

# Paving the Road to Global Markets: How Increasing Participation in International Standards Development Can Boost Exports From Small and Medium Enterprises

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## ABSTRACT

While tariff barriers have drastically reduced around the world, non-tariff barriers, including demonstrating compliance with technical regulations, standards, and conformity assessment procedures, remain a significant obstacle to trade and could be particularly daunting for small and medium enterprises (SMEs). International standards have been recognized as an effective way to reduce technical barriers to trade (TBT). This research examines the impact of Canada's participation in international standards development (measured by technical committee/subcommittee participation) on SMEs' likelihood to export. Drawing on a national SME survey, results of the analysis showed that, after controlling for potentially confounding firm and owner attributes, Canada's participation in international standards development has a positive impact on Canada's exports and is associated with engaging more SMEs in international trade.

## KEYWORDS

Harmonization, International Standards, Small Medium Enterprises (SMEs), Technical Barriers to Trade (TBT), Trade

## INTRODUCTION

The COVID pandemic has posed unprecedented challenges to many aspects of society, including international trade. Canada's exports of goods and services dropped by 12.3% in 2020, equivalent to a 74 billion Canadian dollars (CAD) decrease, compared to the previous year (Export Development Canada, 2021). The pandemic impacted small and medium enterprise (SME) <sup>1</sup> exporters less severely, with a decline of 6.3% in the value of their exports, which was less than half of the decline larger exporters reported in 2020 (15.1%) (Statistics Canada, 2021a).

While large enterprises constitute a critical force in Canada's exports, the importance of SME exporters should not be overlooked. Canadian SMEs represented over 99% of "employer businesses" (i.e., establishments with at least one employee, excluding the business owner) and 98% of goods exporters (equivalent to 43% of total export values in goods), in 2020. Yet, amongst the over 1.2 million "employer SMEs" in Canada, only 42,543 (i.e., less than 4%) exported goods in 2020 (Statistics

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Canada, 2021a, 2021b). As the backbone of Canada's economy, SMEs make a significant contribution to job creation and advancing inclusive economic growth. While proportionately SMEs are less likely to export, eight out of 10 new Canadian exporters are SMEs. The vast number of SMEs in Canada represents "an untapped source of exporters" that can help the Canadian government reach its goal of increasing exports by 50% in 2025 (Global Affairs Canada, 2019).

Technological advancements and economic globalization offer SMEs the opportunity to insert themselves into global value chains. However, selling to foreign markets can be challenging, especially for SMEs. While tariff barriers have drastically reduced around the world, nontariff barriers such as technical regulations, product standards, and certification requirements have emerged as the dominant components of trade barriers imposing significant costs to businesses (Ruckteschler et al., 2022). These standards-related barriers, known as technical barriers to trade (TBT), play an increasing role in shaping the flow of international trade. A report linking standards and regulations to trade demonstrated that technical regulations impacted up to 93% of goods exported globally in 2015 (Okun-Kozlowicki, 2016). These standards-related barriers can pose a particular challenge for SMEs, as they may be more likely to have limited resources to comply with standards or technical regulations (United States Trade Representative [USTR], 2012).

Standardization has a critical role in international trade, and SMEs' contribution to Canada's exports is significant, but disproportionate. Thus, it is important to understand how Canada can encourage more SMEs to participate in global value chains. In this study, the authors hypothesized that, by actively participating in international standards development, a country can more effectively address TBT, thereby helping to pave the road to the global market for SMEs. Subsequently, the authors tested this assumption by examining the association between Canada's participation in international standards development and SMEs' likelihood to export.

The remainder of the paper is organized in the following five sections: The first section offers a review of the literature explaining why TBT disproportionately impacts SMEs and the role of international standards in harmonizing technical requirements and reducing TBT; the second section provides the research question, an overview of the methodology, and the data the authors used; The third section presents data analysis and findings from this study; the fourth section consists in the discussion of the implications and practical impacts deriving from the research findings; the last section concludes the paper.

## LITERATURE REVIEW

Standardization can help organizations optimize internal processes, improve operational efficiency, and reduce transaction costs, thus enabling them to become more competitive and profitable (Gerundino et al., 2014). They also provide an effective means of spreading and applying technical knowledge to a broad group of institutions, which, in turn, creates benefits for the wider economy by improving efficiency, interoperability, and productivity, thereby ensuring sustainable economic growth in the long run (Blind et al., 2022; Grimsby, 2018).

### **Technical Barriers to Trade Disproportionately Impact Small and Medium Enterprises**

Thanks to advances in information technologies, improved transportation, and reduced tariffs, SMEs now have more potential to grow in export markets and be part of global value chains (World Trade Organization [WTO], 2016). However, such opportunities are not cost-free. Businesses must ensure that their products and/or services can be sold in diverse markets. This could require complying with technical regulations, standards, and conformity assessment procedures that may not be harmonized across the world. These standards-related measures are important tools to ensure that imported products or services comply with domestic requirements. They also play a critical role in overcoming

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