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## Article

# Export hurdles in practice

Aussenwirtschaft

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*Suggested Citation:* Gachet, Emilie; Hunziker, Tiziana (2019) : Export hurdles in practice, Aussenwirtschaft, ISSN 0004-8216, Universität St.Gallen, Schweizerisches Institut für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW-HSG), St.Gallen, Vol. 70, Iss. 1, pp. 61-90

This Version is available at:

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## Export hurdles in practice

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The theme of protectionism has received plenty of media coverage since Donald Trump's election as President of the United States and the subsequent trade war with China. It is a geographically widespread phenomenon, which also encompasses Europe and Switzerland. For this study, we surveyed just under 560 exporting Swiss small and medium-sized enterprises (SMEs) to obtain their views on the issues of protectionism and export barriers. More than 40% believe these do not pose any challenge, or at most only a minor one. The resurgence of protectionism since 2016 appears to have had only a slight impact on Swiss SMEs so far. Just 23% of respondents expressed the view that the situation had deteriorated compared to five years ago, whereas half did not perceive any change. This could be attributable to the fact that just 20-30% of surveyed SMEs are experiencing trade obstacles in the most important European markets. Barriers are higher in other markets, however. Just under 50% of SMEs perceive barriers when exporting to the United States, and this figure rises to as much as 54% when it comes to the third most important region – China/Hong Kong. The principal instrument of the current trade war, namely, conventional tariffs, is problematic for just under half of respondent companies. However, customs procedures and the workload associated with the provision of conformity assessments and product origin documentation, which are all categorized as non-tariff trade obstacles, are perceived as greater challenges. When it comes to obstacles to the export business, the two most significant factors of all – ranking above both tariff-based and non-tariff barriers – are perceived by respondent companies to be the price of their offering and prevailing exchange rates.

*JEL codes:* F1, F13, F40

*Key words:* international trade, protectionism, export barriers, Swiss small and medium-sized enterprises, survey data

### 1 Overview of the SME export economy: SMEs responsible for 45% of Swiss goods exports

The state of the Swiss economy is heavily influenced by small and medium-sized enterprises (SMEs). More than 99% of Swiss companies have fewer than 250 employees, and overall these companies account for just under two-thirds of all jobs in Switzerland. The contribution made by SMEs to national value creation is estimated at around 58%.<sup>2</sup>

As a small, open economy, Switzerland has been unable to avoid the repercussions of a slowing global economy in 2019, with the export sector increasingly affected. Explaining factors for the slowdown in global economic growth include international trade conflicts, particularly between the United States and China,

<sup>1</sup> This article was written in August 2019.

<sup>2</sup> As of 2016; source: OECD (2018).

and the various uncertainties associated with these. Sentiment among SME manufacturers, which in 2018 was as strong as it has been at any point since the economic crisis of 2009, has deteriorated significantly over the course of 2019. This can be attributed not least to the weakening of export demand.

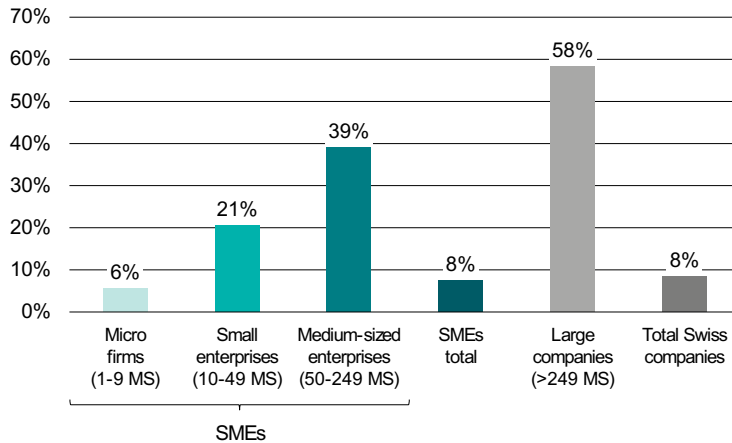
A slowdown in global economic development tends to be felt most of all by businesses that are integrated into international value creation chains. The same is true of an increase in protectionism or a proliferation of trade barriers, both of which primarily affect exporters. Although these two phenomena can also affect companies whose businesses are focused on the domestic market – for example, via changes in import conditions, higher import prices, or general uncertainties in the financial markets – non-exporting companies themselves do not have to grapple with tariffs, new product requirements, or certification processes abroad.

According to our calculations, which are based on the goods exports statistics of the Swiss Federal Customs Administration and the company structure statistics of the Swiss Federal Statistical Office, around 8% of all Swiss companies export goods (see Figure 1). Here there is a strong correlation between company size and export activity: among micro firms with up to nine employees, exporting activity is fairly rare (6%). Small and medium-sized enterprises sell their goods abroad much more frequently (in 21% and 39% of all cases, respectively). Most active of all here are large companies, 58% of which export their goods. As is implied by the name, the goods exports statistics do not include services. Unfortunately, there is no comparable data source for the latter. But if service exports were to be included, the proportion of exporting companies would probably work out rather higher.

Nonetheless, SMEs make a sizable contribution to total Swiss goods exports: in 2016 their overall share amounted to 45% (see Figure 2). Companies with more employees also tend to make a higher contribution. The proportion of total goods exports by value accounted for by SMEs varies greatly from country to country. Switzerland lies broadly in the European mid-pack, between extreme examples such as Belgium on the one hand, where SMEs account for almost 70% of national export activity, and France on the other, where SMEs contribute less than 20%. This strengthens our assumption that while the export situation of SMEs may not be the principal driver of overall Swiss development, it is nonetheless decisive.

**Figure 1** Larger companies more likely to export

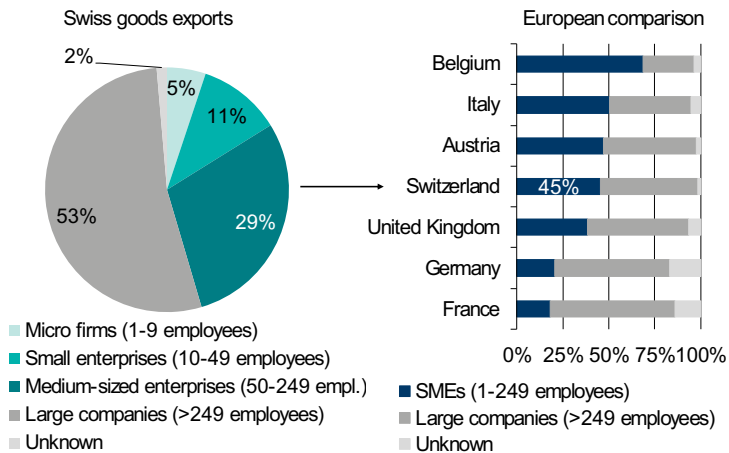
Proportion of companies that export goods, by size category, 2016



Source: Swiss Federal Customs Administration; SFSO; Credit Suisse.

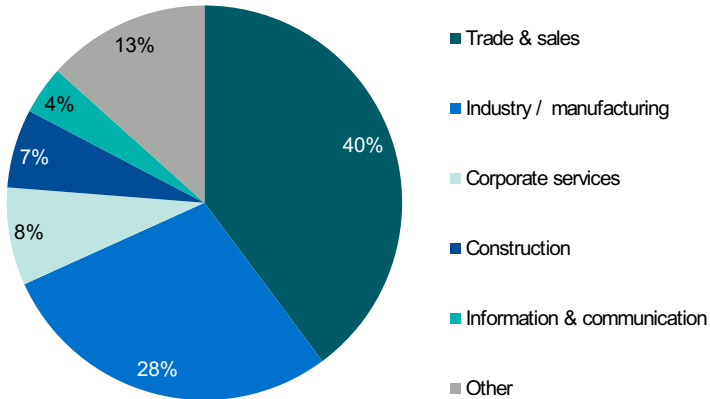
**Figure 2** 45% of Swiss goods exports come from SMEs

Proportion of total goods exports (in CHF or euros), 2016



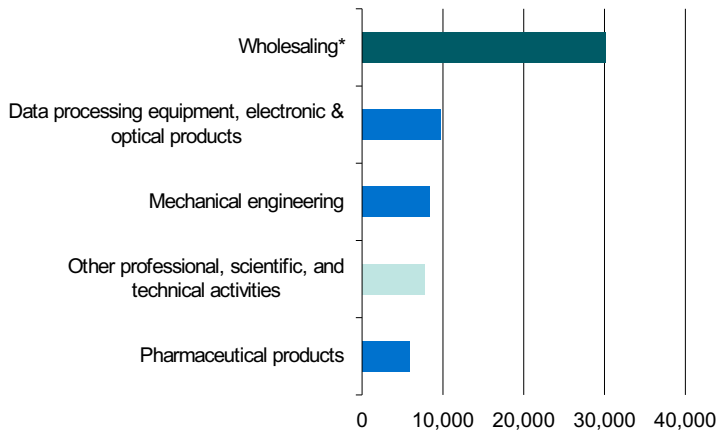
Source: Swiss Federal Customs Administration; SFSO; Eurostat; Credit Suisse.

**Figure 3** Majority of exporting SMEs active in trade and sales  
Proportion of exporting SMEs by sector, 2016



Source: Swiss Federal Customs Administration; Credit Suisse.

**Figure 4** Wholesaling generates highest export sales  
Exports of SMEs in CHF mn, five largest sectors, 2016



Source: Swiss Federal Customs Administration; Credit Suisse.

Note: \*excluding automotive trading.

Figure 3 shows that the most frequent sector of origin of SME exports is trade and sales, which accounts for 40% of the 45,312 exporting Swiss SMEs. In part this is no doubt attributable to the distribution companies of major industrial businesses that can be assigned to the wholesale sector. In second place comes the manufacturing industry, with a 28% share. The major players here are the industrial businesses that are typically associated with significant export activity. The remaining sectors of the economy sell a significantly smaller proportion of their goods to foreign markets.

As Figure 4 shows, the wholesaling sector accounts for the largest proportion of goods exports in Swiss francs. However, manufacturing products can also be covered by this sector through distribution companies. Direct industrial exports appear in second and third place, encompassing electronics and precision instruments as well as mechanical engineering. The former also includes the watchmaking industry, which accounts for a significant proportion of exports for companies of all size categories. The manufacture of pharmaceutical products, which is the most prominent export category for large companies, is also one of the five key export pillars of the SME economy. In addition, various exports of the pharmaceutical industry can also be found under “other professional, scientific, and technical activities”, insofar as these are not sold abroad as traditional end products.

## 2 Information on the survey and methodology

The following analysis is largely based on a survey that was conducted on behalf of Credit Suisse in March and April 2019, on an anonymous basis, by the independent polling organization amPuls. The survey sample is made up exclusively of SMEs that export, have planned on exporting in the past, or are considering doing so in the future. This is designed to ensure that respondent companies are also genuinely in a position to respond to questions on the theme of trade obstacles and protectionism. A total of 558 SMEs took part in the survey. In order to be able to draw conclusions about the various company size categories (micro firms, small enterprises and medium-sized enterprises), roughly the same number of companies were surveyed in each size category. A typical Swiss SME exporter is usually associated with an industrial business. The latter are also increasingly affected by the rise of protectionism. For that reason, some 80% of companies surveyed were industrial businesses, and just 20% service providers or construction firms. Small and medium-sized enterprises – which account for just 8.8% and 1.7%<sup>3</sup> of Swiss businesses, respectively –

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3 As of 2016 (source: SFSO).

were therefore deliberately disproportionately weighted in our survey – just like industrial businesses. In the following analyses, no weighting is undertaken that would adjust the survey sample to the overall Swiss SME landscape, as the focus lies on the sub-population of exporting SMEs.

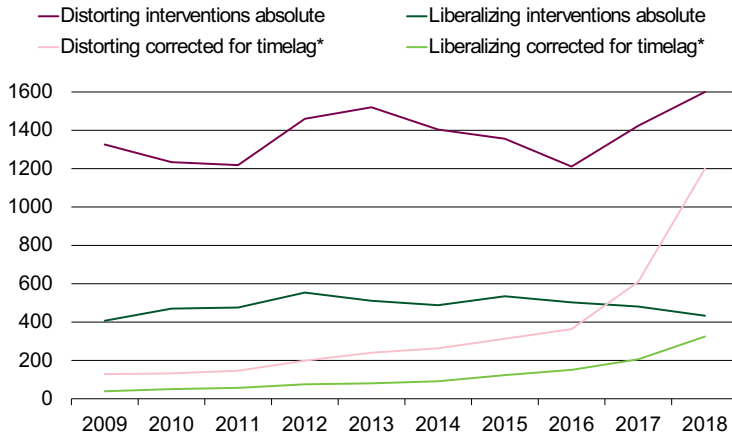
### **3 The creeping rise of protectionism in global trade**

Ever since Donald Trump's election as US President, the theme of protectionism has received intensified media coverage. What started in January 2018 with tariffs on washing machines and solar panels, which were quickly extended to steel and aluminum, acquired greater, geopolitical dimensions in March 2018 with the imposition of tariffs on US\$50 billion of Chinese products. The tariffs are aimed at China, which is accused by the United States of engaging in unfair practices in trading, monetary policy, and the protection of intellectual property rights. However, other key trade partners of the United States – including the European Union and Switzerland – are also affected by these protectionist measures. Many of the trade partners involved, and particularly China itself, have responded immediately with retaliatory measures. Ever since, barely a day has passed without some new development in the so-called trade war. But can this increase in protectionist practices also be demonstrated with statistical data?

The Global Trade Alert (GTA) team tackles this issue from a macroeconomic perspective. It has been gathering data on the development of global trade ever since the financial crisis in 2009. In this context, protectionism is given a broader definition and includes any state measure that prioritizes domestic over foreign economic interests. An analysis of the GTA database shows that a large number of trade-distorting (i.e., protectionist) state measures have been implemented on an annual basis ever since 2009 (the dark red line in Figure 5). In other words, these measures far outweigh the trade-liberalizing measures that have been implemented over the same period (dark-green line). As the GTA database is also retrospectively updated with newly available information on trade policy decisions made in the past, there is a certain time lag effect at work, which means that more measures will subsequently be added to the earlier years. But even if the figures are corrected for this time lag effect, it is easy to see that trade-distorting interventions have had the upper hand since the financial crisis (pink and light green lines in Figure 5).

**Figure 5** Increase in trade-distorting interventions in 2017 and 2018

Number of trade-liberalizing and trade-distorting state interventions worldwide



Source:

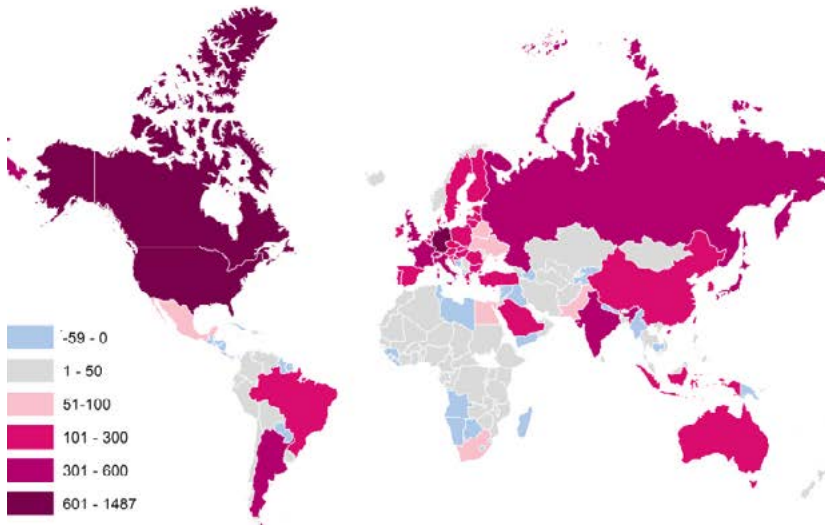
Global Trade Alert (as of May 2019); Credit Suisse.

Note:

\*Correction: Number of measures divided by number of past years (see Evenett, 2019).

**Figure 6** US, Canada, and Germany as main culprits

Net balance of trade-distorting and trade-liberalizing interventions implemented by a state between 2009 and May 2019



Source:

Global Trade Alert (as of May 2019); Credit Suisse.

Note:

No data available for non-colored countries.



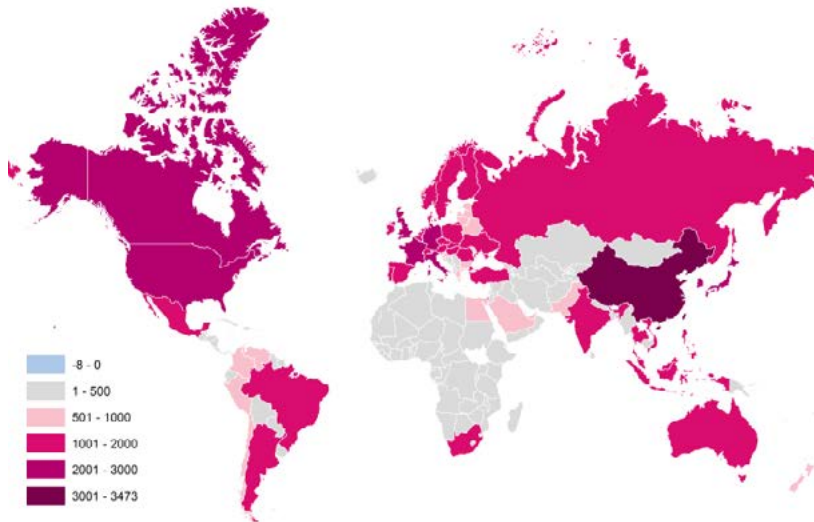
Protectionism is more widespread than is often assumed, as is clear from Figure 6. In the figure, the darker the shading, the more trade-distorting – as opposed to trade-liberalizing – the measures introduced by a government since 2009. Although there appear to be three “main culprits” in the form of Canada, the United States, and Germany (with more than 600 net implemented measures in each case), the group of countries just behind should not be underestimated. This group comprises countries that have introduced between 301 and 600 net trade-distorting measures over the same period, and includes Russia, Japan, India, a significant swathe of the European Union, and Switzerland. It therefore appears that protectionism has increasingly become part of the economic policy toolkit around the world since the financial crisis.

When looking at this phenomenon from the perspective of those affected, it becomes clear that one country in particular has been a victim of protectionist measures. China, which is continually accused – and not just by the United States – of unfair trade practices, has been affected by trade-distorting interventions from other states nearly 3,500 times between 2009 and 2019. This makes it the most affected country of all (Figure 7). However, it is by no means the only one: the problem of being disadvantaged by protectionist actions extends across global value creation chains and many different countries. The above-mentioned “culprits”, including Canada and the United States as well as a number of European countries, are also among the major victims of protectionism, along with China. An obvious explanation for this is the retaliatory measures to which the culprits mutually resort.

The multifaceted spectrum of instruments deployed to pursue protectionist aims is striking (see Figure 8). Between 2009 and 2019, measures such as customs tariffs were actually only the third most commonly deployed trade-restricting instrument. And as an additional factor, more tariffs were removed than were imposed over the period in question. The most commonly deployed instruments that are damaging to trade are a cluster of general subsidies, which account for more than 4,000 cases. These are followed in second place by export-supporting measures such as export subsidies, a tool used by countries to boost the export activity of domestic companies. We can conclude from this that the rise in protectionism is above all taking place in a concealed way, and therefore extends way beyond customs policy.

**Figure 7** China has been the most frequent victim of protectionist interventions

Net balance of trade-distorting and trade-liberalizing interventions implemented by a state between 2009 and May 2019

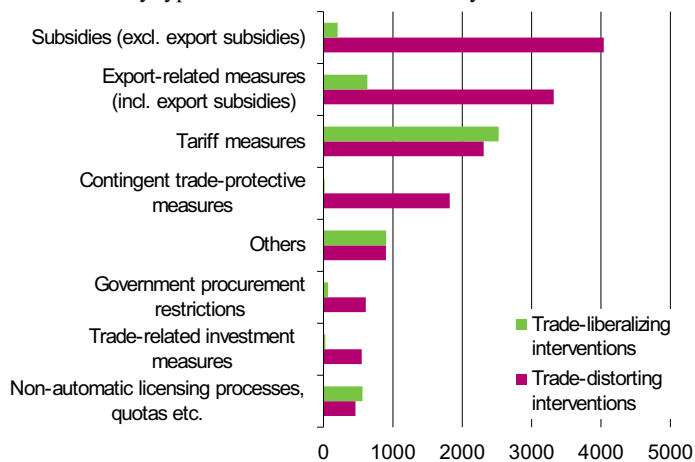


Source: Global Trade Alert (as of May 2019); Credit Suisse.

Note: No data available for non-colored countries.

**Figure 8** Concealed protectionism via subsidies

Number of trade-liberalizing and trade-distorting state interventions worldwide, by type of intervention, 2009 to May 2019



Source: Global Trade Alert (as of May 2019); Credit Suisse.

In order to obtain a conclusive picture of the latest state of protectionism, we need to take into account not just the absolute figures for trade-distorting measures, but also their repercussions for global trade. The GTA team estimates, on the basis of the information contained in the database, how great the proportion of exports (and imports) distorted by state interventions actually is. The gray columns in Figure 9 represent the results of this estimate. Both the scope and the extent of protectionist tendencies have clearly increased: since 2009, the proportion of total global exports affected by trade-distorting state interventions has risen from approximately 40% to more than 70%. The lines reflect the share of imports into a country that were affected by protectionist trade policy on the part of the corresponding state. The two countries that stand out here are China and the United States, with figures of well over 50%, but the trend toward a distortion of imports appears to be a growing factor in Switzerland's neighboring European countries too.

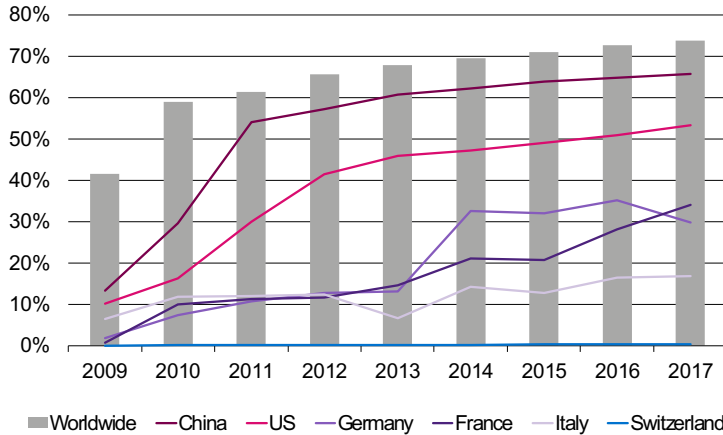
Although Swiss trade policy affects less than 1% of imports (by value) through trade-distorting measures (blue line in the Figure 9), the country has nonetheless implemented a significant number of trade-distorting measures itself since 2009 (see Figure 6). Of these interventions, 95% fall under the category of covert measures.<sup>4</sup> These include, among others, trade financing (e.g., the provision of export risk insurance for certain goods) and making it more difficult for foreign companies with non-Swiss employees to access the labor market. Figure 10 shows which countries have been affected by Swiss trade-distorting interventions, and how often. When viewed in terms of the net balance (trade-distorting measures minus trade-liberalizing measures), Switzerland's interventions have affected Germany 105 times, closely followed by Italy, which has been a victim of 100 net measures. Third and fourth places are occupied – despite free trade agreements – by China and Japan with 91 and 86 net Swiss interventions, respectively. This shows that even a small, open economy such as Switzerland, whose prosperity is heavily dependent upon trade, has itself been engaging in trade-distorting activity on a number of fronts since the financial crisis. In other words, it has been following the global trend of greater protectionism.

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4 Source: Global Trade Alert ([www.globaltradealert.org](http://www.globaltradealert.org)), as of May 2019.

**Figure 9** More than 70% of global exports are affected by protectionism

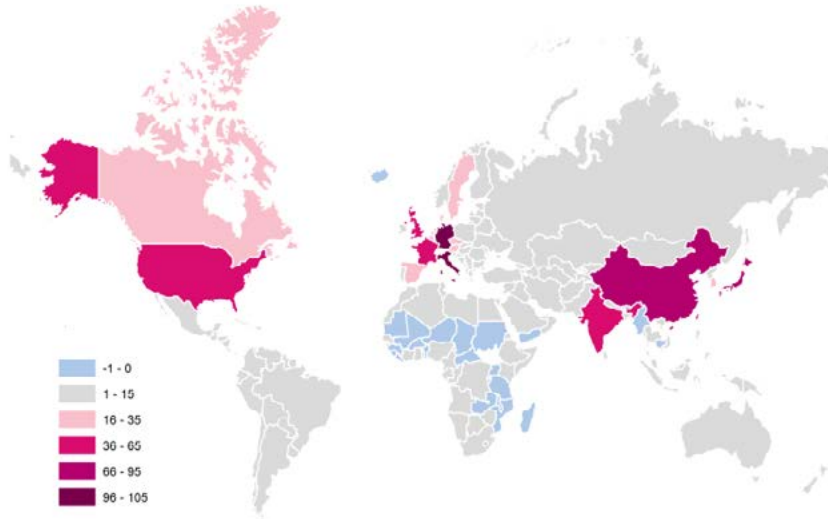
Estimated proportion of global exports/imports per country affected by trade-distorting state interventions



Source: Global Trade Alert (as of May 2019); Credit Suisse.

**Figure 10** Switzerland’s measures affect its neighbors and China

Net balance of trade-distorting and trade-liberalizing measures implemented by Switzerland between 2009 and May 2019, by country



Source: Global Trade Alert (as of May 2019); Credit Suisse.

Note: No data available for non-colored countries.

Although protectionism has been rising steadily ever since the financial crisis, the number of trade-distorting measures increased dramatically between 2016 and 2018 when adjusted for the time lag effect (see Figure 5). It is probably no coincidence that this timeframe coincides with President Trump taking over the reins of trade policy in the United States. And indeed, the data suggest a high level of activity by this country in the implementation of trade-distorting measures. That said, it would be wrong to assign responsibility for the rise in protectionism over the last few years to just the United States and China. Numerous countries in Europe, as well as the likes of Russia, Japan, India, Australia, Argentina, and Brazil, also implemented an array of trade-distorting measures between 2016 and 2018. During this period too, it was not tariffs but import-restricting or export-promoting practices (such as various kinds of subsidies) that constituted the bulk of the measures implemented.

#### **4 Perception of protectionism by Swiss SMEs: Slight increase in trade barriers for SMEs**

Many Swiss SME exporters are integrated into international value creation chains. It is therefore only reasonable to assume that they too are affected by the repercussions of the global rise in protectionism. When questioned on this issue directly, although 21% of survey participants stated that trade barriers and customs hurdles are not a challenge – or only a very minor challenge – for them (see Figure 11), more than half considered this issue to be anywhere between somewhat and very significant. In other words, a majority of survey participants appear to be affected by this issue in one way or another. Only a small number of SMEs – just 6% – perceive trade barriers as a very major challenge, but more than a fifth (22%) still see them as a major challenge. Swiss SMEs are therefore affected to a significant extent, but do not appear to consider the difficulties posed by trade barriers as insurmountable (see the section on “Measures taken by SMEs to combat trade barriers”).

In order to evaluate the extent to which Swiss SMEs have been affected by the intensification of protectionism in recent years, we asked our survey participants how they perceived trade obstacles five years ago. The results reveal only a slight shift toward an intensification of protectionism (see Figure 11). However, an accurate comparison over time is complicated by the fact that 17% of respondents did not feel able (or did not want) to give an appraisal of how they viewed the situation five years ago. When looking at the difference between assessments of the current situation and those of five years ago (see Figure 12), here too only a slight increase in trade barriers becomes apparent: around 23% of respondents consider the challenge to be greater at the moment than five years ago. Some 9%

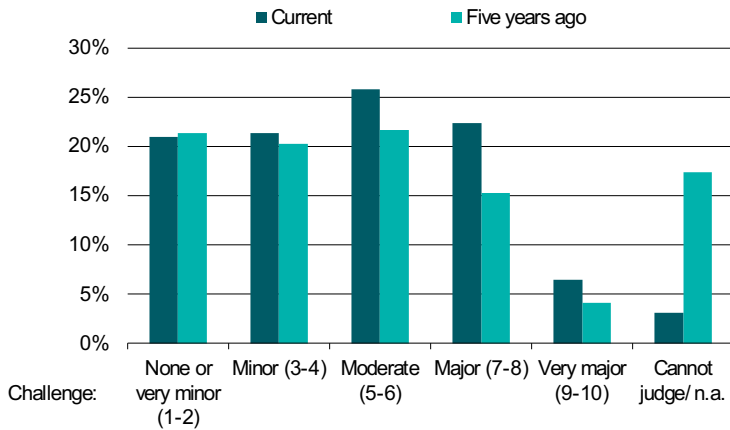
take the opposite view. But half of all survey participants perceive no change compared to five years ago.

Given the increase in the number of protectionist measures in global trade (see the section on “The creeping rise of protectionism in global trade”), these results look fairly optimistic. Even though Swiss SMEs perceive a slight increase in trade barriers, a significant proportion appear to feel able to deal with this challenge. This standpoint is also confirmed by their assessments of the business situation in the export sphere: a significant proportion (58%) of surveyed SMEs considered their export situation to be good or even very good at the time of the survey (see Figure 13). Another near 30% described their current business situation in the export sphere as satisfactory. Only a small proportion (approximately 9%) considered their export situation to be critical. Although these results are pleasing in themselves, they should nonetheless be interpreted with caution. The averages for the various SME size categories show that medium-sized enterprises (purple circles) consider their export situation to be significantly better than small enterprises (pink triangles) and micro firms (blue squares) do. However, micro firms are much more frequently represented in the overall Swiss SME landscape than in our survey sample, so the average works out much lower.

The correlation between the business situation of companies in the export sphere and the perception of trade barriers as a challenge is not as clear as one might have thought. Even though a majority of surveyed SMEs assess their export situation as positive, and at the same time appear to have no difficulties with trade obstacles, it is frequently the case that an SME will assess its export situation as positive yet report some or great difficulty with trade obstacles (see Figure 14). On the one hand, this would suggest that while a substantial proportion of Swiss SME exporters perceive trade barriers as a challenge, they nonetheless appear to have a plan or strategy for overcoming these barriers (we explore these strategies in greater detail below). On the other hand, trade barriers tend to be structural factors, whereas the business situation of an SME in the export sphere will also vary according to the state of the economy.

**Figure 11** Trade barriers are a (very) major challenge for 29%

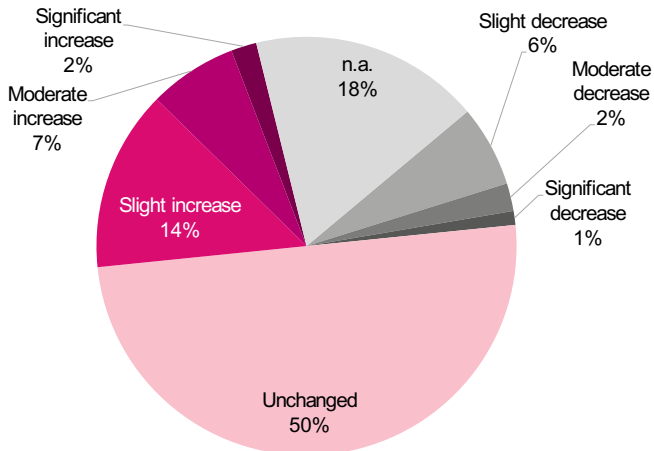
Assessment of trade barriers and customs hurdles as a challenge on a scale of 1 to 10, proportion of SMEs surveyed



Source: Credit Suisse SME Survey 2019.

**Figure 12** 23% of SMEs see an increase in trade barriers

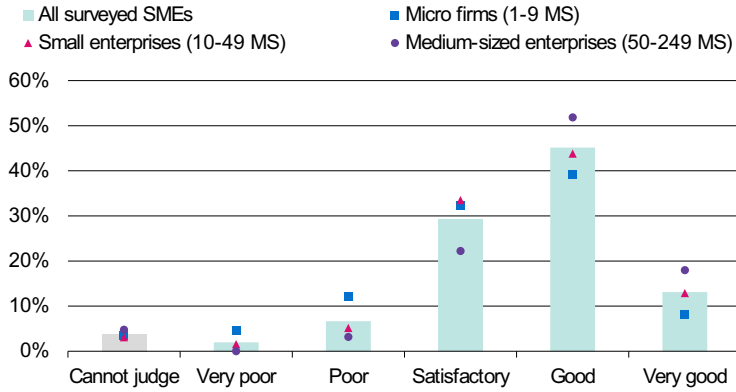
Difference in assessment of trade barriers and customs hurdles as a challenge, now vs. five years ago, proportion of SMEs surveyed



Source: Credit Suisse SME Survey 2019.

**Figure 13** The business situation in the export sphere was predominantly good at the time of the survey

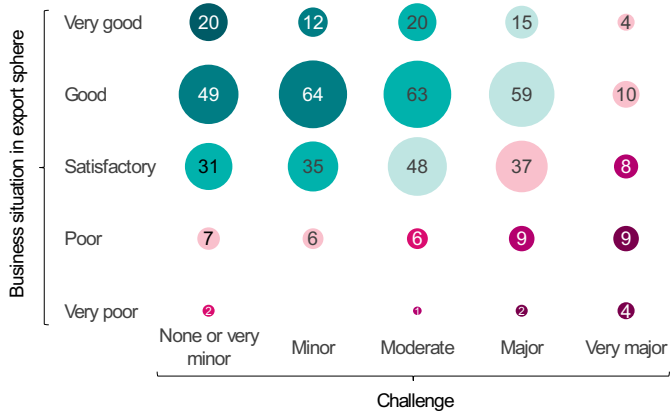
Assessment of latest business situation (at time of survey) in the export sphere by respondent SMEs, by size category



Source: Credit Suisse SME Survey 2019.

**Figure 14** Protectionism does not always cloud the business situation

Assessment of business situation in the export sphere as well as trade barriers and customs hurdles as a challenge, number of surveyed companies



Source: Credit Suisse SME Survey 2019.



## 5 The export destinations of SMEs: Difficulties in exporting to Russia and Brazil

Where the number of implemented protectionist measures is concerned, there are significant differences between the various countries. The greatest “sinners” appear to be Germany and the United States, which also happen to be two of Switzerland’s most important export markets. These countries have implemented the greatest number of trade-distorting measures since the financial crisis of 2009. Have Swiss SMEs also suffered as a result? In the next section, we analyze the degree to which Swiss SMEs perceive trade barriers in the United States and Germany, as well as elsewhere, and which other markets they consider to be relevant.

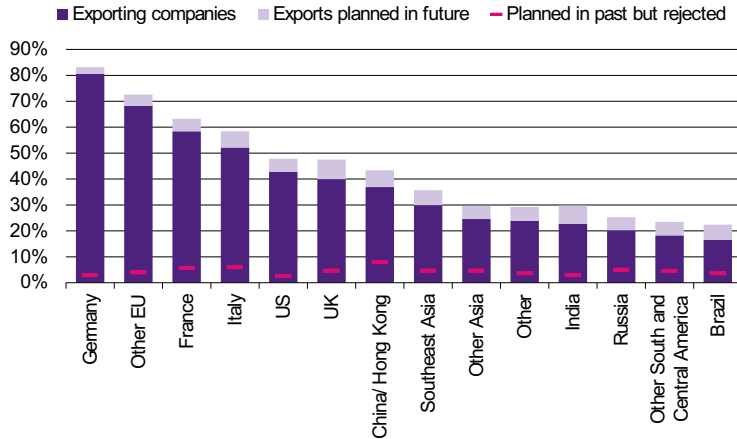
Figure 15 shows that the exports of the surveyed companies are heavily geared toward the European and US markets, with Germany the most significant export market for Swiss SMEs. Albeit quite some way behind, China and Southeast Asia follow. If it is assumed that planned future export activities will come to fruition, the United Kingdom can be expected to catch up with the United States as a significant export market for Swiss SMEs. An impressive proportion of respondents – almost 20% – export their goods to South and Central America. Furthermore, it is striking how many SMEs have considered exporting to China or Hong Kong in the past, but ultimately decided against such a step.

An indication of the extent to which trade barriers may have been responsible for this change of heart is supplied by Figure 16. The two pink-shaded areas of the bars in this chart represent the proportion of SMEs that were confronted by trade obstacles in the corresponding market. And indeed, 54% of the SMEs that have had past contact with China or Hong Kong in connection with export activity encountered moderate or even major trade obstacles. However, the situation faced by Swiss SMEs looking to export their goods to Russia or Brazil is even more challenging: more than 60% of SMEs experienced moderate or major trade obstacles here. Almost half of respondent companies have perceived moderate or major trade barriers in connection with the US export market. And the fact that this market is targeted so often and with such great effort, despite these impediments to trade, makes the huge relevance of it to SMEs all the more apparent. At the other end of the spectrum, Swiss SMEs exporting to Germany do not appear to be affected very often by the numerous protectionist measures implemented by the German government. For the surveyed SMEs, the United Kingdom has even fewer barriers to trade than Switzerland’s other neighboring countries and the remainder of the European Union. Furthermore, a relatively high proportion of respondents indicate that they are planning to export their goods to the United Kingdom in the future. As things stand, therefore, it appears

that only a hard Brexit would jeopardize the United Kingdom’s emergence as a flourishing export market for Swiss SMEs.

**Figure 15** Germany is the most common export market for SMEs

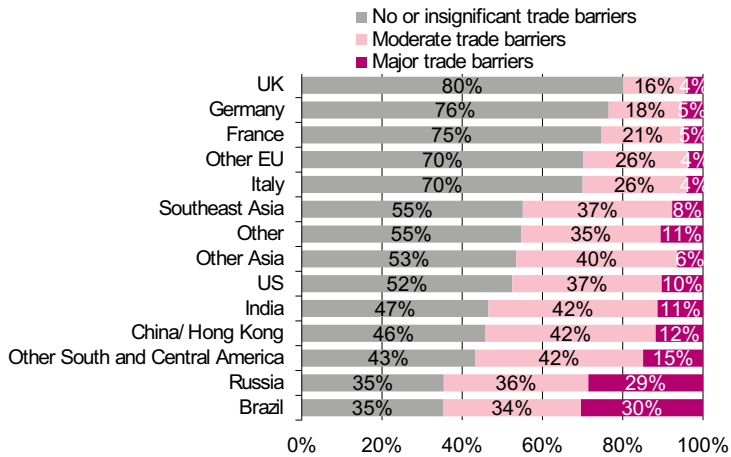
Proportion of surveyed companies that export to the destination in question, planned to do so in the past, or plan to in the future



Source: Credit Suisse SME Survey 2019.

**Figure 16** Trade barriers are most formidable in Brazil and Russia

Assessment of trade barriers of surveyed SMEs that export to the destination in question, planned to do so in the past, or plan to in the future



Source: Credit Suisse SME Survey 2019.

## 6 Swiss SME exporters and Switzerland's European policy

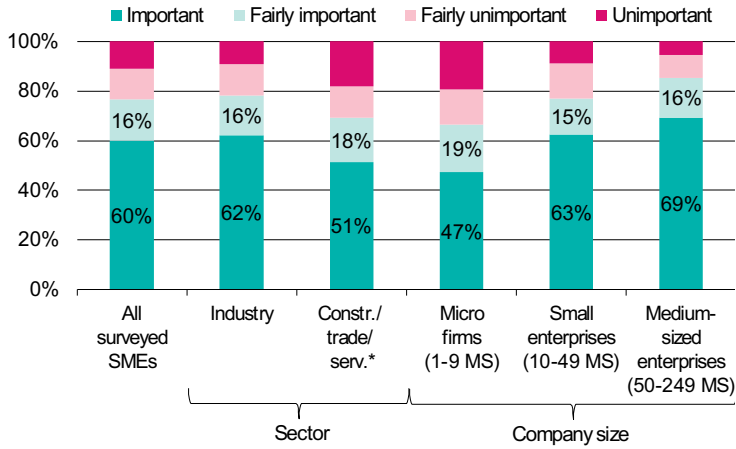
In our survey, we also asked SMEs about the latest European policy issues. Ninety-four percent of survey respondents that export their goods have at least one EU state as a sales market. Accordingly, unrestricted access to the European single market is of great importance (see Figure 17). The relevance of this issue in the construction, trade and sales, and services sectors (important or fairly important to 69% of SMEs) is rather lower than in manufacturing (78%), and the degree of importance tends to rise in keeping with the size of the company.

The relationship between Switzerland and the European Union is currently regulated by a network of arrangements consisting of some 20 key agreements – including the free trade agreement of 1972 and the various bilateral agreements – as well as more than 100 further agreements. With the institutional agreement currently being negotiated with the European Union (also known as the “framework agreement” or “framework contract”), the Federal Council is hoping “to consolidate the bilateral path/access to the EU single market, make it fit for the future, and facilitate its further development”. Its area of application is restricted to the five existing market access agreements from the “Bilateral I” series (free movement of persons, overland transport, civil aviation, technical barriers to trade, and agriculture), as well as any future market access agreements (e.g., in the electricity sphere). In the absence of an institutional agreement, the European Union is not prepared to conclude any new market access agreements with Switzerland. Among other things, the framework agreement is supposed to introduce the principle of “dynamic” adaptation of bilateral market access agreements to new EU legislation. As a result, Swiss companies should get legal and planning certainty, as well as protection against discrimination in the EU market. In December 2018, the Federal Council opened the consultation process in respect of the negotiated draft agreement. On June 7, 2019 it announced that, following completion of the consultation, it would refrain from signing the agreement for the time being, and instead called for further clarifications from the European Union.

A total of 56% of the SMEs that took part in our survey support the draft agreement unveiled in December 2018, while 21% have expressed their opposition to it (see Figure 18). A striking finding in this context is the relatively high proportion of non-responses (just under a quarter). It would appear that many companies have yet to form a definitive opinion on the framework agreement. This is likely to be attributable to the complexity of the material, and the absence of clarity as to what would happen in the event of a final agreement not being reached.

**Figure 17** Access to EU domestic market is important to surveyed SMEs

Proportion of responses to question of how important unrestricted access to the European domestic market is for companies

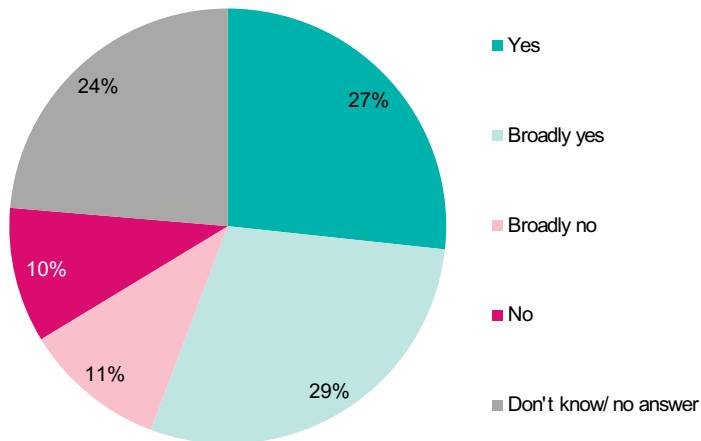


Source: Credit Suisse SME Survey 2019.

Note: \*Construction/trade/services.

**Figure 18** A narrow majority supports an institutional framework agreement with the EU

Proportion of responses to question “Do you support the current draft framework agreement between Switzerland and the EU?”



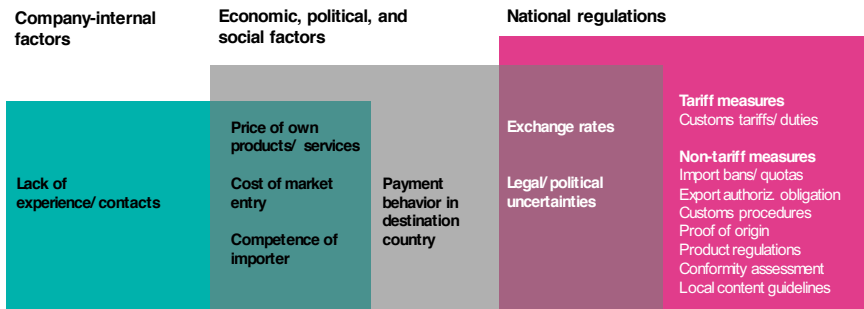
Source: Credit Suisse SME Survey 2019.

## 7 Specific obstacles to trade for Swiss SMEs: Tariffs a major obstacle for one in ten SME exporters

Protectionist measures go far beyond the imposition of tariffs, as the above-mentioned data from Global Trade Alert illustrates. It is above all through non-tariff measures that states seek to protect domestic providers against foreign competition. Among other things, these include laborious customs procedures as well as import bans and quotas for certain goods. However, state measures applied *beyond* the border rather than actually at it can also present trading obstacles for foreign companies. Examples of this would include country-specific product regulations and authorization procedures. To what extent are Swiss SME exporters disadvantaged by these different types of obstacles? And how heavily do protectionist measures weigh compared to other export hurdles? After all, in addition to state interventions, numerous other external and company-specific factors can have a restrictive impact on the export activity of a company. In order to find an answer to these questions, we asked survey participants for their assessment of an array of potentially export-restricting factors (see Figure 19). The selection was deliberately restricted to parameters that SMEs experience and perceive directly during the course of day-to-day business. Any concealed protectionist measures that may affect Swiss companies only indirectly, or that may not be fully perceived by these companies (for example, when a foreign state provides subsidies to its own exporters) were deliberately left out of this exercise.

**Figure 19** National barriers to trade and other export-restricting factors for SMEs

Schematic ranking of export-restricting factors queried in the survey

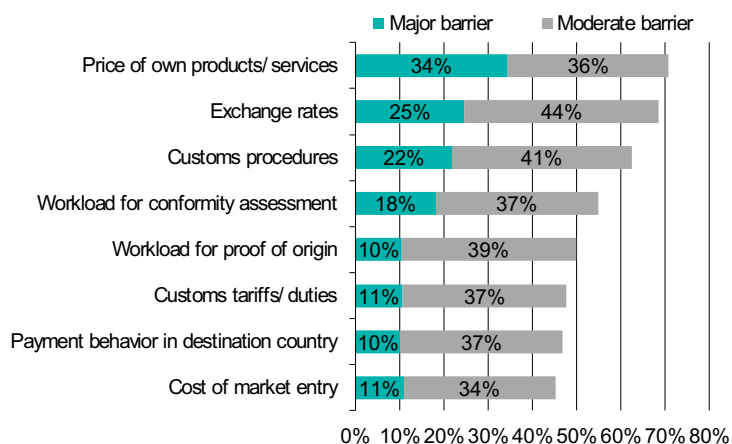


Source:

Credit Suisse SME Survey 2019.

**Figure 20** Commercial factors are the greatest obstacle to exports...

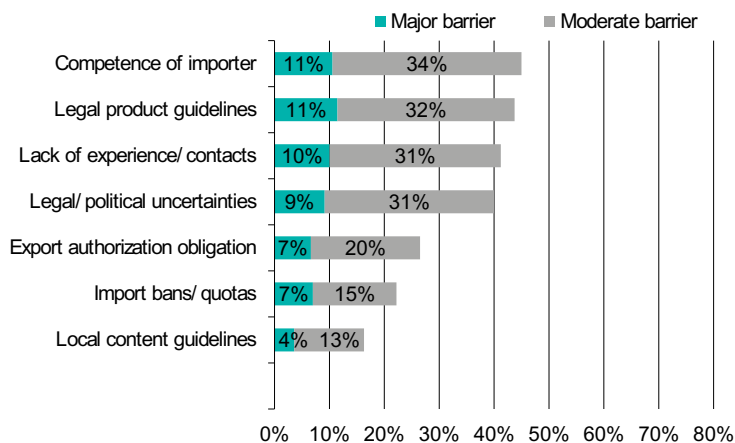
Proportion of answers to question of extent to which the specified factors restrict (or have restricted) the export activity of the company



Source: Credit Suisse SME Survey 2019.

**Figure 21** ... followed by non-tariff and tariff-based trade barriers

Proportion of answers to question of extent to which the specified factors restrict (or have restricted) the export activity of the company



Source: Credit Suisse SME Survey 2019.

Tariff measures such as customs duties and levies represent an obstacle to trade for almost half (48%) of surveyed SMEs (see Figure 20). As many as 11% perceive tariffs as a major obstacle. This assessment is particularly pronounced in the watchmaking industry (customs duties a major obstacle for 26% of respondents), in the chemicals industry (23%), and in the furniture, wood, and glass industries (20%). Clearly above-average assessments are also evident among manufacturers of precision instruments and companies from the textile and clothing industries (18% in each case), as well as among food producers (17%).

For many SMEs, however, non-tariff measures are a more significant export hurdle than tariffs. For example, 41% of the companies surveyed consider customs procedures and the associated workload to be a moderate obstacle, with as many as 22% describing these as a major obstacle. Moreover, 55% of respondents also perceive the workload associated with conformity assessments to be export-restricting. Conformity assessments encompass activities such as audits, inspections, and certifications, in which the company checks whether a product or a service fulfills the regulations that apply in another market, and therefore whether exporting said product or service is viable. If a Swiss conformity assessment is not recognized by the destination country, this results in additional work/expense for the exporting company. Furthermore, half of SME exporters describe the workload associated with proving a product's origin to be a significant trading obstacle. If an exporting company wants to benefit from the tariff and duty exemptions agreed between Switzerland and another country in the context of a free trade agreement, it must prove that the goods in question do actually come from Switzerland. The conditions that a product must fulfill in respect of proof of Swiss origin vary, and depend on the free trade agreement in question. Moreover, for 44% of the SMEs surveyed, the different legal product regulations that apply in destination countries – for example, regarding health considerations or product labeling – likewise represent a trading obstacle. By contrast, aspects such as export approval obligations on the Swiss side (e.g., dual-use goods that can be used for both civil and military purposes), import bans and quotas in destination countries, and so-called “local content” guidelines (where a destination country prescribes a minimum quota for components from that country) are perceived as less onerous. These measures are perceived as a moderate or major obstacle by 27%, 22%, and 16% of respondents, respectively (see Figure 21).

Two commercial factors are of greater significance than both tariff-based and non-tariff measures, however. The first of these is the higher price level of the company's own products and services, which is described as a moderate obstacle to exports by 36% of respondents and as a major obstacle by 34% of respondents. As a second factor, 68% of exporting SMEs view exchange rate risk and the

level of the Swiss franc as an obstacle to doing business abroad, with a quarter of respondents viewing this aspect as a major obstacle. General prevailing uncertainties in destination countries are likewise perceived as an impediment: a total of 47% of respondents see their international business as being negatively influenced by payment behavior in certain export countries, while political and legal uncertainties in destination countries are perceived as an obstacle by 40% of exporters. In addition to the price of a company's own offering, the internal factors that can make it difficult for a company to export its goods include a lack of financial resources: 45% of the SME exporters surveyed describe the costs associated with entering a foreign market (such as an expansion of production capacity) as a hurdle.

As we will see in the next section, collaboration with local partners and the quality and reliability of these partners is a crucial success factor in the export business. For example, 45% of the companies that took part in our survey consider the expertise of their importer to be a moderate or major obstacle in certain destination countries. According to 41% of SME exporters, company management lacks the corresponding expertise and contacts abroad, which in turn weighs on that company's export activity.

## **8 Measures taken by SMEs to combat trade obstacles: Reliable partners and new free trade agreements desired**

The previous sections showed that protectionism and trade barriers such as tariffs, administrative customs hurdles, and regulations have a clearly negative impact on the export activity of many Swiss SMEs. But how do these companies respond to these challenges, and what strategies have proved to be particularly helpful in this context? In order to explore these questions, we presented survey participants with a list of measures (see Box 1) and asked them which of these measures had proved helpful in overcoming trade obstacles.

In total, 87% of the companies surveyed found that at least one of measures in Box 1 has proved helpful to them in tackling trade obstacles. The most helpful measure of all was considered to be collaboration with external partners or existing networks locally, which was cited as a helpful strategy by 63% of companies (see Figure 22). The second most popular measure was to resort to existing free trade agreements with Switzerland, this being deemed helpful by 57% of SME exporters. Some way behind comes assistance from trade-promoting institutions and authorities (44%) and cooperation with certification and authorization bodies (39%). At the other end of the scale, by contrast, only around one SME in five found focusing on alternative products or on other national sales markets and the



adjustment of value creation chains to be successful strategies for tackling trade obstacles.

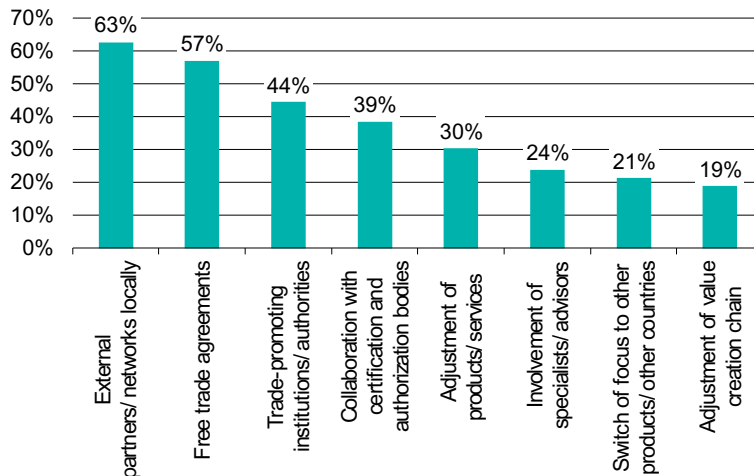
More detailed analysis of the results of the survey, however, would appear to show that the smaller the company, the greater the challenge in overcoming trade obstacles. Figure 23 illustrates the answers of survey participants on the issue of helpful strategies, broken down by size of respondent company. For micro firms, small, and medium-sized enterprises, the ranking of measures is almost the same, and indeed virtually identical in respect of the top five measures. However, it is striking that the proportion of companies that consider any given strategy helpful rises in line with company size. Whereas just under 70% of medium-sized enterprises view collaboration with external partners locally to be a helpful way of overcoming trade barriers, the equivalent proportion for micro firms with fewer than ten employees is just 56%. And whereas a total of 92% of surveyed medium-sized enterprises described at least one strategy as helpful, the equivalent figure for small enterprises and micro firms drops to just 86% and 82%, respectively.

**Box 1                      Possible measures for dealing with trade obstacles**

- Exploitation of free trade agreements/exporting to countries with free trade agreements with Switzerland
- Focusing on the export of less-affected products or on countries with fewer trade obstacles
- Recruitment of specialists (e.g., export managers) and/or involvement of advisors (e.g. attorneys)
- Collaboration with external partners or existing local networks (e.g. distribution partners, clients, suppliers)
- Cooperating with certification and authorization bodies
- Assistance from institutions such as Switzerland Global Enterprise (S-GE), chambers of commerce, Swiss embassies, or foreign authorities that promote trade
- Adjustment of value creation chains (e.g., establishment of local branches or production sites)
- Adjustment of products and services

**Figure 22** What (and who) can help to overcome trade barriers?

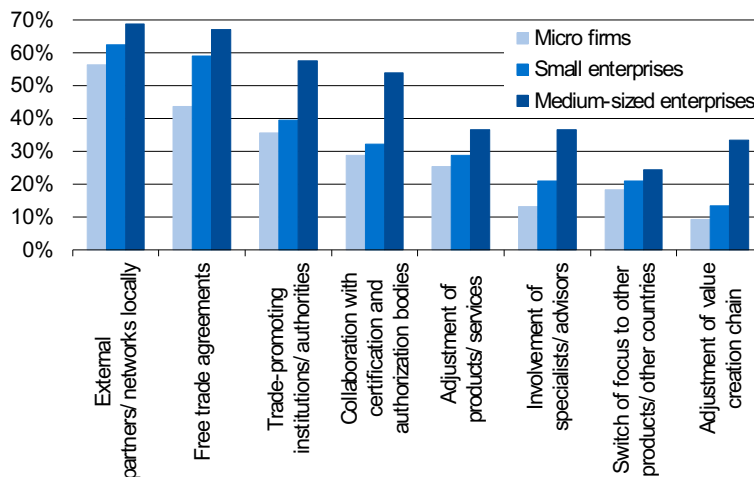
Proportion of surveyed SMEs that found the specified measure helpful in tackling trade barriers



Source: Credit Suisse SME Survey 2019.

**Figure 23** Smaller companies clearly have more difficulty in surmounting obstacles

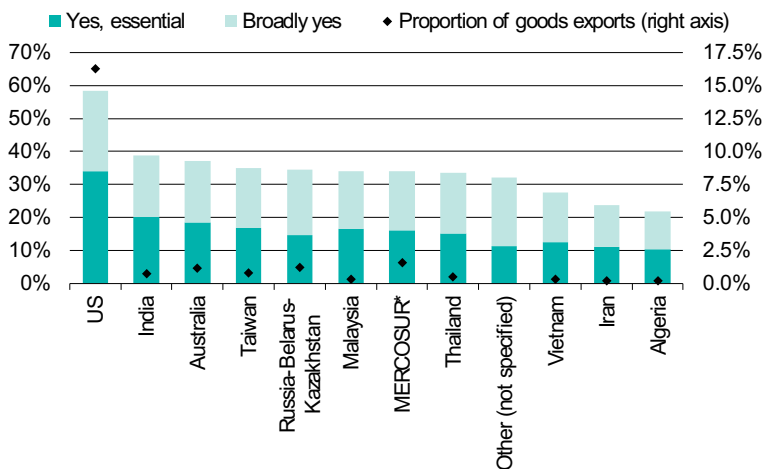
Proportion of surveyed SMEs that found the specified measure helpful in tackling trade barriers



Source: Credit Suisse SME Survey 2019.

### Figure 24 Exporting SMEs want free trade agreement with the US

Proportion of responses to question of whether a free trade agreement should be concluded with the country in question; volume of Swiss exports to corresponding country as proportion of all Swiss goods exports, 2018

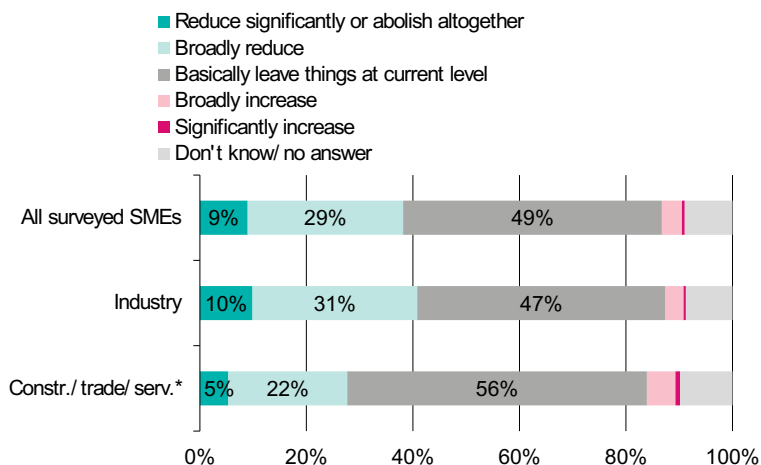


Source: Credit Suisse SME Survey 2019; Swiss Federal Customs Administration.

Note: \*Argentina, Brazil, Paraguay, Uruguay

### Figure 25 Switzerland should reduce its own trade barriers

Proportion of responses to question of what Switzerland should do with its own tariffs and other trade barriers to foreign products and services



Source: Credit Suisse SME Survey 2019.

Note: \*Construction/trade/services.

The onus to take action in connection with trade barriers is not just on companies themselves, but also on the state and the political establishment. Specifically, the aim of Switzerland's free trade policy is to enable Swiss companies to access foreign markets in the most stable way possible, and with the fewest possible obstacles and forms of discrimination. A key instrument here is the conclusion of free trade agreements. In addition to the EFTA Convention and the Free Trade Agreement of 1972 with the European Union, Switzerland currently has 30 free trade agreements in place with 40 trade partners.<sup>5</sup> The most eye-catching free trade agreement of all, and a source of major hope to Swiss exporters, is the agreement with China – the third-largest sales market for Swiss goods after the European Union and the United States – that entered into force in July 2014. It is clear from the above that the exploitation of free trade agreements is a very worthwhile exercise for SMEs, despite the workload involved for providing proof of origin. Accordingly, we were also keen to find out which other trade partners SME exporters believe Switzerland should seek free trade agreements with in the future.

The answer is fairly clear-cut: more than half of respondents (58%) would like to see Switzerland conclude a free trade agreement with the United States, and around a third consider such an agreement to be absolutely essential (see Figure 24). This finding is hardly surprising given that the United States is Switzerland's second most important trade partner after the EU. This was also the case in our SME survey of 2014, when a free trade agreement with China had been signed but had not yet entered into force (Credit Suisse 2014: 26 et seq.). Although Switzerland is not yet conducting any official negotiations on a free trade agreement with the United States, exploratory discussions between the two countries resumed in the fall of 2018.

Some way behind on the wish list of Swiss SME exporters is a free trade agreement with India, which Switzerland has been negotiating in an EFTA context ever since 2008. Some 20% of respondents would like to see such an agreement signed as a matter of urgency, with a further 19% broadly in favor. The corresponding approval rates for an agreement with Australia are 18% and 19%, respectively. No such negotiations are currently taking place with Australia. Rounding out the top five are Taiwan (no current negotiations) and the Russia–Belarus–Kazakhstan customs union (ongoing negotiations in context of EFTA since 2010).

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5 An overview of Switzerland's existing free trade agreements, as well as those currently being negotiated, can be found on the website of the State Secretariat for Economic Affairs (SECO) at <https://www.seco.admin.ch> (Foreign Trade & Economic Cooperation – Economic Relations – Free Trade Agreements).

**Box 2 SME exporters and trade barriers on the Swiss side**

- As established in the section “The creeping rise of protectionism in global trade”, Switzerland is not just a victim of trade barriers, but also in some cases a culprit. However, measures taken supposedly with a view to protecting the domestic economy are not always positive for Swiss companies, as they have the effect of making imports of commodities and other input goods more costly.
- When asked what Switzerland should do in respect of its own tariffs and other trade barriers for foreign products and services, a relative majority of the SME exporters surveyed (49%) expressed themselves in favor of the status quo (see Figure 25). A further 9% want Switzerland to significantly reduce or even completely abolish its tariffs and trade barriers, while 29% believe they should be somewhat reduced. Just 4% and 1%, respectively, would like to see these tariffs and barriers somewhat or significantly increased.
- The forces of liberalization are more strongly represented in industry than in the construction, trade and sales, and services sectors, where more than half (56%) of respondent companies consider no change to be necessary. The strength of calls for Swiss trade barriers to be reduced is particularly pronounced in the chemicals sector, in the machinery, electrical engineering and metalworking industries (MEM industries), and in the food industry – all these sectors being reliant on the import of raw materials to an above-average degree. By contrast, SMEs from the plastics, furniture, wood, and glass industry sectors are disproportionately more likely to want such barriers raised even higher. Essentially these are sectors confronted by competitive pressures from foreign providers.

In summary, it may therefore be said that collaboration with local partners and free trade agreements are the most important strategies for SMEs in their struggle against trade barriers. Accordingly, the desire for additional free trade agreements – and above all with the United States – is strong. Such an agreement would provide many Swiss SMEs with a certain degree of planning certainty, particularly against a backdrop of trade disputes. The extent to which SMEs are aware of the importance of unrestricted trade is evident, on the one hand, from the survey results on the framework agreement with the EU: a majority is in favor of such an agreement being concluded. On the other hand, there is also a tendency for the companies surveyed to want to reduce domestic tariffs. This also confirms the importance of open markets to exporting Swiss SMEs.

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