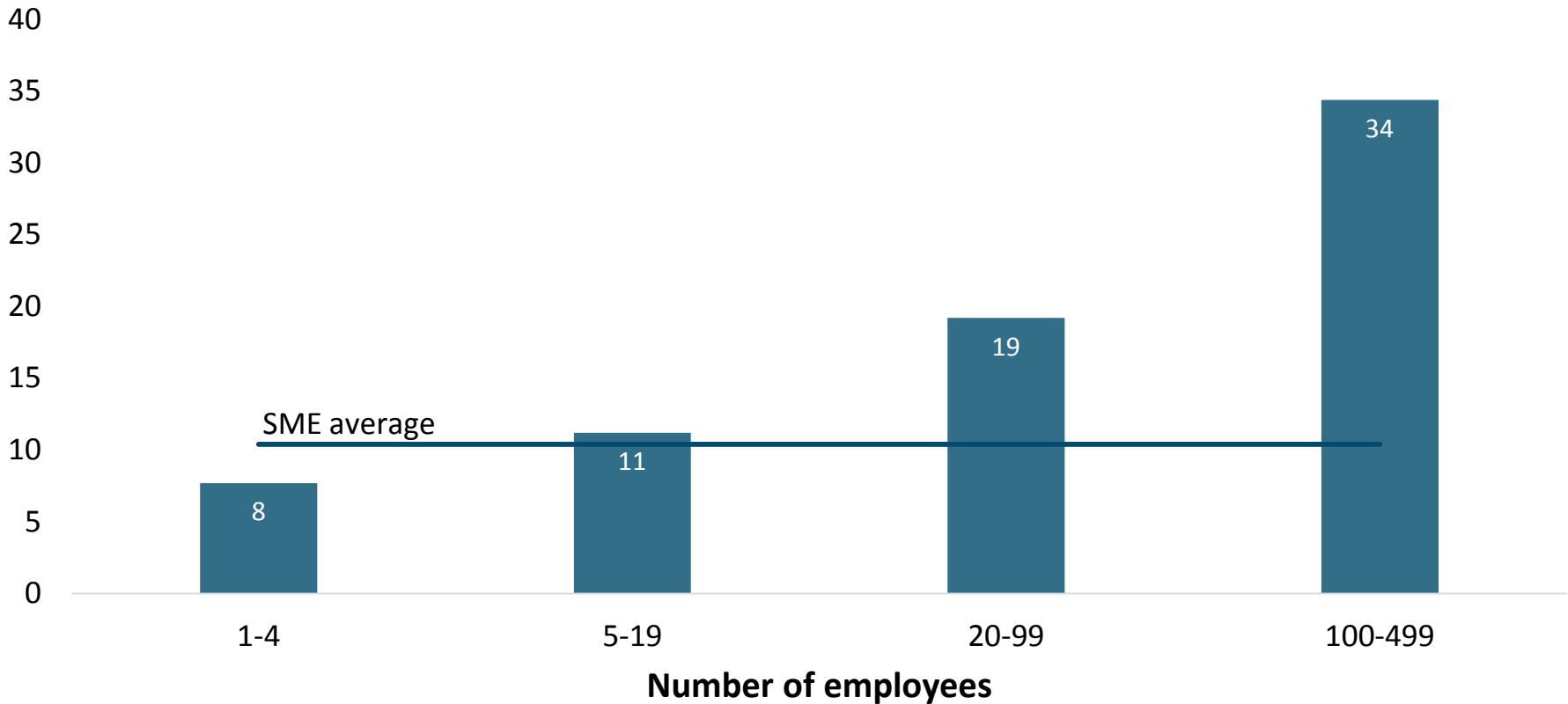
Firms that can afford to incur the costs of exporting are typically more productive



Even though exporting increases with firm size...

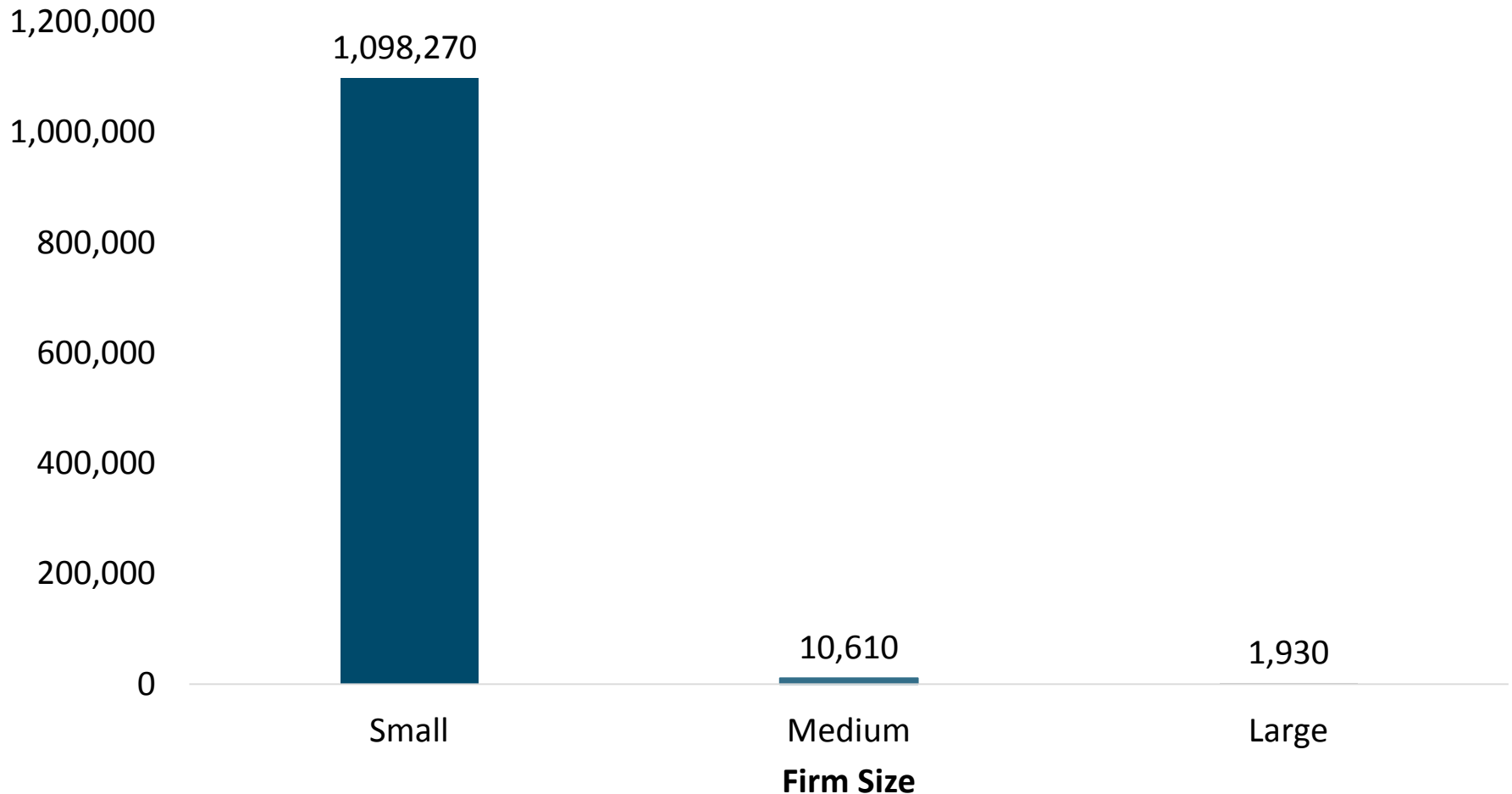
Export propensity, 2014

(percent of firms that exported a good and/or service)



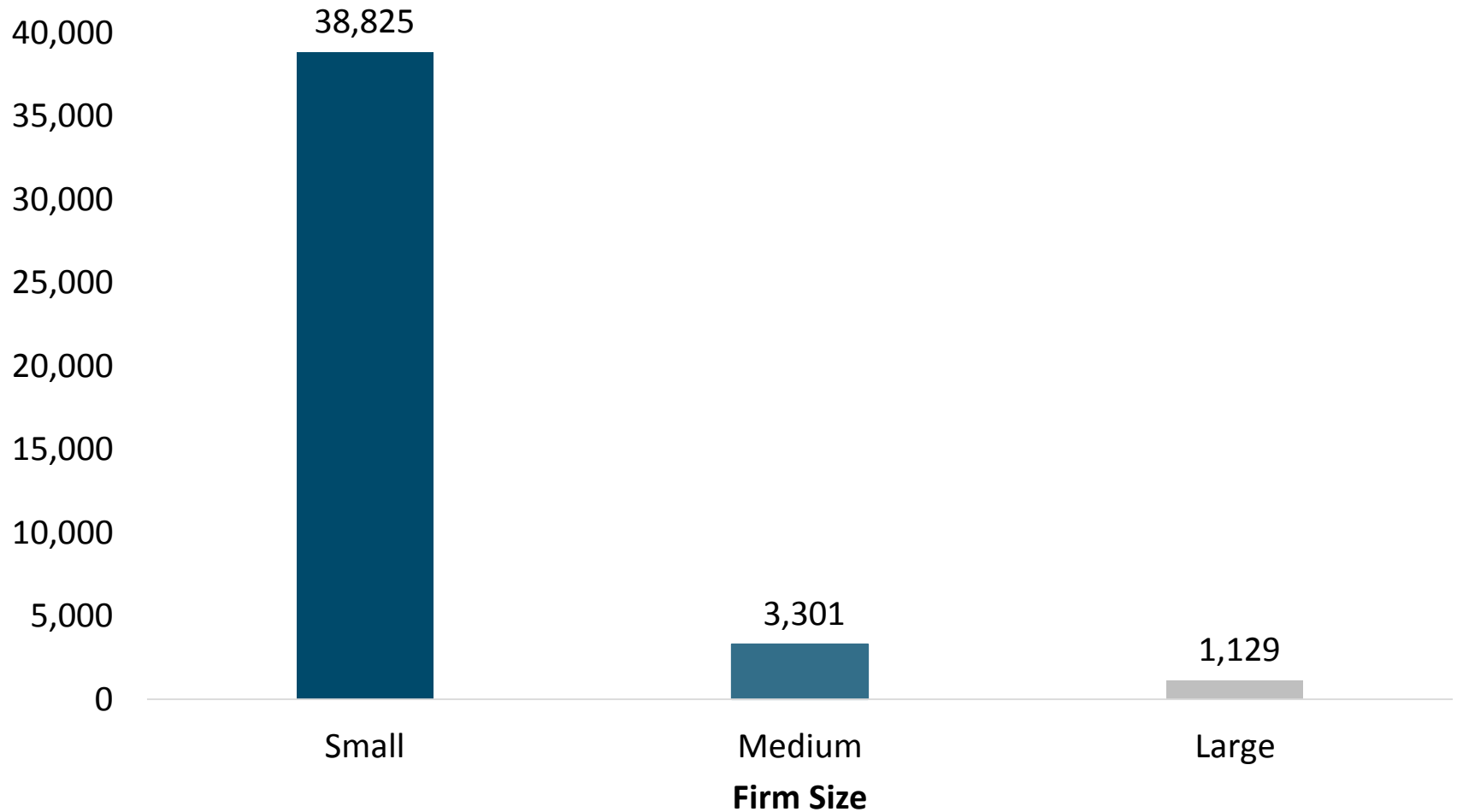
...because the vast majority of Canadian businesses are small...

Number of active employer private-sector businesses, 2015

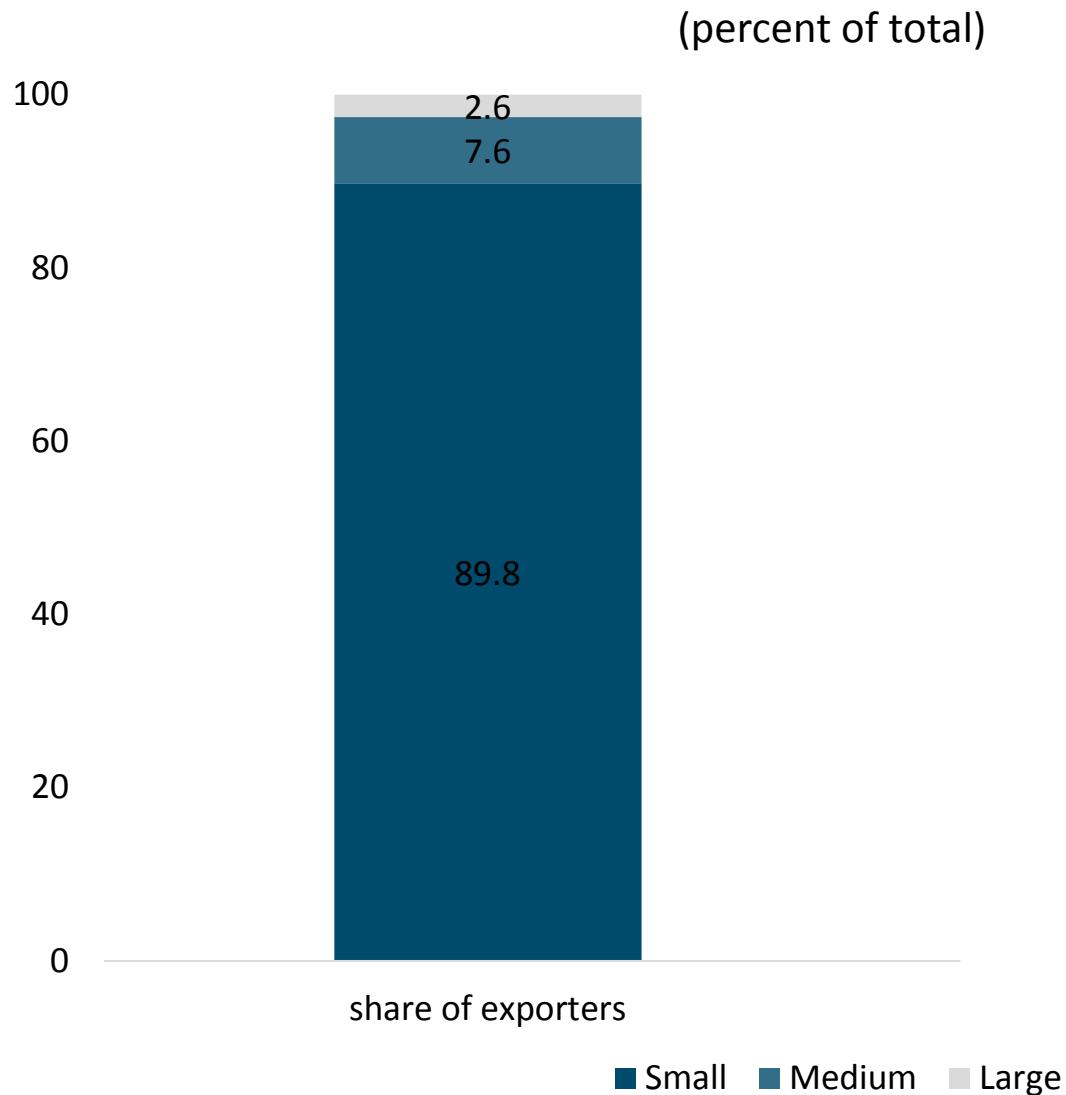


...most exporters in Canada are SMEs.

Number of merchandise exporters, 2016

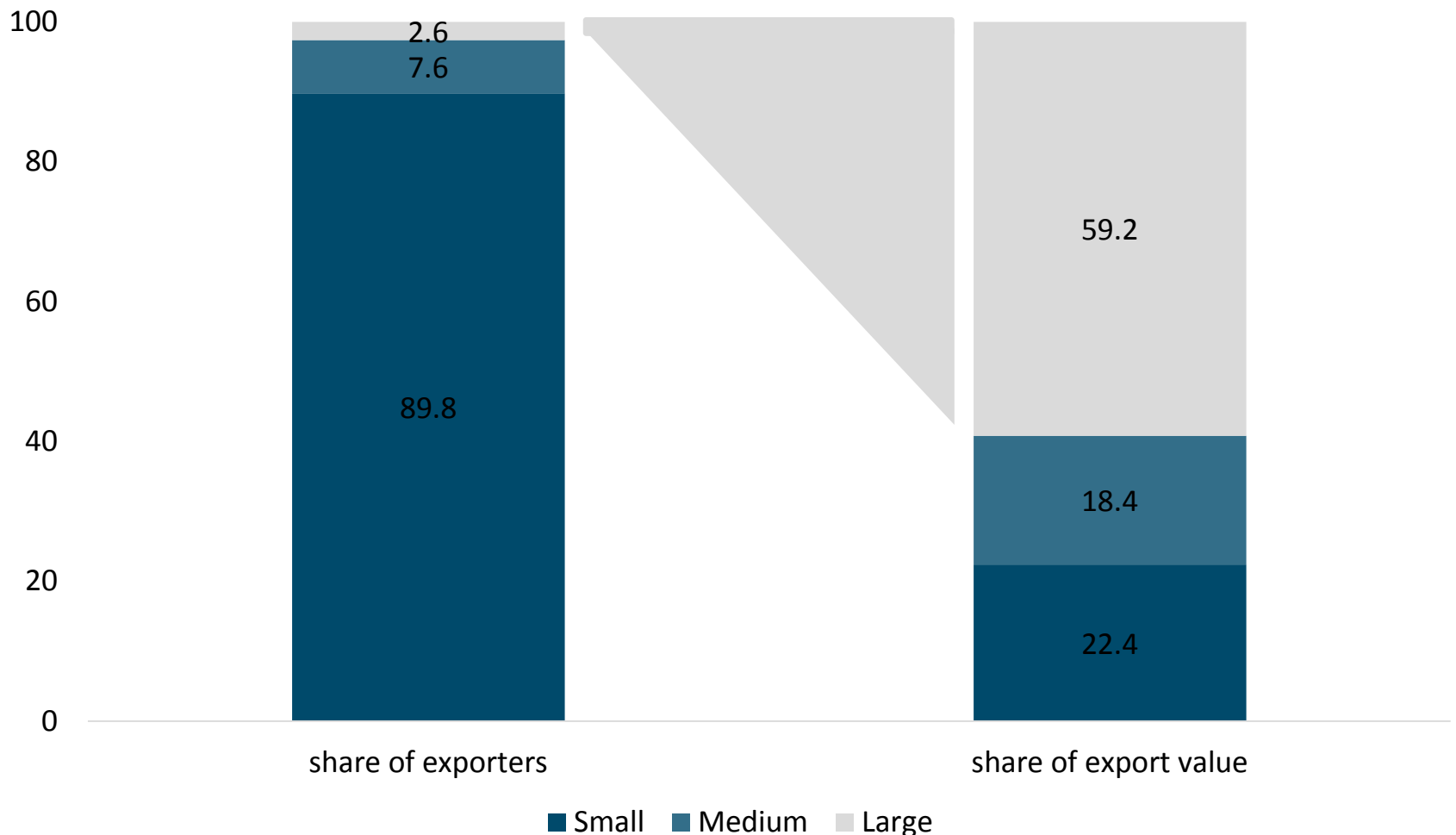


Distribution of goods exporters by size



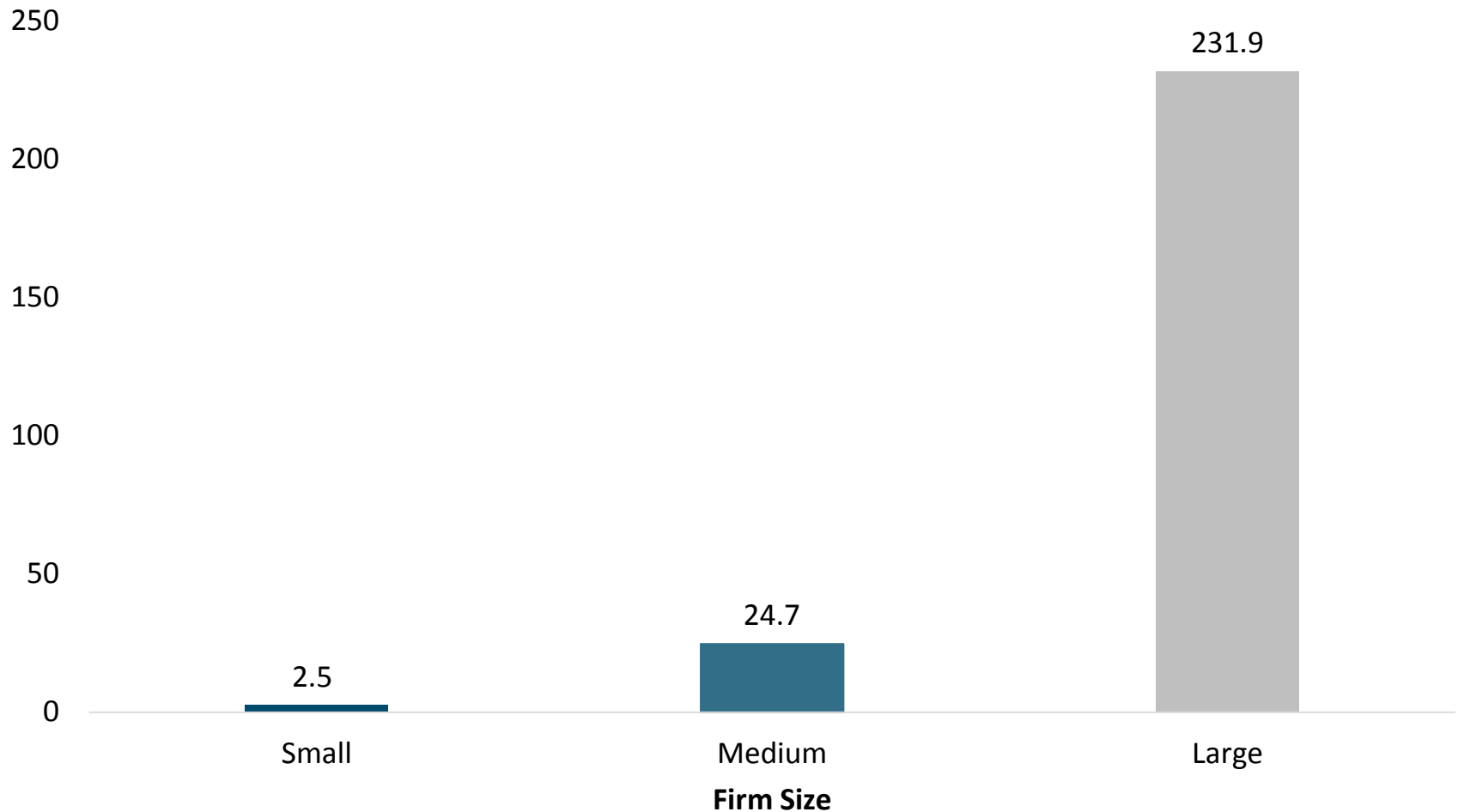
...most export value is concentrated among a small number of large firms.

Distribution of Canadian merchandise exports by firm size, 2016
(percent of total)

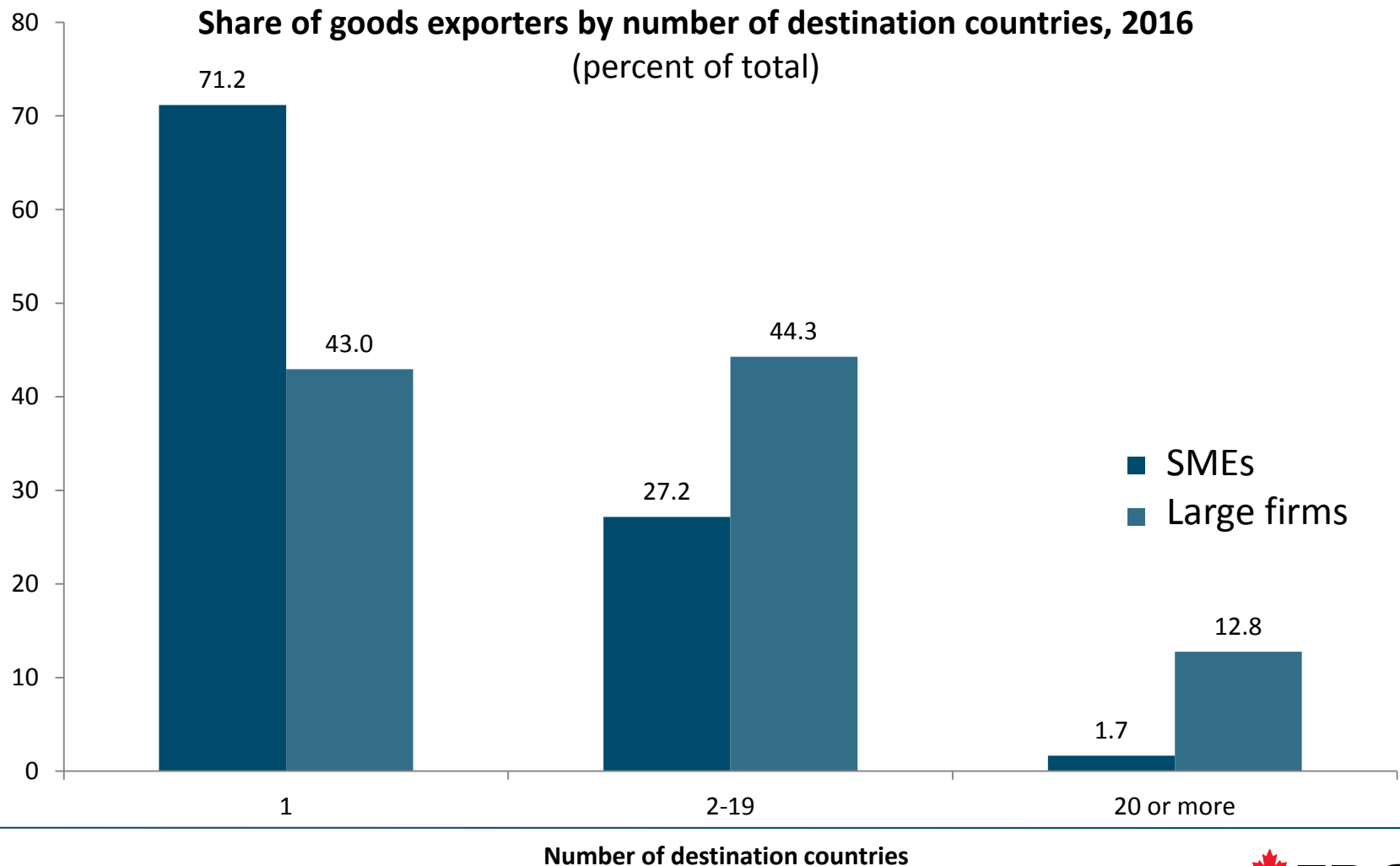


On average, large firms exported 10 times more value than medium-sized firms, and 100 times more than small firms

Average merchandise export revenue per exporting enterprise, 2016
(millions of dollars)

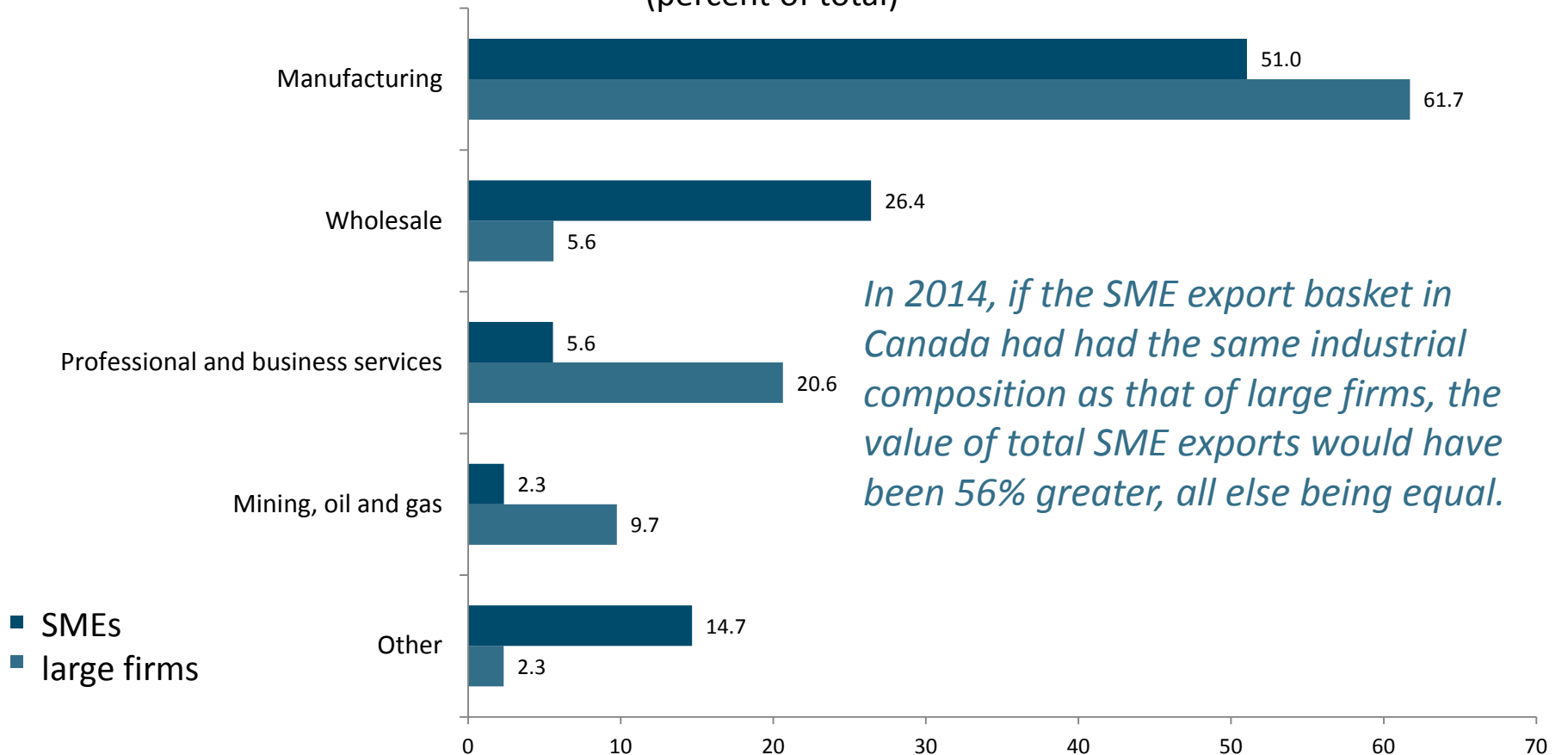


SMEs reach fewer international markets



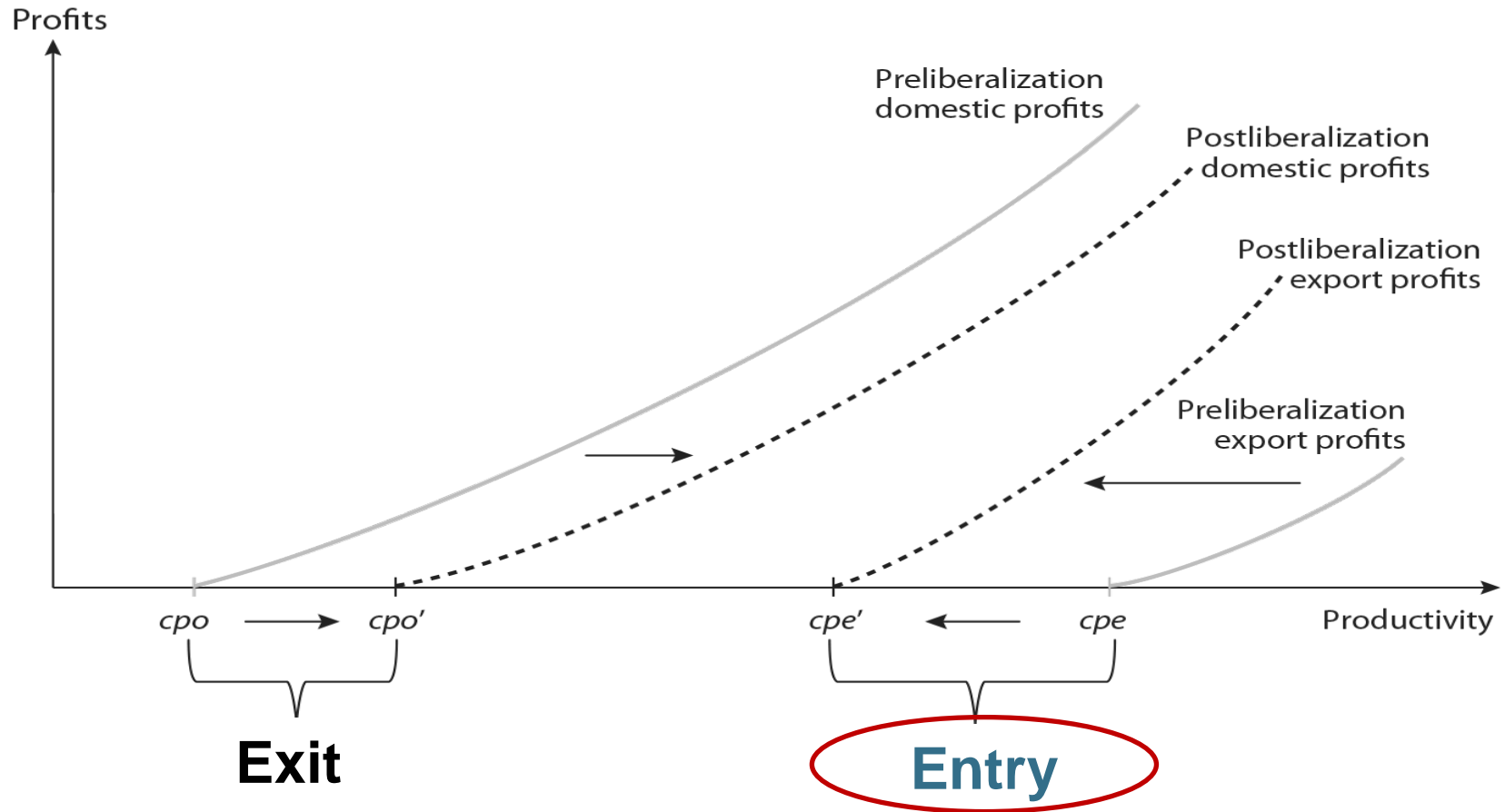
SMEs engage less in the highest-value export industries

Goods exports among SMEs and large firms, by industry, Canada, 2016
(percent of total)



In 2014, if the SME export basket in Canada had had the same industrial composition as that of large firms, the value of total SME exports would have been 56% greater, all else being equal.

Trade liberalization and the “extensive margin”



Getting in the exporting game

Become internationally aware

Build knowledge

Make connections

Get financing; get paid

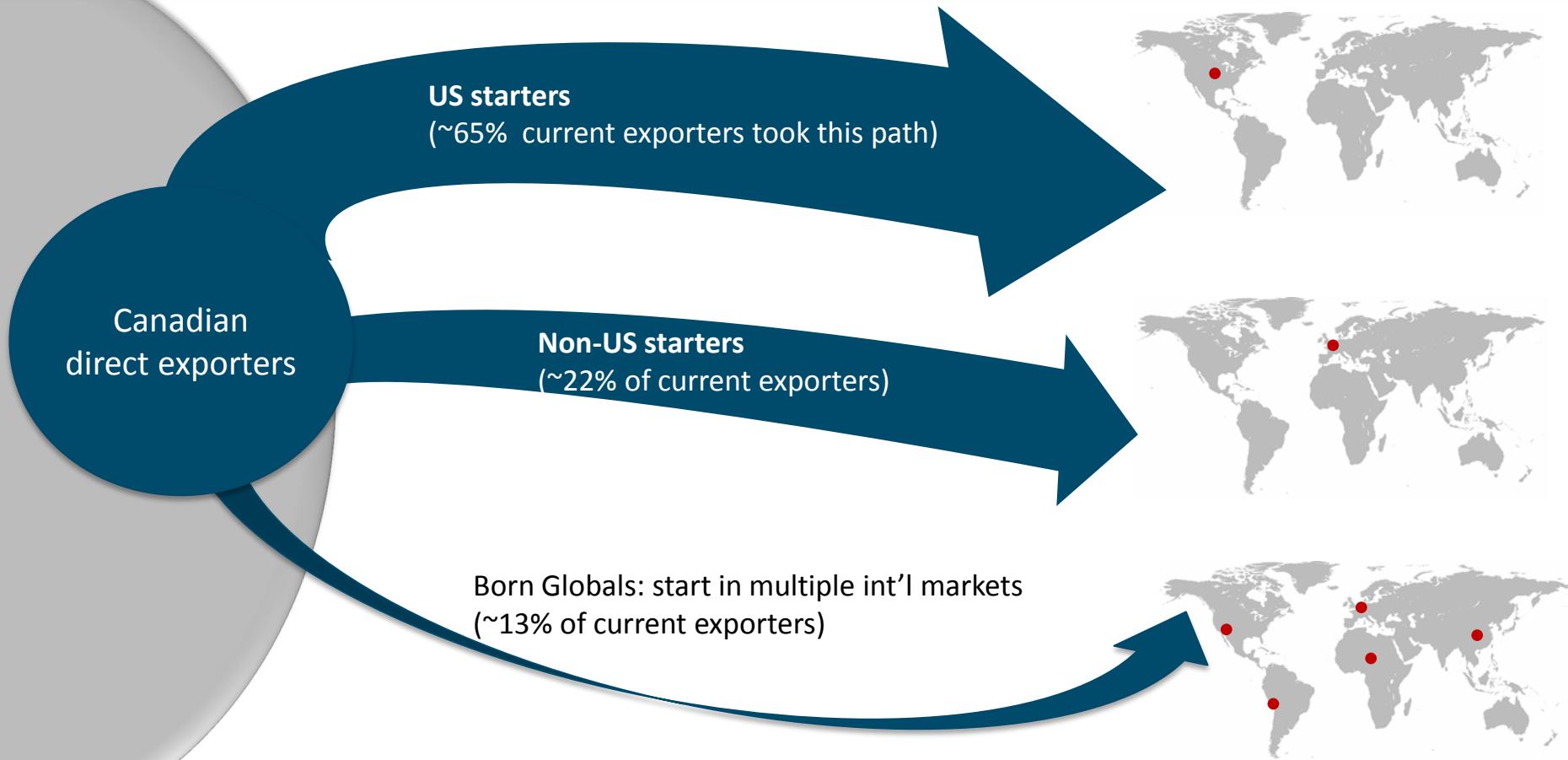
Business strategy

Economic forecasts; market risks
tariff finder

Matchmaking to find customers and suppliers

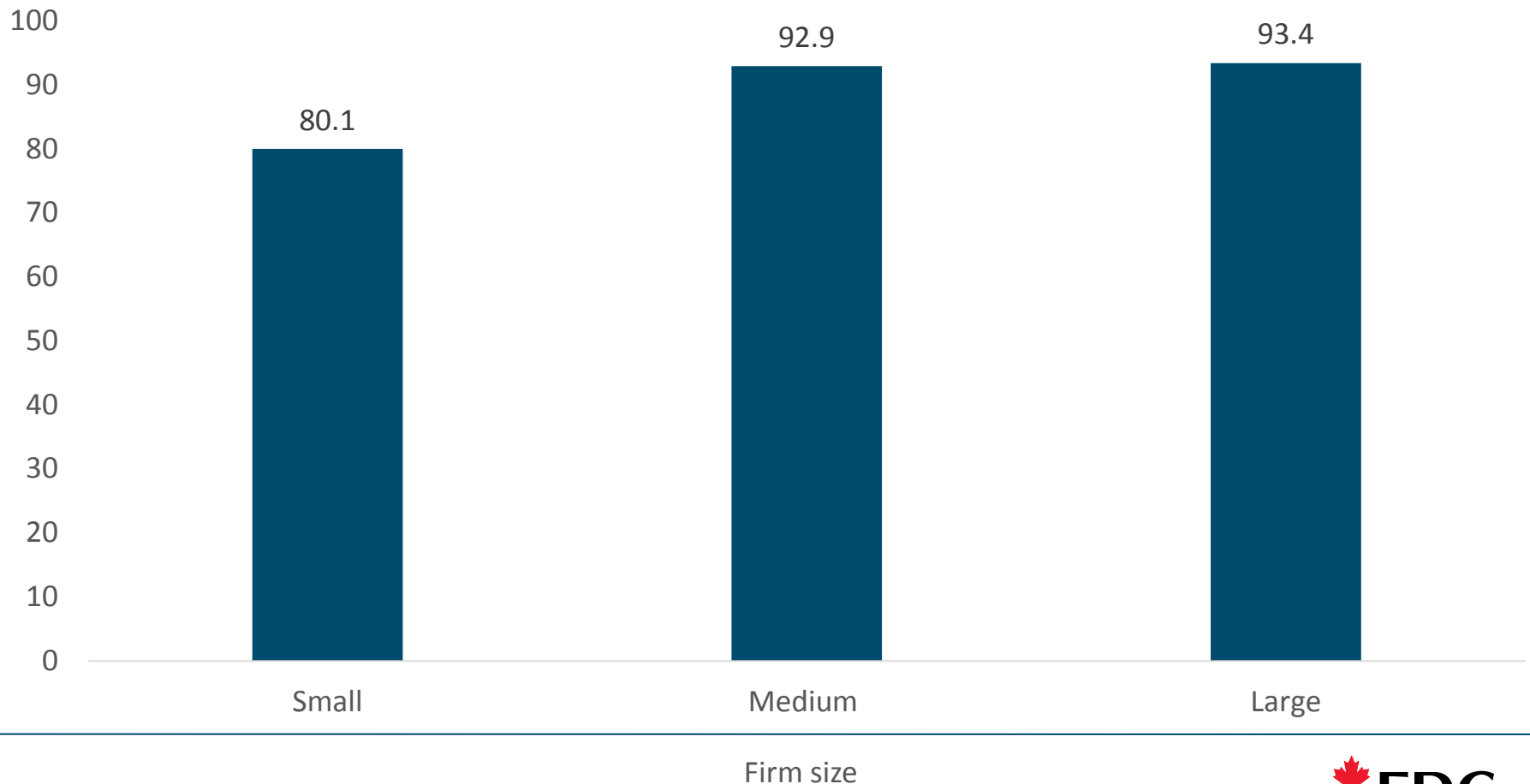
Performance guarantees; accounts receivable insurance; etc.

Typical Canadian exporting journeys



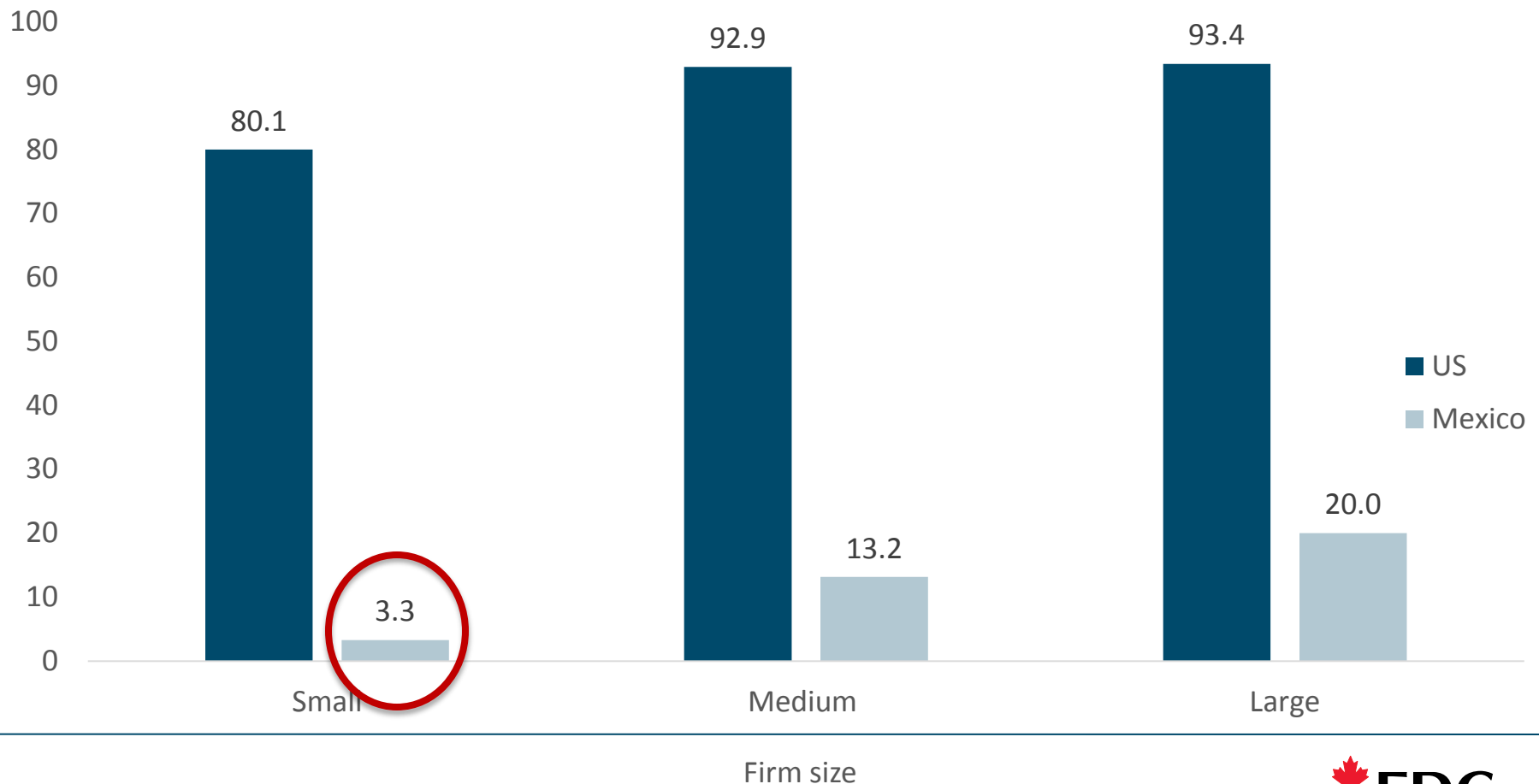
Most Canadian exporters ship to the U.S. market

Share of goods exporters that export to the U.S. by firm size, 2016
(percent of total)



Most Canadian exporters ship to the U.S. market; but small firms are far less engaged with Mexico

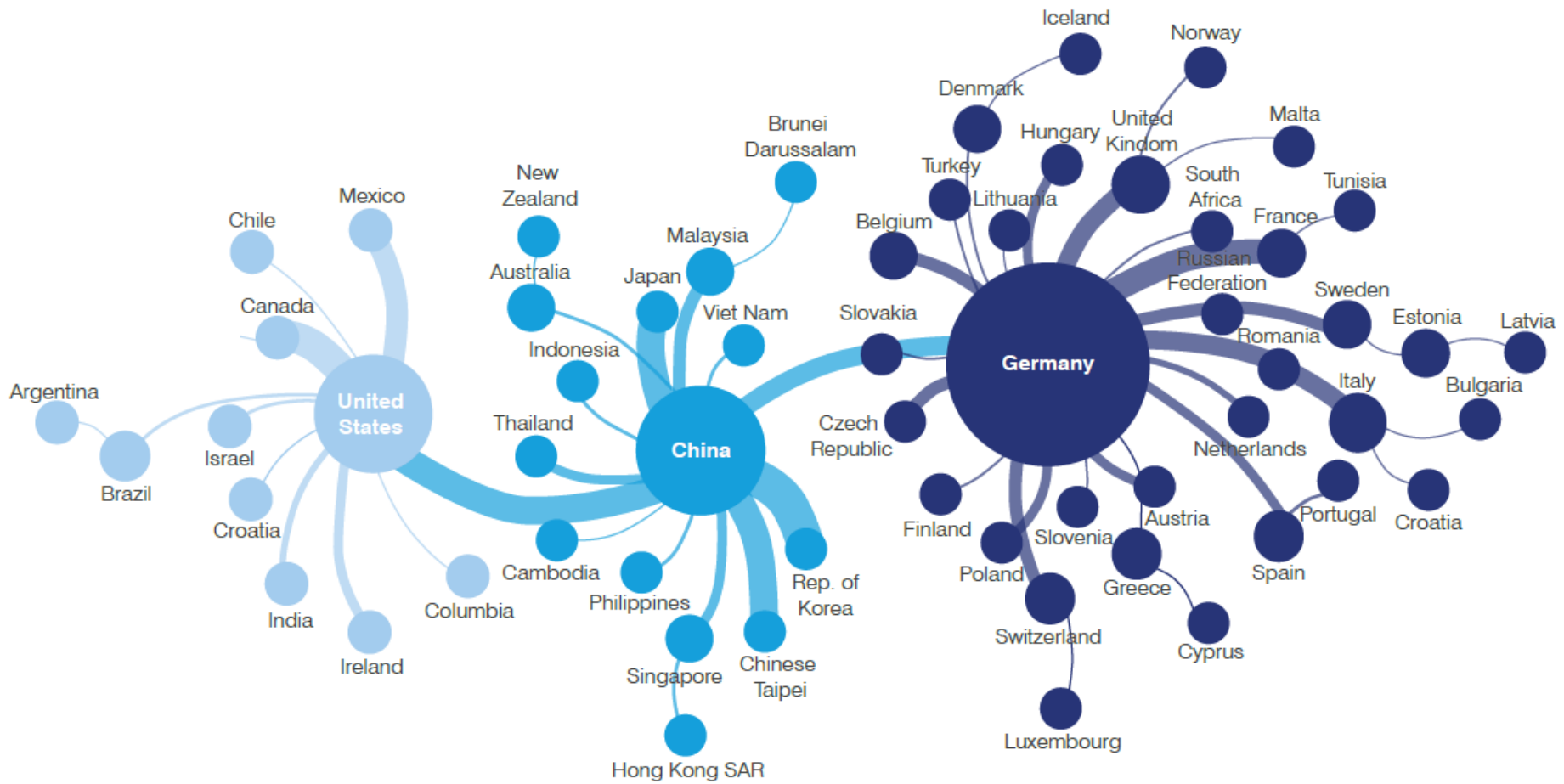
Share of goods exporters that export to the U.S. and Mexico by firm size, 2016
(percent of total)



Key challenges for traders at different stages

Not exporting	Planning to export in the next 1-2 years	Currently exporting
Lack appropriate product/service to export (22%)	Finding buyers (37%)	Competition (39%)
Lack operational capacity (15%)	Volatile Canadian dollar (27%)	Global economic conditions (31%)
Lack financial resources (15%)	Maintaining sufficient cash flow (26%)	Connecting with customers (29%)
Lack knowledge about exporting (13%)	Competition (26%)	Volatile Canadian dollar (28%)
Difficulty finding foreign customers (13%)	Compliance with/ understanding gov't regulations (22%)	Talent/resources (24%)

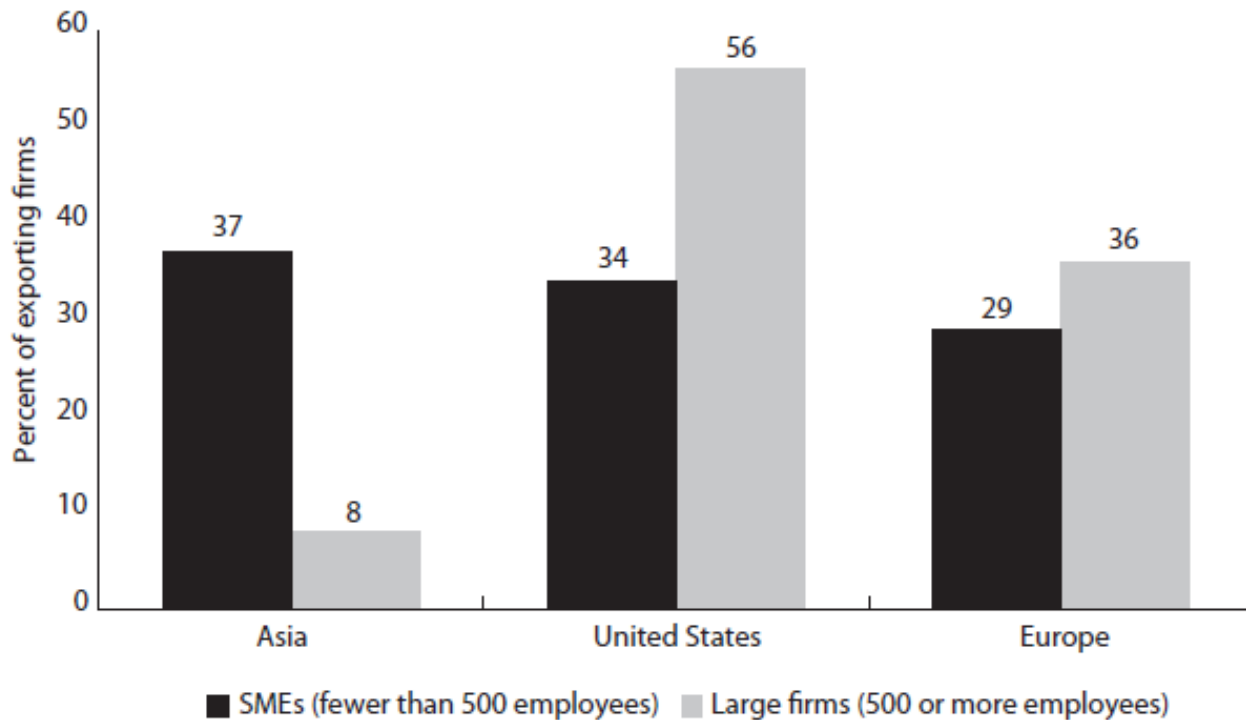
Opportunities for SMEs in value chains



Note: Lines between countries represent bilateral share of trade in inputs; thicker lines for greater shares
Sources: Santoni, Gianluca, Dari Taglioni (2015)

Digital opportunities

Destination of first export market, firms in digital economy sector, Canada, 2016

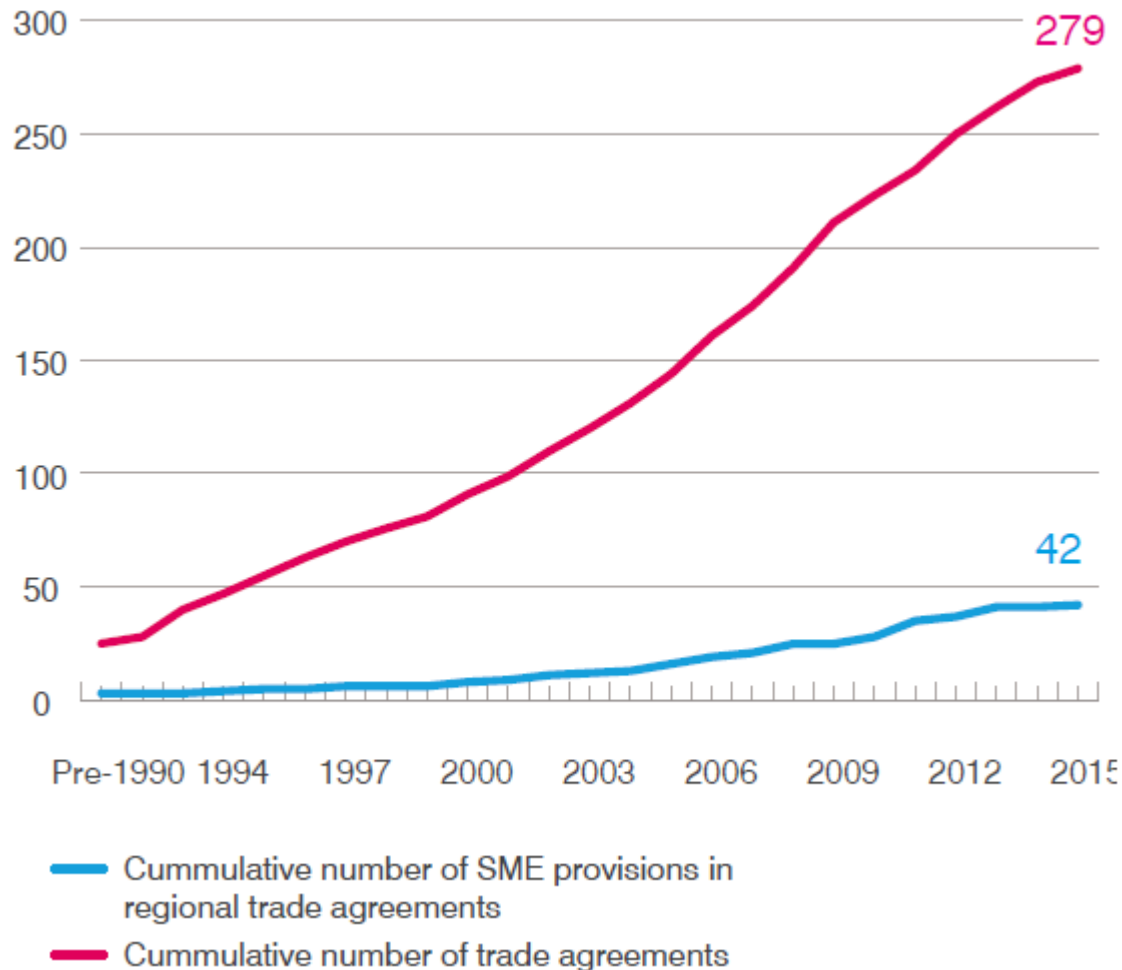


Source: Horton (2016).

Note: Based on 129 Canadian firms in the Creating Digital Opportunity dataset for the CanAsia map.

SMEs provisions in trade deals becoming more mainstream

Cumulative number of trade agreements and SME provisions



SME provisions in CETA

- references on regulatory support, info sharing and other help for SMEs on market access.
- parties to facilitate use of e-commerce for SMEs.
- SMEs to receive “sympathetic consideration” in investor-state dispute rulings.

SME chapter in the Trans-Pacific Partnership

TPP was the first Canadian and American FTA to include a stand-alone SME chapter

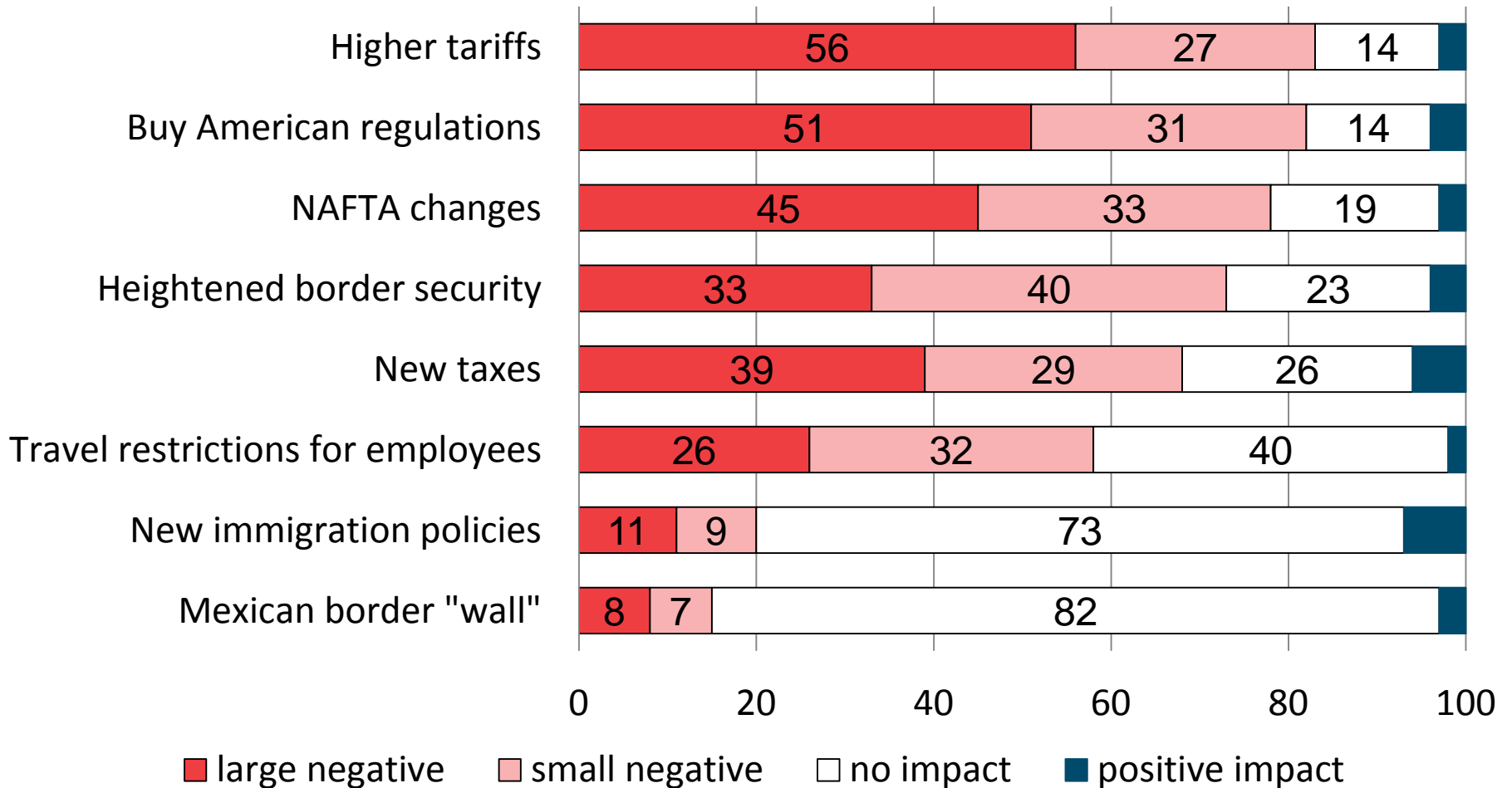
Dedicated website with information for SMEs

SME committee

NAFTA: SME chapter (TPP 2.0 or TPP-light?)

- “substantively completed” in Round 3
- agreement on info sharing and cooperation
- NAFTA “SME Dialogue”
 - Annual, institutionalized process among private sector, NGOs, other stakeholders
- Relevant areas in other chapters: customs; trade facilitation; digital trade, regulatory cooperation

Potential impact of increased U.S. protectionism on Canadian firms in that market

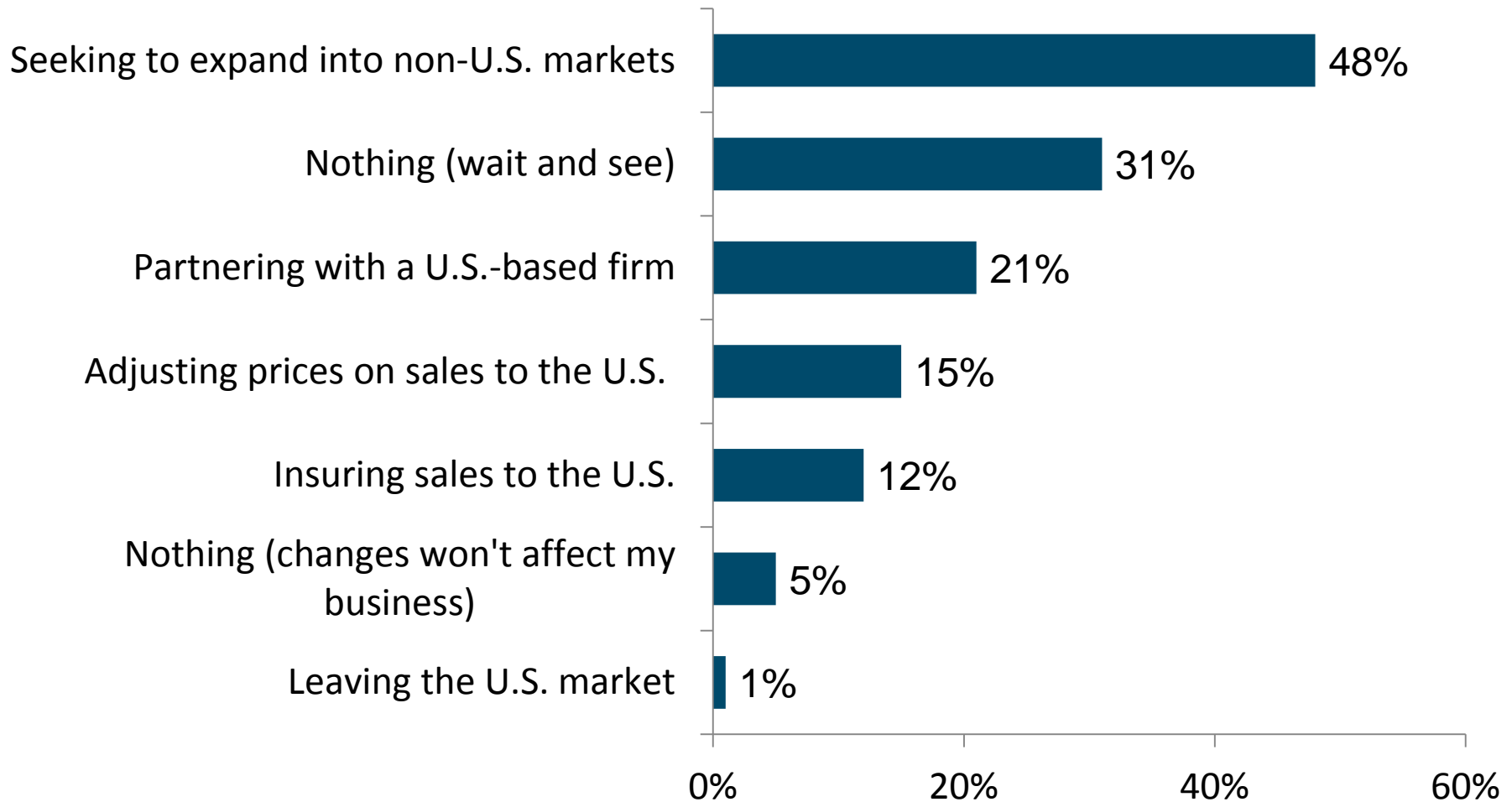


Q: Please indicate what type of impact each of the following potential factors will have on your company's sales or business in the U.S.

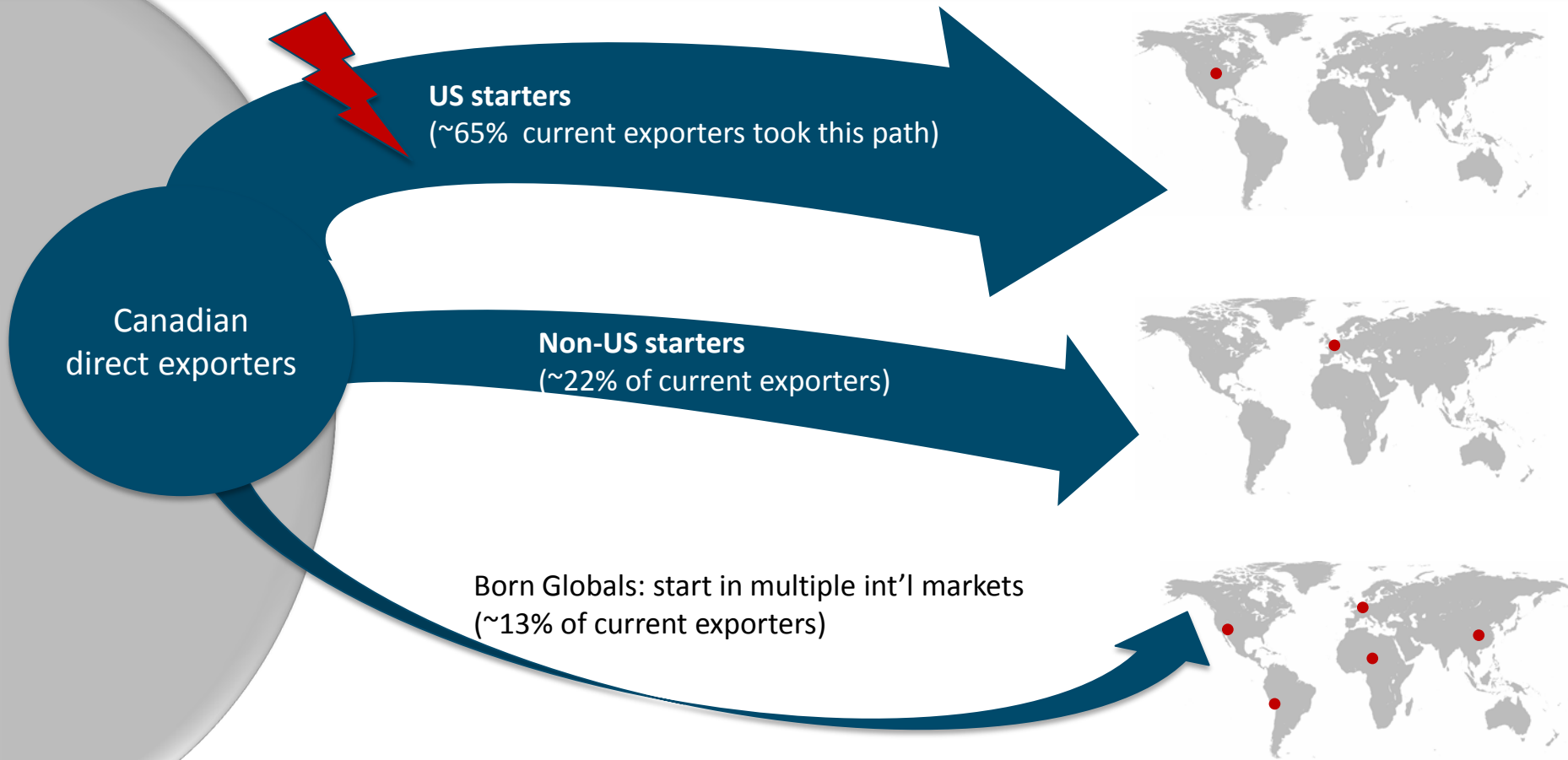
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What strategies are being used to respond to U.S. developments?



Will our export capacity diminish if the U.S. “training ground” is harder to access?





Read more: irpp.org/research/trade/

Online EDC resources

- › www.edc.ca
 - › Global Economic Outlook
 - › Global Export Forecast
 - › Country Risk Quarterly
 - › Weekly Commentary
 - › Trade Confidence Index
 - › The Commodity Tracker
 - › Research reports on international trade
- › edc.trade
 - › Latest information and updates on US
- › www.tarifffinder.ca
 - › Global Affairs, BDC and EDC – info on tariffs and trade agreements

The screenshot displays the EDC Knowledge Centre website. At the top, there is a navigation bar with links for 'About Exporting', 'Our Solutions', 'Country Info', 'Knowledge Centre', 'Events', and 'About Us'. A search bar is located on the right. The main heading is 'KNOWLEDGE CENTRE'. Below this, there is a sidebar with a 'Knowledge Centre' menu containing links for 'Success Stories', 'Economic Analysis and Research', 'Multimedia Centre', 'TradeTalk', 'Publications', 'Subscriptions', and 'Topical Business Issues'. The main content area is titled 'Economic Analysis and Research' and includes a brief introduction, a list of 'Economic Reports' (such as 'The Commodity Tracker', 'Export Leading Indicator', etc.), and a list of 'Research Reports & White Papers' (such as 'Canadian Benefits and Integrative Trade', 'Currency Risk Management Practices of Canadian Firms', etc.). On the right side, there is a featured article titled 'Let's talk about growing your business.' with a 'Register now' button and social media icons for LinkedIn, Facebook, and YouTube. The footer contains links for 'For Partners', 'For Investors', 'Communities', and 'Export Development Canada', along with the EDC logo and the word 'Canada'.

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