

Small Businesses Key Players in International Trade

BY PATRICK DELEHANTY, ECONOMIST

Overview

International trade makes up 30 percent of the U.S. economy, and U.S. exports of goods and services reached a record \$2.3 trillion in 2014.¹ While total exports have grown 44 percent since 2009, the pace of export growth has been slowing in recent years.² U.S. businesses, particularly small businesses (firms with less than 500 employees), face a host of challenges when selling products and services abroad; these may include high tariffs, financial risks, and customs clearance delays. Despite the challenges, international markets offer businesses opportunity to reach new customers. From a policy perspective, countries including the United States often consider the implementation of trade agreements as a possible tool for accelerating trade growth. For example, the United States has pursued two regional free trade agreements aimed at removing tariffs and non-tariff barriers: the recently negotiated Trans-Pacific Partnership (TPP), a free trade agreement with 11 Asia-Pacific countries pending congressional approval, and the Transatlantic Trade and Investment Partnership (TTIP) with the European Union, still in negotiations.

This bulletin on international trade will examine current trends in small business exporting, highlight the export growth potential of small businesses, and look ahead to small business impacts of trade agreements. Future publications in this series will expand on international trade issues from a small business perspective.

Small Business Global Spotlight

With U.S. small businesses employing almost half of the U.S. workforce and creating two-thirds of all net new jobs, small businesses play a critical role in the domestic economy.³ Likewise, small businesses play an important role internationally as they make up a steady 97 percent of all U.S. identified

1. *Annual Trade Highlights*, U.S. Department of Commerce, Census Bureau, 2015. www.census.gov/foreign-trade/statistics/highlights/annual.html, accessed November 2015.

2. *Global Patterns of U.S. Merchandise Trade*, U.S. Department of Commerce, International Trade Administration, 2015. <http://tse.export.gov/>, accessed November 2015.

3. *Frequently Asked Questions*, U.S. Small Business Administration, Office of Advocacy, 2014. www.sba.gov/sites/default/files/advocacy/FAQ_March_2014_0.pdf, accessed November 2015.

Table 1: U.S. Exporters and Export Value, 2006–2013

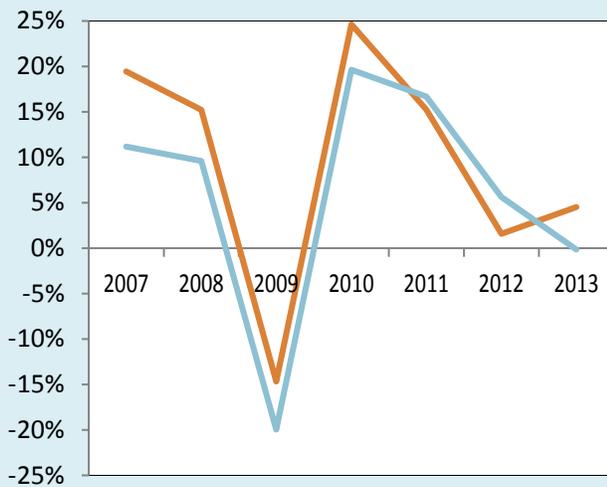
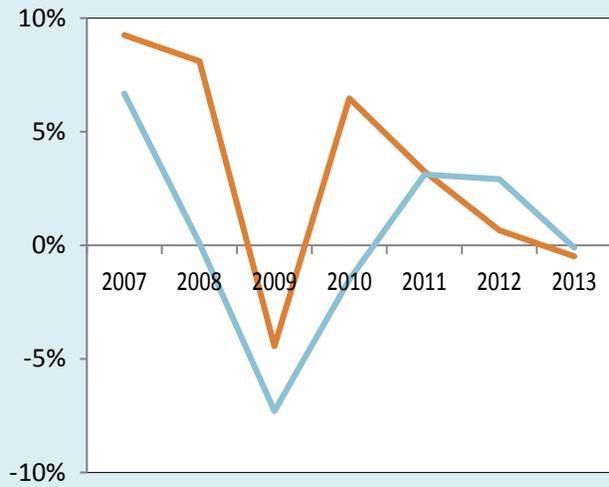
Year	Number of U.S. Goods Exporters					Value of U.S. Exports of Goods (\$million)				
	Total	Small Business		Large Business		Total	Small Business		Large Business	
		Number	%	Number	%		Value	%	Value	%
2006	245,945	239,287	97.3	6,658	2.7	\$910,465	\$262,999	28.9	\$647,466	71.1
2007	268,526	261,424	97.4	7,102	2.6	\$1,034,046	\$314,142	30.4	\$719,904	69.6
2008	289,711	282,603	97.5	7,108	2.5	\$1,150,903	\$361,967	31.5	\$788,936	68.5
2009	276,643	270,053	97.6	6,590	2.4	\$940,410	\$308,927	32.9	\$631,483	67.1
2010	293,988	287,498	97.8	6,490	2.2	\$1,140,406	\$384,940	33.8	\$755,466	66.2
2011	303,509	296,817	97.8	6,692	2.2	\$1,325,046	\$443,598	33.5	\$881,448	66.5
2012	305,669	298,782	97.7	6,887	2.3	\$1,381,728	\$450,618	32.6	\$931,110	67.4
2013	304,223	297,343	97.7	6,880	2.3	\$1,400,955	\$471,069	33.6	\$929,886	66.4

Source: U.S. Census Bureau, A Profile of U.S. Importing and Exporting Companies

exporters and account for a significant and growing share of export value (**Table 1**). Since 2006, the value of exports coming from small businesses has grown from 28.9 percent to 33.6 percent, and the number of small business exporters is up 24.3 percent (**Figures 1 and 2**). Further, small business export value grew 35.5 percent faster than the large business share, and the number of small exporters outpaced large ones by 20.9 percent (**Figures 3 and 4**).

Given these trends in international trade, it is important to examine small business sectors poised for export growth. Firms typically export goods and services to increase revenue beyond what can be achieved in their domestic market and import goods and services when they can be purchased at a lower cost than domestic suppliers. Whereas exporting can increase a firm’s sales and diversify its



Figure 3: Annual Change in Export Value**Figure 4: Annual Change in Number of Exporters**

— Small Businesses — Large Businesses

Source: A Profile of U.S. Importing and Exporting Companies. U.S. Department of Commerce, Census Bureau.

customer base, importing can boost a firm's profits and diversify its suppliers to mitigate risks. Since they often lack resources to identify potential customers or suppliers and navigate complex requirements, small businesses can be at a disadvantage when entering the international marketplace.

Small businesses' export participation and growth potential varies across industries. Industry sectors dominated by small businesses include professional, scientific, and technical services (NAICS 541), ambulatory health care services (NAICS 621), and food services and drinking places (NAICS 722). For small businesses that export services in these industries, measuring activity and participation has been a challenge, but the potential for export growth remains. Still, for many of these small businesses, it does not make strategic sense to sell in foreign markets. While only 5 percent of small employer firms export, small business export potential is better assessed through examining tradable industries.⁴ For goods-producing industries in manufacturing sectors (NAICS 31-33), small businesses make up 96.5 percent of exporters, but only 18.9 percent of export value. Additionally, only 28.4 percent of small manufacturing firms export. For service-providing industries in wholesale trade sectors (NAICS 42), small businesses consist of 99.2 percent of exporters and 64.8 percent of export value. Similar to manufacturing sectors, only 32.3 percent of small wholesalers export. Large businesses exhibit much higher participation levels in exporting, both overall (38 percent) and in manufacturing sectors (71 percent).⁵

4. Statistics of U.S. Businesses (SUSB), U.S. Department of Commerce, Census Bureau, 2012. www.census.gov/econ/susb/, accessed November 2015. *A Profile of U.S. Importing and Exporting Companies, 2012–2013*, U.S. Department of Commerce, Census Bureau, 2015. www.census.gov/foreign-trade/Press-Release/edb/2013/edbrel.pdf, accessed November 2015.

5. SUSB, U.S. Census Bureau. *A Profile of U.S. Importing and Exporting Companies, 2012–2013*, U.S. Census Bureau.

Small businesses in these exporting sectors stand out as they tend to grow faster, create more jobs, and pay higher wages than their non-exporting counterparts.⁶ Further, according to a study by the U.S. International Trade Commission, overall small business export growth is driven mostly by new entrants rather than by existing firms, as is the case for large businesses.⁷ For this reason, policymakers consider trade agreements as a possible avenue for encouraging these kinds of gains.

What's Next

A free trade agreement is one where the exchange of goods and services between countries is neither restricted nor encouraged by government-imposed trade barriers such as tariffs, quotas, or subsidies.⁸ The United States currently has bilateral free trade agreements with 20 countries and two regional free trade agreements: the North American Free Trade Agreement (NAFTA) with Canada and Mexico and the Central America–Dominican Republic Free Trade Agreement. Another pending agreement, the TPP, mentions small businesses specifically in nine of its 30 chapters, including a chapter focused exclusively on small and medium-sized enterprises—a first for an international trade agreement.⁹

At a time when global trade is slowing and 95 percent of the world's consumers are outside U.S. borders, U.S. businesses need new opportunities in order to grow.¹⁰ By engaging in international trade, small businesses can access new markets to increase sales, boost profitability, and mitigate supply chain risks. Given the limited current participation of small businesses in exporting, the potential for growth is high. The prospects for small business growth and success are strengthened through international trade. In future publications, we will explore small business exporting activity across cities and states; review and compare U.S. trade agreements relevant to small businesses, including NAFTA, TPP, and TTIP; and take a deeper dive into the relationship between small business and international trade.

6. *Small and Medium-Sized Enterprises: Overview of Participation in U.S. Exports*, U.S. International Trade Commission, January 2010. www.usitc.gov/publications/332/pub4125.pdf, accessed November 2015.

7. *Small and Medium-Sized Enterprises*, U.S. International Trade Commission.

8. *Glossary of Terms*, Washington International Trade Association, 2015. <https://wita.org/ytp-young-professional/ytpedia-trade-101/glossary-of-terms/#.VkoXBnarTmg>, accessed November 2015.

9. Full text of the TPP is available at <https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/TPP-Full-Text>

10. *Economic Report of the President*, The White House, Council of Economic Advisers, February 2015. www.whitehouse.gov/sites/default/files/docs/cea_2015_erp.pdf, accessed November 2015.