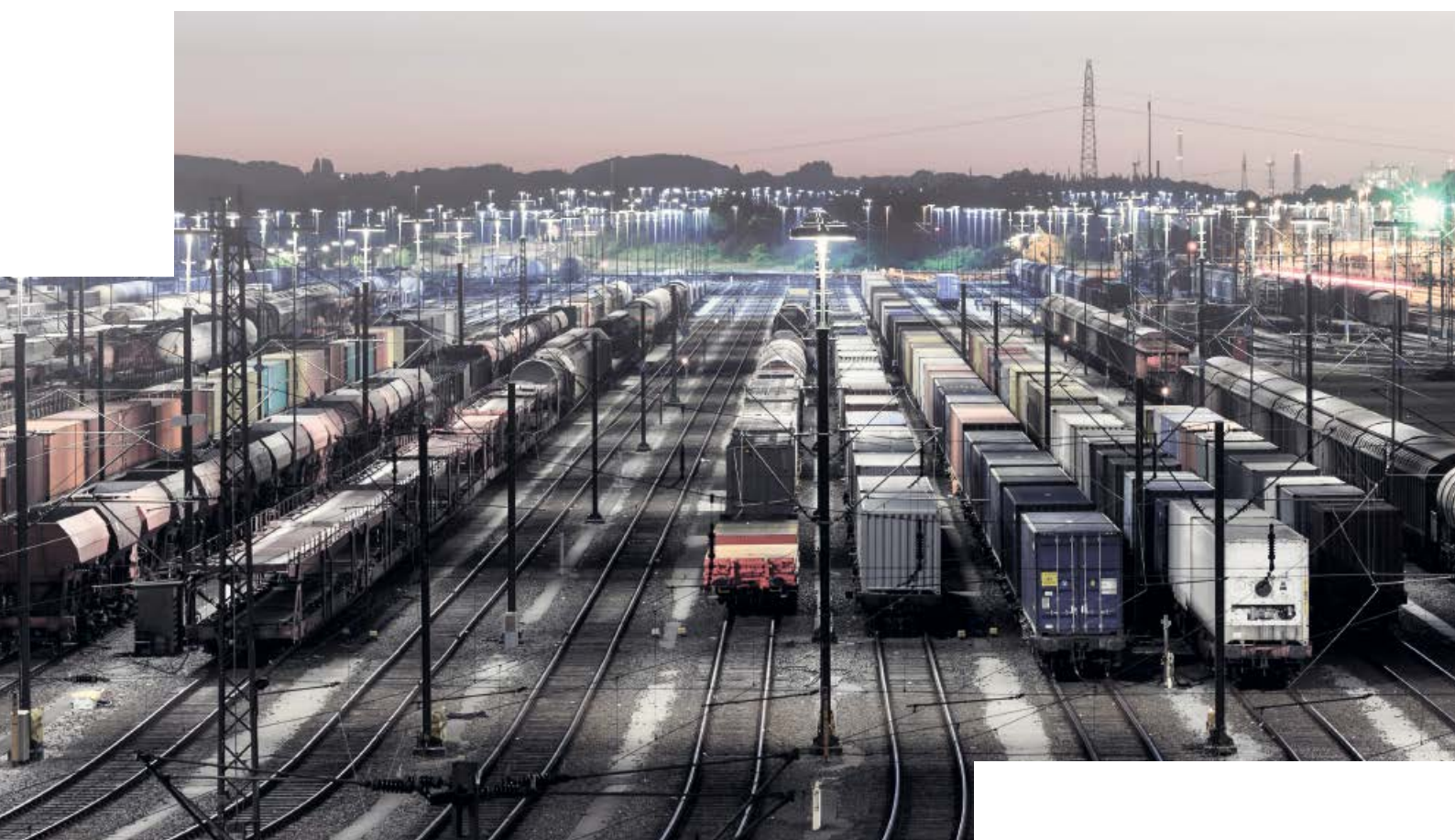


Export hurdles in practice

Swiss SME economy 2019 | August 2019



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**Slight increase in trade barriers
for SMEs**

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Specific trade obstacles for SMEs
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Dear readers

Barely a day goes by at the moment without the trade war between the US and China making the front pages of the international press, or at least featuring prominently. References to the imminent end of the world's liberal trading order are commonplace. And indeed, the available data confirms that the last two or three years have been characterized by a sharp rise in protectionism in global trade. The growing trend toward trade-distorting state intervention to protect domestic economies, a phenomenon apparent ever since the financial crisis of 2009, has therefore strengthened. Contrary to expectations, however, the recent rise in protectionism is not just limited to the US and China, but extends along global value creation chains across all continents.

Whereas large companies typically have sufficient resources to adapt relatively swiftly to changing global trading parameters, the situation for smaller companies can be more difficult. With a share of 45% of all Swiss goods exports, SME exporters are an important driver of the Swiss economy. Their strong integration into international value creation chains has sparked fears that any further increase in protectionist trade barriers could have negative repercussions for SMEs, and thus by extension for the Swiss economy as a whole. This SME study is therefore dedicated to the theme of obstacles to exports.

But first of all some good news: The results of our survey show that Swiss SME exporters have recently perceived only a slight intensification in global barriers to trade, and that they are largely able to tackle these obstacles. In other words, their situation is not quite as bleak as one might surmise from newspaper headlines. In addition, we highlight which markets are difficult for Swiss SMEs to export to, as well as those where they encounter only minor trading obstacles. Another interesting topic we explore is how the current proposal for a framework agreement with the EU is perceived by survey participants.

In addition to the political factors, commercial factors should also not be neglected when it comes to accessing export markets. For many exporting SMEs, the general price level of products from Switzerland and recurring bouts of Swiss franc strength remain the greatest challenges of all. The companies surveyed appear to have developed an array of suitable strategies to combat both tariff-based and non-tariff obstacles to trade, whereby SMEs actually view the latter as more restrictive. The most invaluable workaround solution of all here is the establishment of a reliable partnership or network in the respective export market, closely followed by the exploitation of free trade agreements.

In addition to external partners in export markets, trade-promoting institutions are also key contact partners for SMEs when it comes to administrative questions in the export business. In our interview with Alfonso Orlando, Head of ExportHelp at Switzerland Global Enterprise (S-GE), you can read up on how to take advantage of the profound specialist knowledge of this institution, as well as obtain valuable tips on how to tackle trade obstacles. In addition, a progress report from Jacques Boubal, CEO of textile company Cha Technologies, provides invaluable insights into the day-to-day business, problems and uncertainties of an internationally active SME in the export business. Last but not least, Simon Evenett, Professor for International Trade at the University of St. Gallen, takes a look at the development of protectionist practices worldwide.

We wish you an interesting and stimulating read.



Andreas Gerber
Head of SME Business Switzerland
Credit Suisse (Switzerland) Ltd.



Oliver Adler
Chief Economist Switzerland
Credit Suisse AG

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Management summary

Slowdown in global economy affects Swiss SME exporters (pp. 6 – 10)

Following a strong start to 2019, the Swiss economy has lost momentum in recent months. The export sector is increasingly feeling the slowdown in the global economy. And it is not just large companies that are affected by this development – many SMEs are too. After all, some 45% of all Swiss goods exports are produced by companies with fewer than 250 employees. Among other things, international trade disputes are partly responsible for the current slowdown in global economic growth. Accordingly, for this study we surveyed just under 560 exporting Swiss SMEs to obtain their views on the issue of protectionism and export barriers.

Protectionism on the rise globally since 2009, intensification apparent since 2016 (pp. 11 – 13)

The theme of protectionism has received plenty of media coverage ever since Donald Trump's election as US President and his subsequent trade war with China. However, data on trade-distorting interventions around the world reveals that the number of protectionist practices has actually been rising on an annual basis ever since the financial crisis of 2009. Nonetheless, this increase has become much more pronounced since 2016. Protectionism is not restricted to the US and China, however. It is a geographically widespread phenomenon, and also encompasses Europe and Switzerland. The toolkit deployed by national governments extends to much more than just customs tariffs, and includes non-tariff measures, particularly the use of general subsidies and export-supporting practices (e.g. export subsidies).

Trade barriers considered no challenge or a minor challenge by 40% of SME exporters (pp. 14 – 15)

In our survey, 29% of companies indicate that trade barriers and tariff hurdles currently pose a (very) major challenge to their business. By contrast, 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 a half did not perceive any change. The business situation in the export sector, which at the time of the survey was predominantly perceived to be good, is not being seriously impeded by trade barriers.

Difficulties in exporting to Russia and Brazil (pp. 16 – 17)

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 US – a figure that rises to as much as 54% when it comes to the third most important region, China/Hong Kong. Accordingly, the proportion of companies that have considered exporting to China/Hong Kong in the past, but ultimately decided against such a step, is also high. The task is even more challenging when it comes to exporting to Russia and Brazil: More than 60% of surveyed SMEs encounter trade barriers in these countries.

Commercial factors a greater export obstacle to SMEs than protectionist measures (pp. 18 – 19)

The principal instrument of the current trade war, namely conventional tariffs, is currently problematic for just under a 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.

Partnerships in export markets and exploitation of free trade agreements the most successful strategies (pp. 20 – 22; p. 17)

According to our survey, SMEs consider the most promising strategy when dealing with tariff-based and non-tariff obstacles to be collaboration with external partners or existing local networks. This was cited as an effective strategy by 63% of respondents. The survey also shows that overcoming trade obstacles is a significantly more challenging task for small companies than for large ones. SMEs consider the second-best strategy for overcoming trade obstacles to be the use of free trade agreements. Almost 60% of respondents expressed the desire for a free trade agreement with the US, with around a third hoping for such an agreement on almost any terms. Particularly in an era of trade wars involving the US, such an agreement could provide Swiss exporters with greater certainty. The need for stability in trade matters is also clear from the majority support expressed in our survey for the draft framework agreement with the EU.

Business situation of manufacturing SMEs cooling off

Most Swiss SMEs once again assess their current business situation as good or satisfactory, but some sectors are less optimistic than they were a year ago. A slowdown is evident in manufacturing in particular.

SMEs shape the Swiss economy

The state of the Swiss economy is heavily influenced by small and medium-sized enterprises (SMEs). More than 99% of Swiss companies have less than 250 employees. 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%¹, with these companies being responsible for some 45% of goods exports (cf. page 8).

Business situation generally less volatile for SMEs than for large companies

On the basis of the surveys carried out regularly by the KOF Swiss Economic Institute of ETH Zurich, we calculate a business situation indicator for the Swiss SME economy (cf. box and charts on next page). This provides an overview of the current economic situation of small and medium-sized enterprises, as well as a comparison with developments at large companies. A majority of both SMEs and large companies have assessed their business situation as good or at least satisfactory in the years since the economic crisis of 2009, although the euro crisis (2011–2012) and the Swiss franc shock (2015) each caused significant deteriorations in this assessment. Viewed over the long term, there is very little difference between the perception of the current business situation by SMEs and large companies. However, the indicator shows that the situation of the SME economy as a whole is typically more stable than that of large companies – although individual SMEs can obviously experience more volatile business development than individual large companies.

SME economy temporarily loses momentum in 2019

The Swiss economy recorded a surprisingly strong start to 2019. GDP growth impressed in the first quarter, driven in particular by dynamic domestic consumption, a pickup in construction investment, and positive stimuli from exports of services and pharmaceutical products. However, as a small, open economy, Switzerland has been unable to avoid the repercussions of a slowing global economy: These have been apparent for a number of months now, with the export economy increasingly affected. Other contributory factors to the slowdown in global economic growth include international trade conflicts, particularly between the US and China, and the various uncertainties associated with these. A number of different indicators of current economic development, such as the Purchasing Managers Index (PMI) and the KOF Business Situation Indicator, suggest that the Swiss economy has already cooled significantly over the last few months. Although this slowdown is primarily being felt by large companies, it appears that the cycle has peaked in some sectors of the SME economy too.

Indications of weakness in industry and wholesaling

This is the case in particular in the industrial sector. 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 to date. This can be attributed not least to the weakening of export demand. SMEs from the wholesaling and – to a lesser extent – catering sectors likewise view their business situation less positively than they did just a couple of quarters ago – although their assessments remain very positive in a long-term comparison. In the retail trade, while the situation of many SMEs remains difficult after years of structural change caused by a strong franc and the rise of online shopping, a certain degree of stabilization can nonetheless be observed. The most positive assessments of all come from SMEs active in the construction industry and the broad and heterogeneous services sector. The former continues to benefit from extremely low interest rates, and actually enjoyed a pickup in growth momentum so far this year. So while the economy remains broadly robust for domes-

¹ As at 2016. Source: OECD (2018), Entrepreneurship at a Glance.

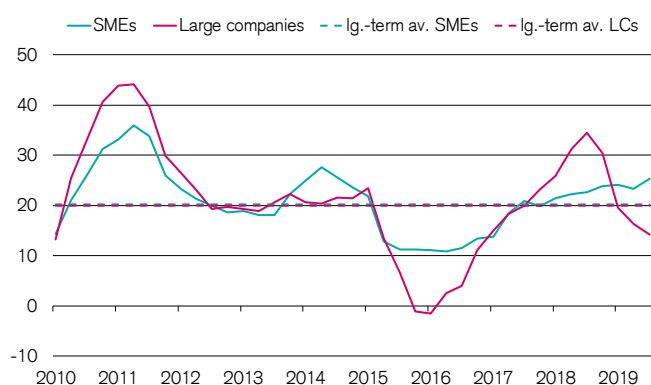
tic-oriented sectors, the more internationally-oriented sectors have registered a slowdown in recent months.

Business Situation Indicator for SMEs

The KOF Swiss Economic Institute of ETH Zurich (KOF) surveys – either monthly or quarterly depending on the sector – around 4,500 companies about various issues, including their current business situation. The companies assess whether their business situation at the time of the survey is poor, satisfactory, or good. The charts in this section show the difference (net balance) between the positive (“good”) and the negative (“poor”) answers. Figures above 0 point toward a generally “satisfactory to good” business situation. Figures below 0 indicate that, at the applicable point in time, there were more companies with a “poor” than with a “good” business situation. The values for SMEs in the illustrations of this section are weighted averages that we have calculated from the KOF Business Situation Indicators for SMEs in the industrial, construction, catering, retail trade, wholesale trade, and services sectors. Based on their employment share, the individual groups have been weighted in accordance with the business census of the Swiss Federal Statistical Office (STATENT 2016). The values for large companies in the first chart below also constitute a sector-weighted average, whereas for the remaining charts we have adopted the unadjusted values of the KOF.

2019: SME economy as a whole remains robust

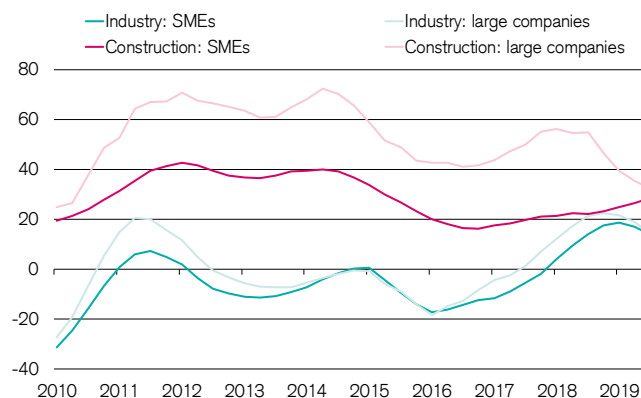
Business situation: proportion of companies surveyed, net balance of “good/poor” responses in percentage points*



Source: KOF Swiss Economic Institute, Swiss Federal Statistical Office (SFSO), Credit Suisse; *excluding agriculture, finance, energy, education, and public administration; last data point: July 2019

Business development of SMEs in industry weakens

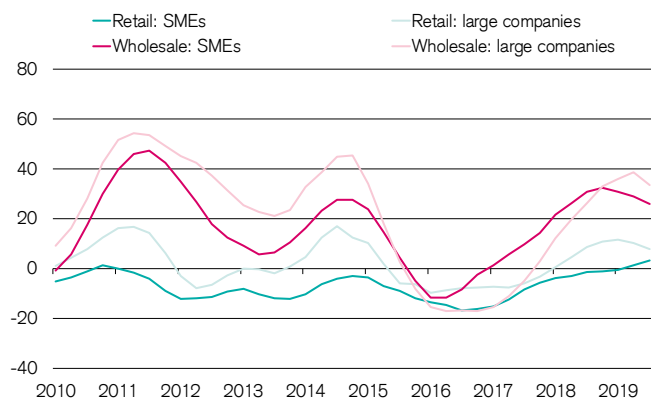
Business situation: proportion of companies surveyed, net balance of “good/poor” responses in percentage points, four-quarter average



Source: KOF Swiss Economic Institute, SFSO, Credit Suisse; last data point: July 2019

Wholesale trade also weakening

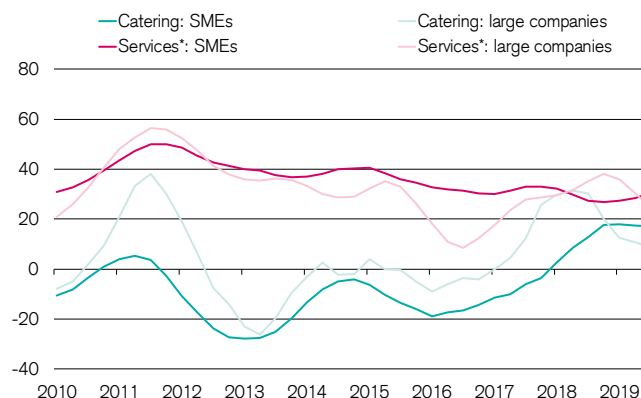
Business situation: proportion of companies surveyed, net balance of “good/poor” responses in percentage points, four-quarter average



Source: KOF Swiss Economic Institute, SFSO, Credit Suisse; last data point: July 2019

Economy for SME service sector broadly stable

Business situation; proportion of companies surveyed, net balance of “good/poor” responses in percentage points, four-quarter average



Source: KOF Swiss Economic Institute, SFSO, Credit Suisse; *excluding trading, catering, finance, education, and public administration; last data point: July 2019

SMEs responsible for 45% of Swiss goods exports

The likelihood of a company being an active exporter increases in step with company size. The majority of exporting SMEs are active either in the wholesale trade or in industry.

Protectionism affects exporters most of all

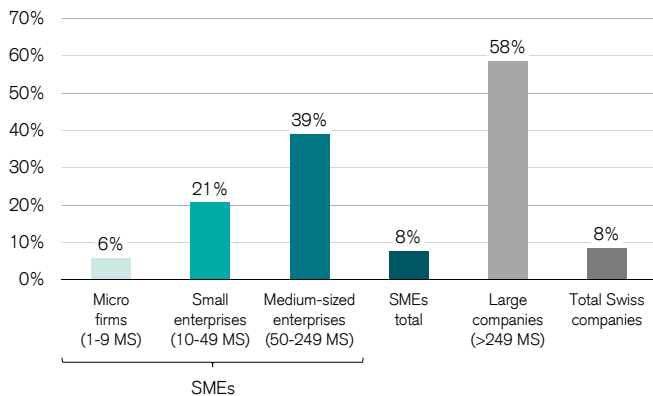
Swiss exporting SMEs are currently suffering – albeit not as acutely as large companies – from a weakening of the global economy and the associated decline in international demand. A slowdown in global economic development tends to be felt most of all by businesses that are integrated into international 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, e.g. 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.

8% of all Swiss SMEs are goods exporters

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 (cf. Fig.). 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, namely 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.

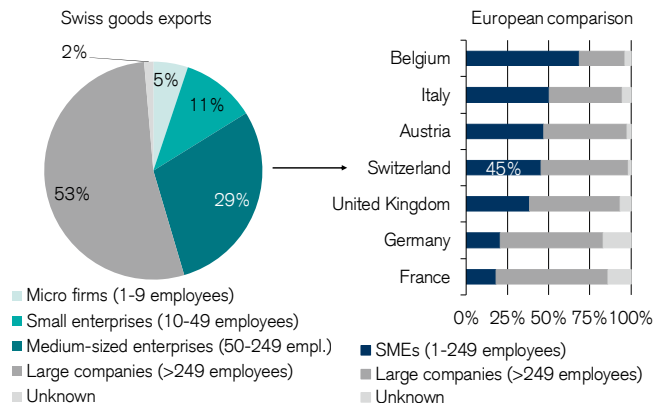
Larger companies more likely to export

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



45% of Swiss goods exports come from SMEs

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



Source: Swiss Federal Customs Administration, SFSO, Credit Suisse

Source: Swiss Federal Customs Administration, SFSO, Eurostat, Credit Suisse

SMEs account for 45% of Swiss goods exports

Nonetheless, SMEs make a sizable contribution to total Swiss goods exports: In 2016 their overall share amounted to 45% (cf. Fig. on previous page). 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 the extremes like 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.

SME exporters particularly prevalent in trade & sales and industry

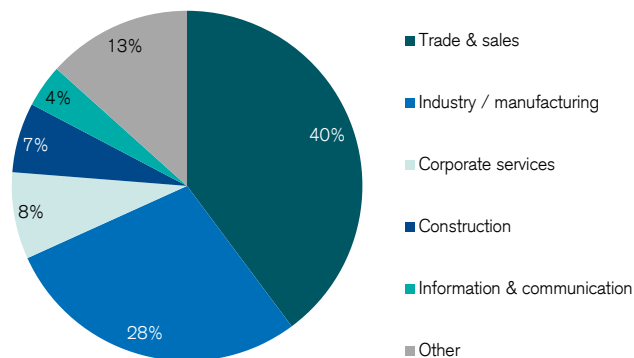
The figure on the left shows that the most frequent sector of origin of SME exports is trade & sales, which accounts for 40% of the 45,312 exporting Swiss SMEs. In part this is no doubt attributable to the distribution companies of major industrial businesses that can be assigned to the wholesale sector. 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.

Wholesaling generates the highest share of SME export sales

As the figure on the right 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.

Majority of exporting SMEs active in trade and sales

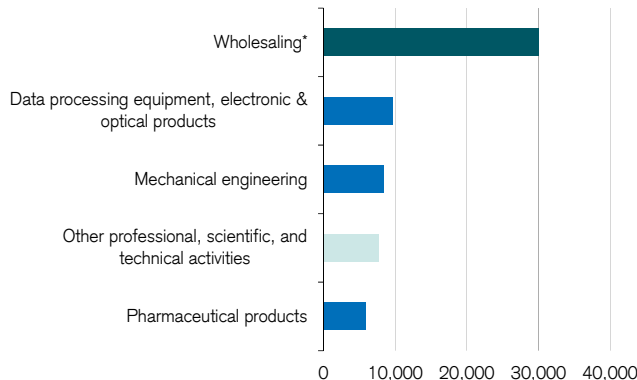
Proportion of exporting SMEs by sector, 2016



Source: Swiss Federal Customs Administration, Credit Suisse

Wholesaling generates highest export sales

Exports of SMEs in CHF mn, five largest sectors, 2016



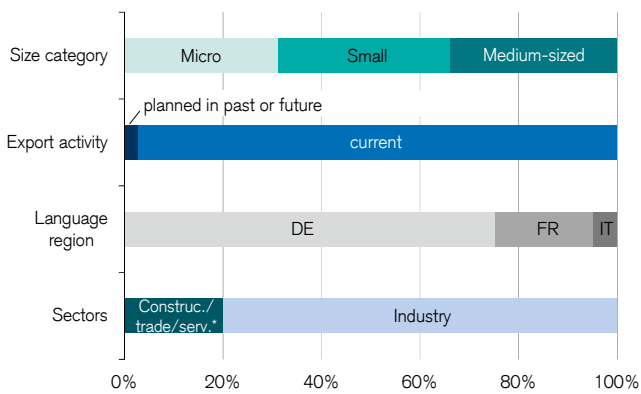
Source: Swiss Federal Customs Administration, Credit Suisse; *excluding automotive trading

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, 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%² of Swiss businesses respectively, were therefore deliberately overweighted 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.

Small, medium-sized and industrial businesses overweighted

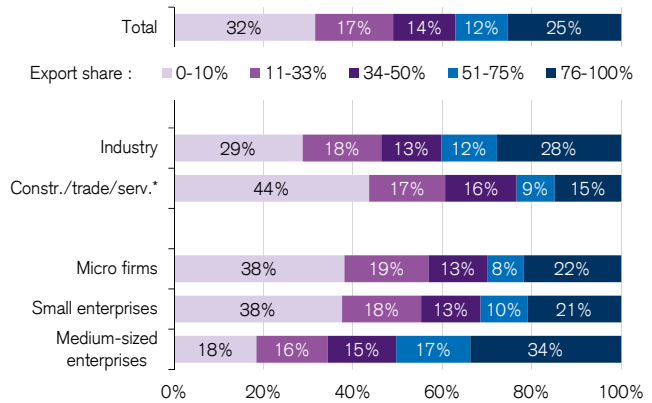
Survey companies (558 in total) by size category, export activity, language region, and sector



Source: Credit Suisse SME Survey 2019; *Services

Industrial and medium-sized businesses exhibit high export shares

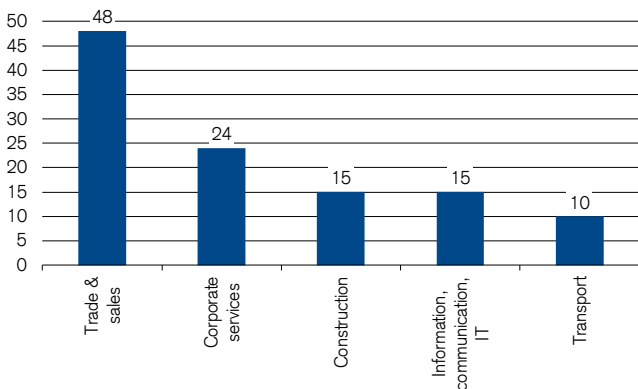
Export share (exports as proportion of overall sales) of surveyed companies



Source: Credit Suisse SME Survey 2019; *Services

Many trading companies within the services sample

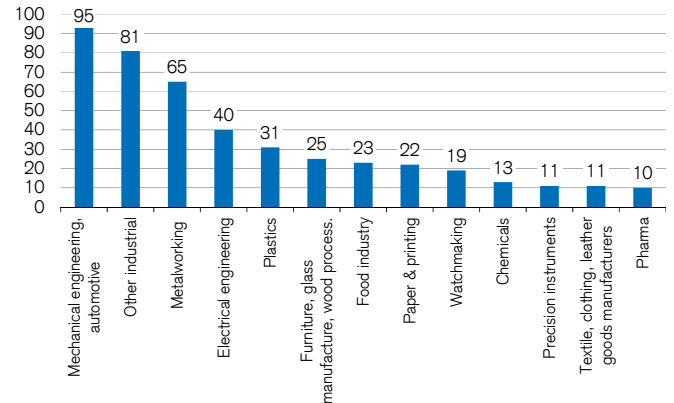
Number of surveyed companies from sub-sectors of the services sector



Source: Credit Suisse SME Survey 2019

MEM industries heavily represented in industrial sample

Number of surveyed companies from sub-sectors of the industrial sector



Source: Credit Suisse SME Survey 2019

² As at 2016. Source: SFSO.

The creeping rise of protectionism

Protectionism has been on the rise ever since the financial crisis, and not just in the US and China. Moreover, in recent years, the trend of resorting to trade-distorting measures has been growing at a higher pace.

Thanks to the trade war, protectionism is also gaining more media column space

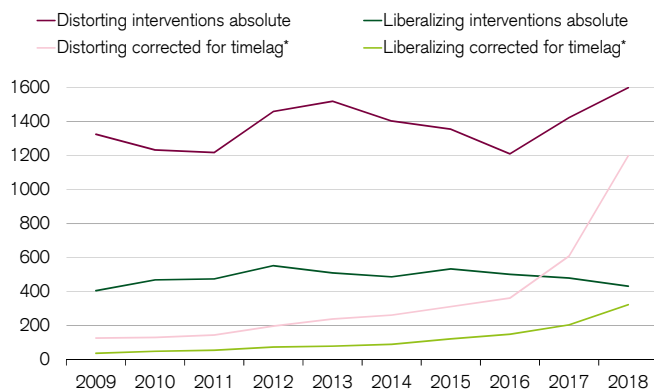
Ever since Donald Trump's election as US President, the theme of protectionism has received intensified media coverage. What started in January 2018 with tariffs on washing machines and solar panels, which were quickly extended to steel and aluminum, acquired greater, geopolitical dimensions in March 2018 with the imposition of tariffs on USD 50 billion of Chinese products. The tariffs are aimed at China, which is accused by the US of engaging in unfair practices in trading, monetary policy, and the protection of intellectual property rights. However, other key trade partners of the US – including the EU 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?

Strong increase in trade-distorting interventions since financial crisis

The team at Global Trade Alerts (cf. box on next page) 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 this database shows that a large number of trade-distorting (i.e. protectionist) state measures have been implemented on an annual basis ever since 2009 (cf. Fig., dark-red line). In other words, these measures far outweigh the trade-liberalizing measures that have been implemented over the same period (dark-green line). As this database is also retrospectively updated by newly available information on trade policy decisions made in the past, there is a certain timelag 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 timelag effect, it is easy to see that trade-distorting interventions have had the upper hand since the financial crisis (pink and light-green lines).

Increase in trade-distorting interventions in 2017 and 2018

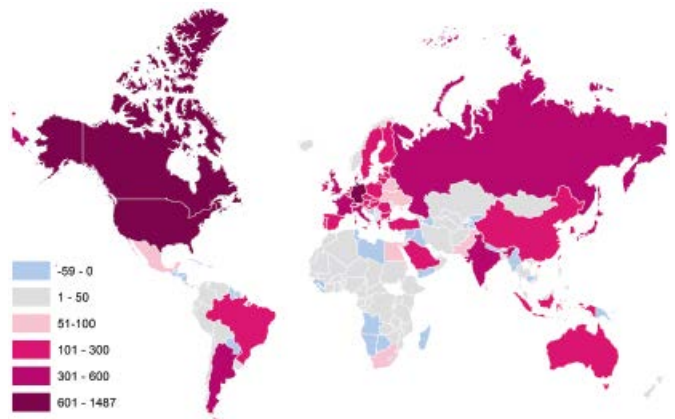
Number of trade-liberalizing and trade-distorting state interventions worldwide



Source: Global Trade Alert (as at: May 2019), Credit Suisse
*Correction: Number of measures divided by number of past years³

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 at May 2019), Credit Suisse
No data available for non-colored countries

³ S. J. Evenett, "Protectionism, state discrimination, and international business since the onset of the Global Financial Crisis", *Journal of International Business Policy*, Volume 2, Issue 1, 2019, pp. 9-36.

Protectionism a widespread phenomenon

Protectionism is more widespread than is often assumed, as is clear from the map on the previous page. 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 US, 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 include Russia, Japan, India, a significant swathe of the EU, and Switzerland. It therefore appears that protectionism has increasingly become part of the economic policy toolkit around the world since the financial crisis.

Global Trade Alert (www.globaltradealert.org)

Global Trade Alert records all announced and already implemented state measures that have impacted on cross-border trade since the first G20 crisis summit in November 2008. A distinction is made here between trade-distorting and trade-liberalizing measures. Any state measures that result in preferential treatment of domestic economic interests over foreign interests are classified as trade-distorting. For more than 10 years now, the Global Trade Alert database has been updated with both current and past economic policy interventions, thereby allowing a systematic observation of global trade developments. Simon Evenett, Professor for International Trade at the University of St. Gallen, coordinates the Global Trade Alert with the assistance of an international team of specialists. In an interview starting on page 23, he provides, among other things, an insight into the background and consequences of the rise in protectionism.

China most affected by protectionist measures

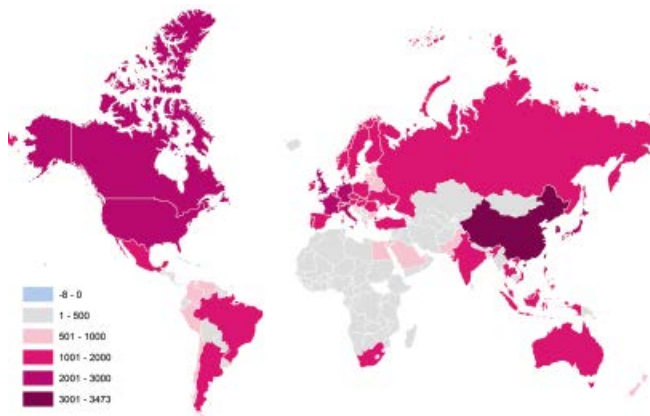
When looking at this phenomenon from the perspective of those affected, it becomes clear that one country in particular has been a victim of protectionist measures. China, which is continually accused – and not just from the USA – of unfair trade practices, has been affected by trade-distorting interventions from other states nearly 3,500 times between 2009 and 2019. This makes it the most affected country of all (see map). 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 US as well as a number of European countries, are among the major victims of protectionism, along with China. An obvious explanation for this is the retaliatory measures to which the culprits mutually resort.

Subsidies and export-promoting measures more commonplace than tariffs

The multifaceted spectrum of instruments deployed to pursue protectionist aims is striking (cf. Fig.). 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 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 then 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.

China the most frequent victim of protectionist interventions

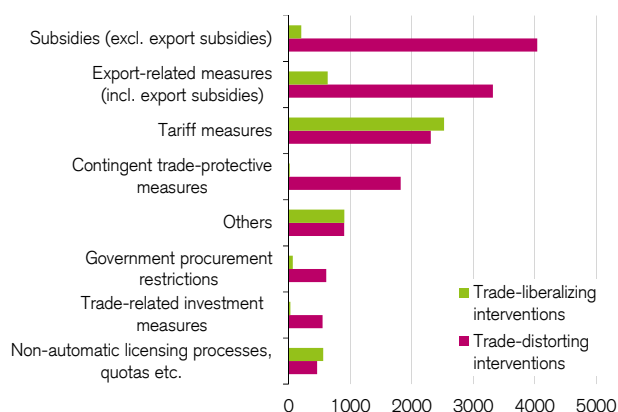
Net balance of trade-distorting and trade-liberalizing interventions implemented by a state between 2009 and May 2019



Source: Global Trade Alert (as at: May 2019), Credit Suisse
No data available for non-colored countries

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 at: May 2019), Credit Suisse

Proportion of exports globally affected since 2009 has risen from 40% to 70%

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 Global Trade Alert 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. In the figure on the left, the gray columns 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 US with current 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.

Swiss protectionism has affected Germany and Italy most of all

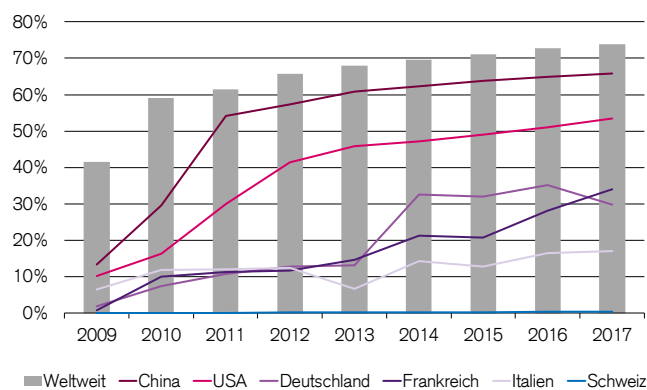
Although Swiss trade policy affects less than 1% of imports (by value) through trade-distorting measures (blue line in the figure), Switzerland has nonetheless implemented a significant number of trade-distorting measures itself since 2009 (cf. Fig. on page 11). 95% of these interventions fall under the category of covert measures.⁴ Among others, these include 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. The figure on the right 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.

Recent rise in protectionism not due to trade war alone

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 (cf. Fig. on page 11). It is probably no coincidence that this timeframe coincides with President Trump taking over the reins of trade policy in the US. And indeed, the data suggests a high level of activity for 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 US 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.

More than 70% of global exports affected by protectionism

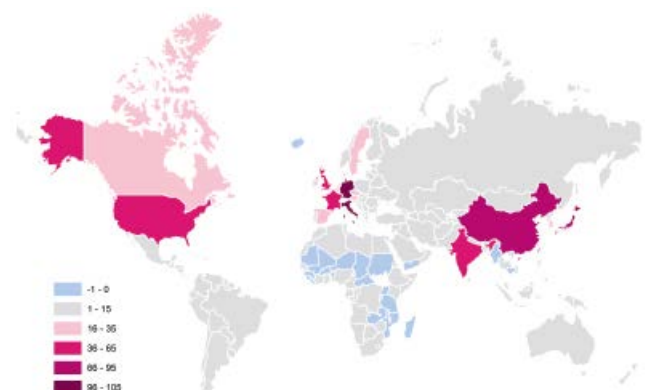
Estimated proportion of global exports/imports per country affected by trade-distorting state interventions



Source: Global Trade Alert (as at: May 2019), Credit Suisse

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 at: May 2019), Credit Suisse
No data available for non-colored countries

⁴ Source: Global Trade Alert (www.globaltradealert.org); as at: May 2019

Slight increase in trade barriers for SMEs

Exporting SMEs consider trade barriers and customs hurdles to be rather more of a challenge than they did five years ago. For more than half of companies surveyed, however, the assessment of this problem has not changed.

For 29% of SMEs, trade barriers represent a major or very major challenge

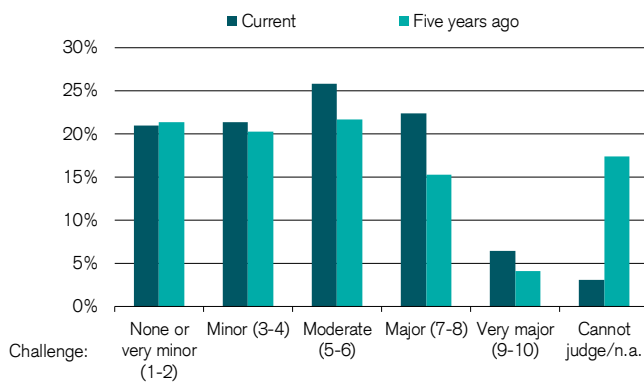
Many Swiss SME exporters are integrated into international value creation chains. It is therefore only reasonable to assume that they too are affected by the repercussions of the global rise in protectionism. When questioned on this issue directly, although 21% of survey participants stated that trade barriers and customs hurdles are not a challenge – or only a very minor challenge – for them at the moment (cf. Fig.). More than half considered this issue to be anywhere between somewhat and very significant, i.e. a majority of survey participants currently 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 right now, 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 (cf. section “Measures taken by SMEs to combat trade barriers”).

Slight increase in 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 (cf. Fig.). 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, here too only a slight increase in trade barriers becomes apparent (cf. Fig.): Around 23% of respondents consider the challenge to be greater at the moment than that of five years ago. Some 9% take the opposite view. But half of all survey participants perceive no change compared to five years ago.

Trade barriers a (very) major challenge for 29%

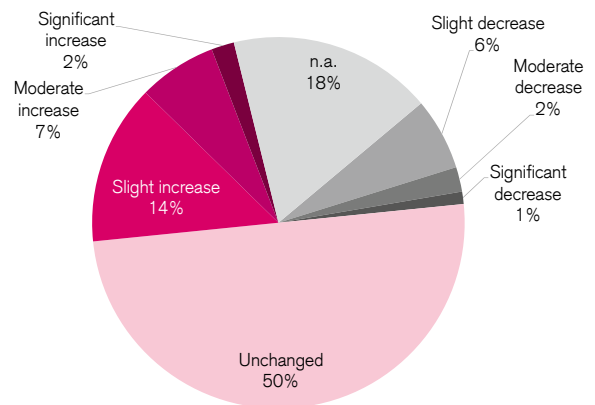
Assessment of trade barriers and customs hurdles as a challenge on a scale of 1 to 10, proportion of SMEs surveyed



Source: Credit Suisse SME Survey 2019

23% 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

Business situation in the export sphere predominantly good

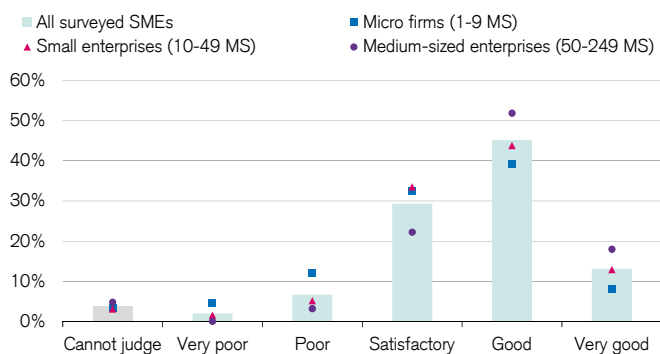
Given the increase in the number of protectionist measures in global trade (cf. section “Development of protectionism in global trade”), these results look fairly optimistic. Even though Swiss SMEs perceive a slight increase in trade barriers, a significant proportion appear to feel able to deal with 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 (cf. Fig.). Another near 30% described their current business situation in the export sphere as satisfactory. Only a small proportion (approx. 9%) considered their export situation to be critical. Although these results are pleasing in themselves, they should nonetheless be interpreted with caution – not least in view of the results from the section “Current situation of Swiss SME economy”. 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.

Business situation in export sphere not dependent solely on trade barriers

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 (cf. Fig.). 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. In the section “Measures taken by SMEs to combat trade barriers” we will explore these strategies in greater detail. On the other hand, trade barriers tend to be structural factors, whereas the current business situation of an SME in the export sphere will also vary according to the state of the economy.

Business situation in the export sphere predominantly good

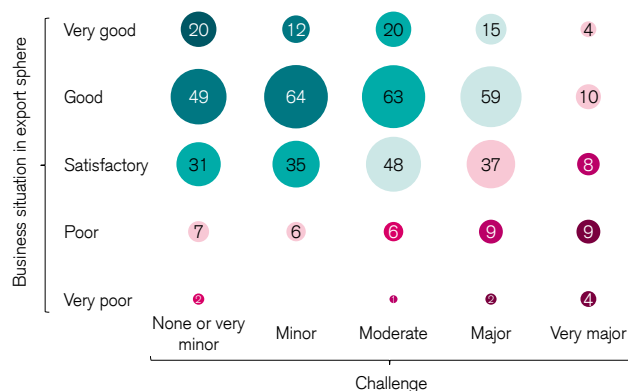
Assessment of latest business situation (at time of survey) in the export sphere by respondent SMEs, by size category



Source: Credit Suisse SME survey 2019

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

Difficulties in exporting to Russia and Brazil

The surveyed SMEs export their goods most frequently to European markets, followed by the US and Chinese markets. While European markets tend to have relatively few trade barriers, exporting to countries like Russia or Brazil is more difficult.

German and American markets important to Switzerland, despite protectionism

Where the number of implemented protectionist measures is concerned, there are significant differences between the various countries (cf. page 11). The greatest “sinners” appear to be Germany and the US, 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 US and Germany, as well as elsewhere, and which other markets they consider to be relevant.

SMEs cover a wide network of export markets

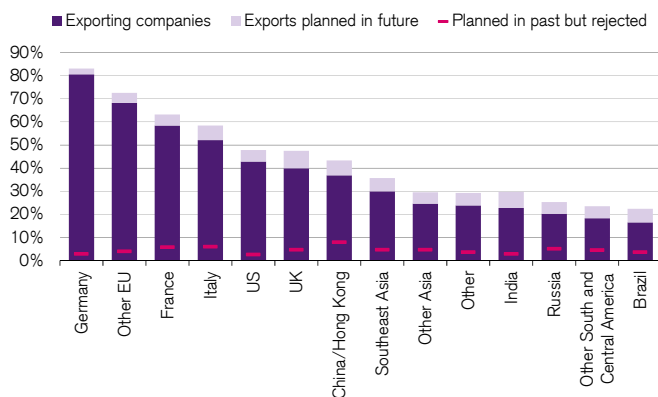
The illustration on the left below shows that the exports of the surveyed companies are heavily geared toward the European and US markets, whereby Germany is the most significant export market for Swiss SMEs. Albeit quite some way behind, China and Southeast Asia follow. If it is assumed that planned future export activities will come to fruition (cf. Fig.), the UK can be expected to catch up with the US 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.

Trade barriers highest of all in Russia and Brazil

An indication of the extent to which trade barriers may have been responsible for this change of heart is supplied by the illustration on the right below. 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

Germany the most common export market for SMEs

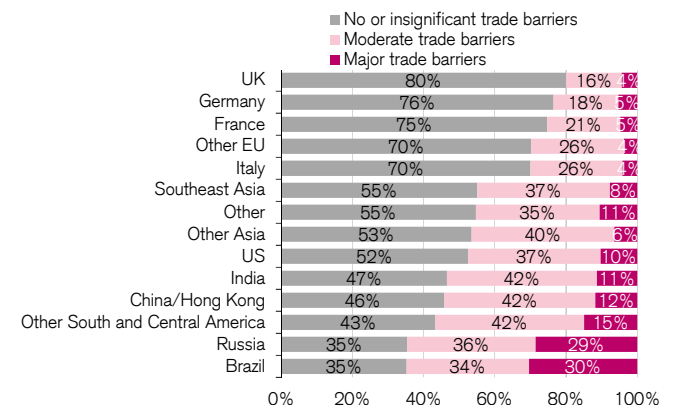
Proportion of surveyed companies that export to the destination in question, planned to do so in the past, or plan to in the future



Source: Credit Suisse SME survey 201

Trade barriers 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

do not appear to be affected very often by the numerous protectionist measures implemented by the German government. For the surveyed SMEs, the UK has even fewer barriers to trade than Switzerland's other neighboring countries and the remainder of the EU. Furthermore, a relatively high proportion of respondents indicate that they are planning to export their goods to the UK in the future. As things stand, therefore, it appears that only a hard Brexit would jeopardize the UK's emergence as a flourishing export market for Swiss SMEs. The interview with Alfonso Orlando (cf. p. 24) likewise confirms the significance of this export destination for Swiss companies.

Swiss SME exporters and Switzerland's European policy

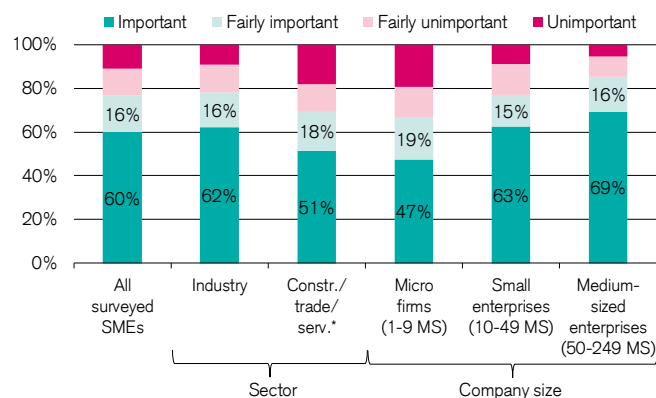
In our survey, we also asked SMEs about the latest European policy issues. 94% of survey respondents that currently export their goods have at least one EU state as a sales market. Accordingly, unrestricted access to the European single market is of great importance (cf. Fig.). The relevance of this issue in the construction, trade & 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 EU 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 EU (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 EU 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 EU.

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 (cf. Fig.). 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.

Access to EU domestic market important to surveyed SMEs

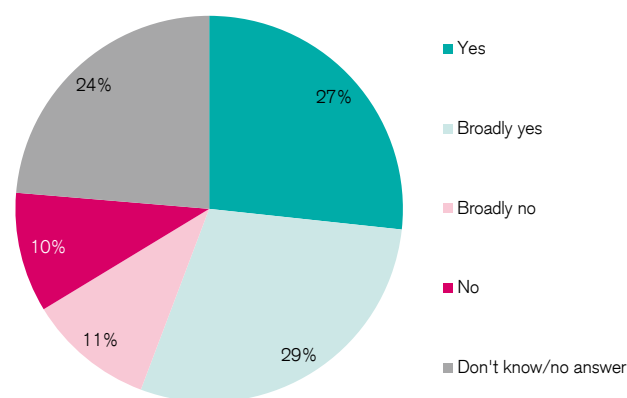
Proportion of responses to question of how important unrestricted access to the European domestic market is for companies



Source: Credit Suisse SME Survey 2019; *Services

Narrow majority supports institutional framework agreement with 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

Tariffs a major obstacle for one in ten SME exporters

Three out of five SME exporters consider onerous customs processes to be a major or at least a moderate obstacle, while around half are restricted in their activity as a result of customs duties. But other factors also act as a drag on exports.

Broad spectrum of export-restricting factors

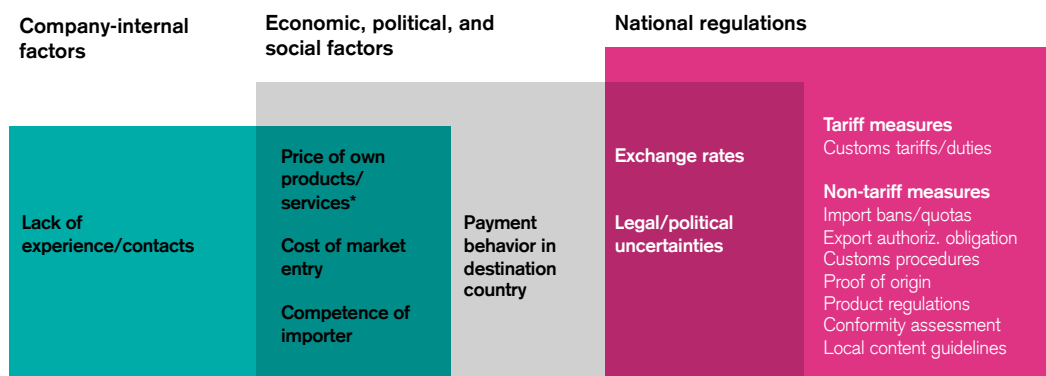
Protectionist measures go far beyond the imposition of tariffs, as the above-mentioned data of Global Trade Alert illustrates (cf. page 12). It is above all through non-tariff measures that states seek to protect domestic providers against foreign competition. Among other things, these include laborious 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 (cf. Fig.). 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 (e.g. when a foreign state provides subsidies to its own exporters) were deliberately left out of this exercise.

Customs duties weigh on almost half of SME exporters

Tariff measures such as customs duties and levies represent an obstacle to trade for almost half (48%) of surveyed SMEs (cf. Fig. on next page). 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%). In an interview starting on page 26, the entrepreneur Jacques Boubal explains what rising customs tariffs as a result of the trade dispute mean for his textile company.

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

Onerous customs formalities nonetheless more problematic than tariffs

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, certifications, etc., 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 – e.g. 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.

Price of own offering as biggest impediment to export

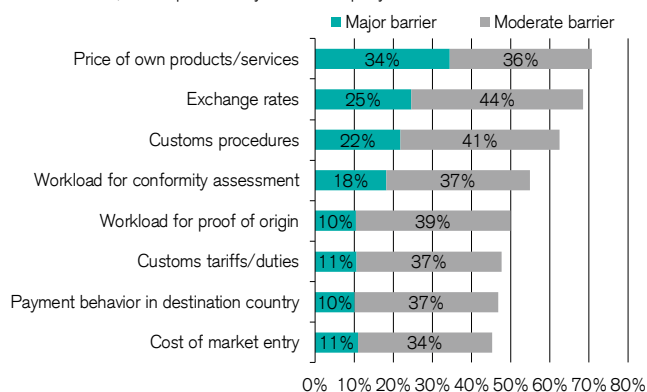
Two commercial factors are of greater significance than both tariff-based and non-tariff measures, however. The first of these is the higher price level of the company's own products and services, which is described as a moderate obstacle to exports by 36% of respondents and as a major obstacle by 34% 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 (e.g. an expansion of production capacity) as a hurdle.

Experience and contacts in destination country not to be underestimated

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.

Commercial factors are the greatest obstacle to exports...

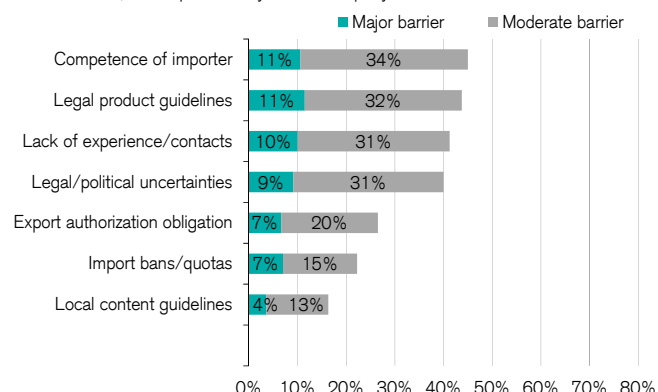
Proportion of answers to question of extent to which the specified factors restrict (or have restricted) the export activity of the company



Source: Credit Suisse SME survey 2019

... 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

Reliable partners and new free trade agreements desired

When tackling international trade obstacles, healthy collaboration with local partners is cited as one of the most important success factors. The exploitation of free trade agreements is also viewed as helpful by a majority of exporting SMEs.

How do SME exporters deal with the trading obstacles that confront them?

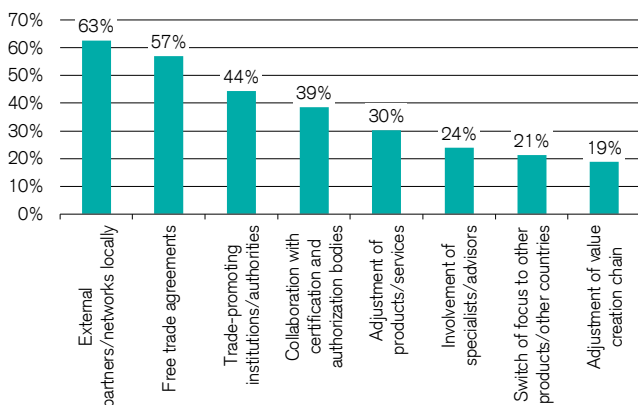
The previous sections showed that protectionism and trade barriers such as tariffs, administrative customs hurdles, and regulations have a clearly negative impact on the export activity of many Swiss SMEs. But how do these companies respond to these challenges, and what strategies have proved to be particularly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

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

What (and who) can help to overcome trade barriers

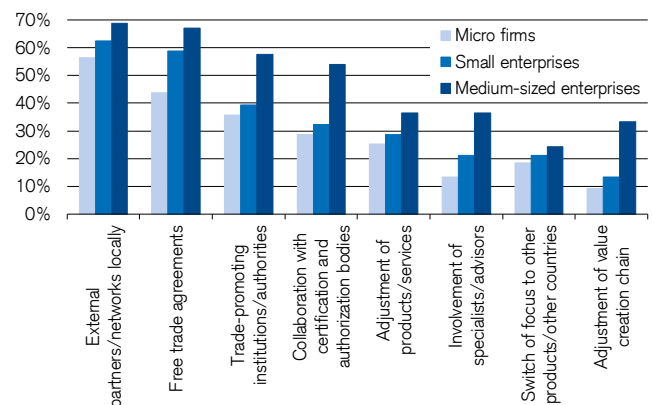
Proportion of surveyed SMEs that found the specified measure helpful in tackling trade barriers



Source: Credit Suisse SME Survey 2019

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

87% of SME exporters identify successful strategies

In total, 87% of the companies surveyed found that at least one of the above-mentioned measures 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 (cf. Fig. on previous page). 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 authorities⁵ (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.

Smaller companies appear to be more challenged

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. The right-hand illustration on the previous page 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 10 employees is just 56%. 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.

SME exporters expect help from Swiss foreign policy

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.⁶ The most recent of these is the agreement with the Philippines, which entered into force in June 2018. 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 EU and the US – 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 (cf. page 19). 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.

A third of SME exporters believe a free trade agreement with the US is indispensable

The answer is fairly clear-cut: More than half of respondents (58%) would like to see Switzerland conclude a free trade agreement with the US, and around a third consider such an agreement to be absolutely essential (cf. Fig. on next page). This finding is hardly surprising given that the US 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.⁷ Although Switzerland is not yet conducting any official negotiations on a free trade agreement with the US, exploratory discussions between the two countries resumed in the fall of 2018.

One in five SME exporters considers agreements with India or Australia essential

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. 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).

⁵ In our interview on page 24 with Alfonso Orlando, Head of ExportHelp at Switzerland Global Enterprise (S-GE), you can find out how S-GE can provide Swiss companies with specific support in their international business.

⁶ 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): <https://www.seco.admin.ch> (Foreign Trade & Economic Cooperation – Economic Relations – Free Trade Agreements).

⁷ Cf. Credit Suisse (2014), Success Factors for Swiss SMEs – Prospects and Challenges for Exports, pp. 26 et seq.

SME exporters and trade barriers on the Swiss side

As established in the section “Development of protectionism in global trade” (cf. page 11), 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 (cf. Fig.). 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.

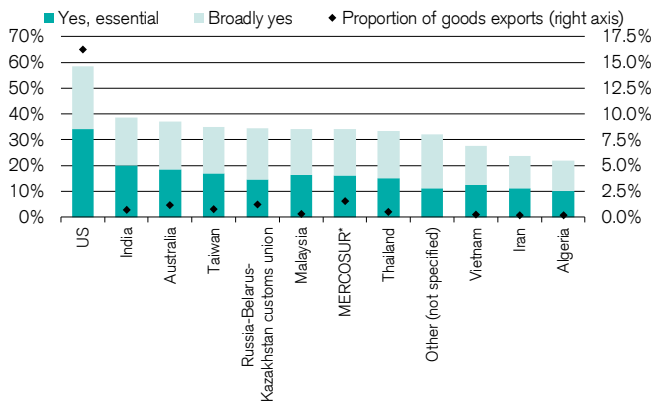
The forces of liberalization are more strongly represented in industry than in the construction, trade & sales, and services sectors, where more than half (56%) of respondent companies consider no change to be necessary. The strength of calls for Swiss trade barriers to be reduced is particularly pronounced 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.

Swiss SMEs want open markets

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 US – 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 (cf. page 17): A majority is in favor of such an agreement being concluded here. On the other hand, there is also a tendency for the companies surveyed to want to reduce domestic tariffs. This is also confirmed by the importance of open markets to exporting Swiss SMEs.

Exporting SMEs want free trade agreement with the US

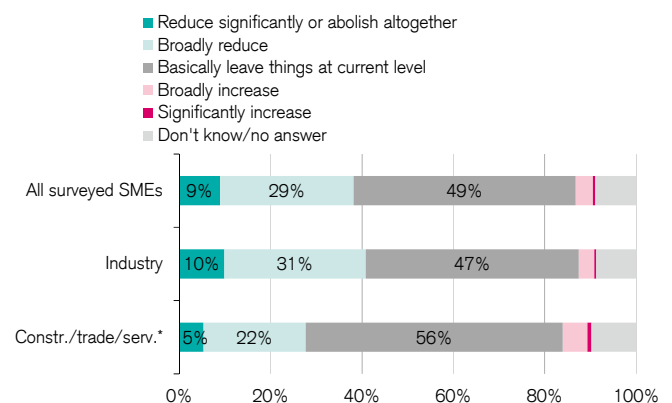
Proportion of responses to question of whether a free trade agreement should be concluded with the country in question; volume of Swiss exports to corresponding country as proportion of all Swiss goods exports, 2018



Source: Credit Suisse SME Survey 2019, Swiss Federal Customs Administration; *Argentina, Brazil, Paraguay, Uruguay

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; *Services

Prof. Simon Evenett, University of St. Gallen

Subsidies are the new tariffs

Simon Evenett is Professor for International Trade and Economic Development at the University of St. Gallen. He analyzes how governments have tilted the commercial playing field in favor of their local companies since the Global Financial Crisis.

Why have trade-distorting policies become more frequent since 2016? How was this development influenced by globalization and technological change?

Simon Evenett: The pick-up of US protectionist measures against China by President Trump and the latter's retaliation have been important drivers. However, while the spotlight has mainly been on these two governments, a lot of protectionism has taken place on the sidelines with smaller and medium-sized players seeing themselves as less constrained in using protectionist measures in the context of the Sino-American trade war. By shaping public policies and distorting trade in favor of local businesses, they hope to meet labor market fears caused by globalization and technological change, which threaten the status quo.

What have been the consequences of rising protectionism on world trade volumes? Is the world still in a phase of globalization?

Simon Evenett: The impact of rising protectionism on volumes has been negative but not big enough to cause world trade flows to collapse. On the one hand, especially throughout East Asia, multinational supply chains increase the dependency on Chinese exports, adding to an economic downturn caused by the uncertainty associated with protectionism. On the other hand, some distorting policies such as subsidies to exporters boost trade. A leading example of such policies is the tax rebates that Brazil gives its exporters. So generally, we do not see a reversal of globalization but rather a slow-down and distortion of the latter.

How would you define trade-distorting policies?

Simon Evenett: Defining protectionism in terms of specific policy instruments does not make sense anymore. Instead, the definition should focus on the effects that government measures have. In the 1930s, protectionism was associated with import restrictions, tariffs, and quotas. Nowadays, governments generally use different measures such as export incentives, subsidies, and bailouts for domestic farmers or manufacturers to strengthen the position of local exporters and businesses. In the area of services, licenses are crucial to supply foreign markets. In the e-commerce business, the principal issues have to do with moving data. A definition should thus include all kinds of measures that alter the treatment of national firms with respect to relevant foreign rivals.

Why have governments started to implement more covert measures to support local businesses?

Simon Evenett: Given protectionism's bad name, politicians want to avoid being accused of it and have consequently found new ways to support local firms' commercial interests. Moreover, during a crisis, direct protectionist measures such as tariffs are the wrong instrument to support the national economy. Tariffs take a long time to work as domestic customers switch from foreign to domestic suppliers. During crises, when firms face difficulties paying suppliers and staff, domestic buyers are increasingly prone to reduce their purchases. That is one of the reasons why we have seen a lot of countries resorting to subsidization since the financial crisis of 2008/2009.

Doesn't the WTO actually prohibit subsidies and export incentives?

Simon Evenett: Indeed, it does so for export subsidies on manufactured goods, except for those from the least developed countries. Regardless of this, there are numerous occasions in which governments have taken steps to provide incentives for national exports. This shows us two things: First, governments don't fear being challenged or sued at the WTO. As a matter of fact, there is no WTO police force, judge or prosecution service. A country would have to bring a case against another country to the WTO. However, it is in the nature of global economic crises that countries come under pressure to engage in protectionism at the same time. Consequently, they tend to adhere to the proverb "People who live in glass houses shouldn't throw stones". Second, the rules are not as restrictive as they might seem. Often, export incentives are delivered through national tax systems and some players contend that this excludes them from the current rules. Generally speaking, the WTO as an institution is only as strong as its members' resolve to keep borders open. As soon as governments decide that other macroeconomic goals such as full employment or financial stability are more important, they start to adopt protectionist trade measures. These two effects undermine the power of the WTO, especially in times of systemic crises.

What principle will shape the future of the WTO?

Simon Evenett: While up to now the WTO has always embodied the multilateral trading system, we have recently seen a low-key search for plurilateralism, where groups of countries get together to look for a solution to a specific problem. I am afraid that until governments realize that we are close to undermining our current trading system, no ambitious initiatives will be brought forward to the WTO. In particular, countries with small and medium-sized economies that heavily rely on trade, such as Switzerland, will have to work to modernize the WTO. A reform should cover the way in which disputes are handled and, hopefully, also an expansion of the rules on trade-distorting subsidies provided by governments.

How would major restrictions and barriers in world trade affect Switzerland?

Simon Evenett: Switzerland would be affected through many channels: The mere uncertainty triggered by protectionism has negative effects. The reality of trade barriers further holds back export growth. Subsidized goods from other

countries increase competition for Swiss exporters. Last but not least, Swiss firms have invested heavily in China, the US, and other markets such as Germany which are hit by the trade dispute. Consequently, a full escalation of the Sino-US trade war would also harm firms through their subsidiaries based in these countries. With respect to small and medium-sized enterprises, it is important to note that they often lack the resources to track protectionism closely or to react to it. In this regard, they are the ones who would likely suffer the most harm.

How can Switzerland make sure it is in the best position for the future?

Simon Evenett: Switzerland has to find allies that also support a free world trading system. It should try to build coalitions in international organizations such as the WTO or the OECD, where new forms of protectionism must be analyzed and discussed in order to evaluate measures to minimize their diffusion.

How should Switzerland shape its role with the EU?

Simon Evenett: It is clear that the relationship between Switzerland and the EU has been deteriorating for the last ten years. The EU has signaled its dissatisfaction with Switzerland’s current exceptional status, which it does not want to accept anymore. From a Swiss perspective, a move toward more automatic compliance with and adherence to EU regulation could trigger a nationalistic response and a referendum, the outcome of which would be difficult to predict. However, even if Switzerland ultimately distanced itself from the EU, I hope that this would not be a big surprise to most informed business people. The EU’s discontent is well documented and should not trigger a shock in the business world.



“Even if Switzerland ultimately distanced itself from the EU, this would not be a big surprise to most informed business people.”

Simon Evenett is Professor for International Trade and Economic Development at the University of St. Gallen. He is also responsible for the entire MBA program. Under his leadership the Global Trade Alert initiative monitors commercial policies and protectionist measures with impacts on world trade.

Alfonso Orlando, Head of ExportHelp

Brexit a major issue for SMEs

Alfonso Orlando is Head of ExportHelp at S-GE (Switzerland Global Enterprise). S-GE has been commissioned by the Swiss Confederation to promote the export activity of Swiss and Liechtenstein companies. S-GE provides specialized export advice, information about trade barriers and free trade agreements, and access to a global network of partners and specialists.

ExportHelp

ExportHelp is the first point of contact for SMEs when it comes to operational or administrative export questions of any kind. Among other things, this includes clarifying uncertainties in respect of issues such as free trade agreements, the origin of goods, export documentation, and general customs processing. ExportHelp receives some 2,000 inquiries every year. In addition to the conventional email and telephone channels, the straightforward chat function on the website (www.s-ge.com) is enjoying increasing popularity. Inquiries are processed by a team consisting of export specialists within the shortest possible time, with an initial answer provided within 24 hours. The service is free of charge for all companies, irrespective of their size. Inquiries in respect of more complex issues are forwarded to external partners.

The theme of protectionism has received increased media relevance ever since the start of Donald Trump’s US presidency. Have you also seen a corresponding increase in inquiries at ExportHelp during this time?

Alfonso Orlando: No, there hasn’t been a noticeable rise in the number of inquiries we have received in the last few years regarding the US. The number of trade barriers has risen sharply all around the world since the financial crisis of 2009. In other words, the emergence of obstacles to trade was a widespread phenomenon long before Donald Trump made it to the White House. Furthermore, the latest punitive tariffs have tended to affect the majority of Swiss companies only indirectly. By contrast, we are currently seeing a pronounced need for further information on Brexit. The associated uncertainties are currently preoccupying many Swiss companies. Quite clearly, the repercussions of a hard Brexit would have a direct impact on Swiss exporters.

What kind of questions crop up frequently?

Alfonso Orlando: For one thing, we receive a number of pressing inquiries that require immediate and specific action – e.g. when a company cannot get its goods through a foreign customs point. But we also receive many inquiries of a prospective nature – for example regarding verification of

legislation potentially about to be implemented, or the repercussions of regulations that are already in force.

Which trade obstacles are difficult to overcome?

Alfonso Orlando: Essentially a distinction can be made between tariff-based and non-tariff trade barriers. Tariff-based trade barriers are traditional customs duties that companies can calculate and plan for. By contrast, non-tariff trade obstacles such as quotas, technical requirements, and safety/security standards involve uncertainties. If companies do not get to grips with these issues properly at the preparatory stage, nasty surprises can await. Quotas, for example, are among the most difficult trade obstacles to overcome, as once they have been filled they inevitably restrict incoming goods from abroad. The fulfillment of country-specific technical requirements can likewise be a complicated business. Despite Switzerland's efforts to bring about increased reciprocal recognition of standards with foreign markets (e.g. equivalence with European norms), there are still a number of specific regional situations that apply: For example, food and pharmaceutical products simply cannot be exported to the US without FDA (Food and Drug Administration) approval.

What is the best way for companies to deal with trade obstacles?

Alfonso Orlando: The regulatory environment is constantly changing. Companies need to exhibit a certain degree of flexibility. They need to scrutinize not just existing standards prior to market entry, but also the impending introduction of new standards, with a view to establishing whether the export business will still be worth their while once the new conditions come into effect. But instead of walking away from important business due to trade barriers, we recommend considering possible alternatives. Free trade agreements can be one option, as these facilitate market access.

With which countries should Switzerland be looking to conclude further free trade agreements?

Alfonso Orlando: A particularly significant market for Swiss importers is the US market. Discussions over a free trade agreement with the US are already taking place. In addition, Swiss companies are often in direct competition with European suppliers. It is therefore important for Switzerland to sign free trade agreements with countries that have already concluded – or are about to conclude – a free trade agreement with the EU. However, companies should be aware that while free trade agreements can help them to overcome tariff-based trade obstacles, i.e. by reducing or even eliminating customs duties, non-tariff trade barriers will remain despite these agreements.

How can companies best prepare for non-tariff trade obstacles?

Alfonso Orlando: New product requirements and regulations are being introduced all around the world on an ongoing basis. These can have negative repercussions for Swiss exporters, but in certain situations there can also be positive repercussions. It is not easy for SMEs to retain an overview here. Together with the University of St. Gallen, S-GE has developed the "Trade Barrier Briefing", which maps out regulatory developments for the sector in question in a number of different export destinations. Companies can use this online

tool to gain a better understanding of whether a market is of interest to them, or whether it might become so in the foreseeable future.

What does an increase in protectionism mean for SMEs compared to large companies?

Alfonso Orlando: Protectionist measures essentially affect SMEs and large companies to the same extent. However, large companies typically have greater resources (e.g. specific personnel) with which to tackle these issues. In order to provide small, medium-sized, and large businesses with support here, authorities and institutions such as S-GE have specialists with the very latest knowledge and expertise on hand to advise SMEs on behalf of the Swiss Confederation. Moreover, for any very specific or complex questions, S-GE has recourse to a global network of experts.

What would your advice be to any company intending to export its goods or services?

Alfonso Orlando: A company looking to sell to a foreign market for the first time should adhere to the following principles: First, they should not act too hastily. Second, good planning in advance is an essential requirement for later success. In certain situations, they may want to identify the right target market with the assistance of market analysis. Third, the choice of a business partner in the export destination is very important. A company should choose this partner carefully, but without entering into too binding a commitment at an early stage. Fourth, it is always an advantage to have a good understanding of the culture of the export market. This normally requires regular visits and the establishment of a personal relationship. Fifth, it is important to objectively clarify all customs issues in advance, including any import formalities that apply. Prospective exporters can find valuable information on import conditions, certification requirements, and regulatory developments on the S-GE website. If they have any specific questions, companies can also take advantage of the ExportHelp service.



“The regulatory environment is constantly changing. This requires a certain degree of flexibility.”

Alfonso Orlando is Head of ExportHelp at Switzerland Global Enterprise. He leads a team consisting of qualified export specialists who have many years' experience as well as broad practical knowledge.

Jacques Boubal, Cha Technologies

Trading and Services SA

Punishing customs duties

Based in Nyon/VD, the Cha Technologies Trading and Services SA company is the head office of the Cha Technologies Group, which is active in the field of technical and industrial textiles. The group produces goods abroad, in particular in China and the US, which are also its main outlet markets. Thanks to its strong international orientation, the company faces the problem of barriers to trade on several fronts.

Is your company affected by protectionism and barriers to international trade?

Jacques Boubal: Yes, very much so. First and foremost through customs duties: The products we export from China to the US have been hit by the 10% surcharge imposed by the American government in June 2018, which was raised to 25% in May 2019, in addition to the 10% already in force before that. The current situation has created a high degree of uncertainty among our customers. They still need supplies, but are actively searching for a means of avoiding the 35% customs duties, for example by turning to other countries. The market is fiercely competitive. Initially driven by rising labor costs in China, our decision to build a new entity in Vietnam was confirmed by this increase in customs duties. Generally speaking, considerations linked to protectionism play a major role when choosing a site to establish a new plant. There is a risk that manufacturing zones will become delocalized. Numerous Chinese companies, for example, are delocalizing production to Vietnam, Indonesia, Sri Lanka, or Pakistan in order to avoid the customs duties applied to China.

Which technical requirements represent barriers in your sector of activity?

Jacques Boubal: All countries, and not only the US, use regulations and procedures to protect themselves and discourage imports. Filtration or electrical insulation standards, for example, sometimes differ considerably from one country to another. Some countries have technical particularities which cause us to abandon the idea of prospecting there altogether if there is no clear development potential. Generally speaking, the greater the difference in the technical standards, the higher the prices, as this amounts to protection of the local market and industry. Ultimately, it is the consumer who is in danger of suffering the consequences as a result of either technical standards or customs duties.

Which factors influence your decision whether or not to enter a new market?

Jacques Boubal: Several elements are taken into account. Naturally these include customs duties and production costs, but regulation in the broadest sense of the word as well as political developments and uncertainties also play a role. In

Vietnam, for example, we were faced with complex procedures and administration before being able to start production. This was similar to our experience in China twenty years ago. The type of products manufactured is also a key factor, in particular with regard to sourcing raw materials and the qualifications of the labor force.

Speaking of political uncertainties, what consequences do you fear with the UK, home to one of your production sites, leaving the EU?

Jacques Boubal: We are currently facing total chaos and there is considerable uncertainty surrounding the implementation of Brexit. We have already seen a number of companies, in particular subsidiaries of European or American companies, which have halted their development and investment in Great Britain. With regard to our company in particular, exports should only be affected to a limited extent in the event of Brexit. Some 80% of the production of our plant in England is intended for the English market and we will find a means of managing the 20% that we export. Nevertheless, we may well feel an impact on imports as most of our raw materials are imported.

Which resources do you have at your disposal to overcome barriers to trade?

Jacques Boubal: In our activity, we have noticed an increase in the barriers to trade in recent years. Nonetheless, that doesn't mean that we have no means of countering them or that there are no tools for managing them. The most important thing is not the financial resources, it is the people: the management, the staff. We are an SME, so our resources are limited by the size of the company. That forces us to be highly selective and to focus on a limited number of opportunities once they have all been assessed. We cannot adopt an "all-out" approach to development. The quality of the teams is decisive. That is where we invest most of our time, with a view to conducting as much in-house research, development, and prospecting as possible.

Do you work with organizations whose aim is to promote trade, such as chambers of commerce?

Jacques Boubal: Yes, of course. But we generally call on them for the regulatory and legal aspects, while market studies are conducted by our teams. In Vietnam, for example, we took local advice in setting up our facility and recruiting personnel. After a year, we had mastered our learning curve and we cope quite well in recruiting executives whom we can count on.

What advice would you give the chief executive of an SME keen to expand at an international level?

Jacques Boubal: First and foremost, you need to be realistic and selective and not aim to operate everywhere. And be flexible and pragmatic. Sometimes, you can be shocked by certain processes and practices. In this case, there are two solutions: Either you refuse to adopt them and you forget the whole thing, or you try to adapt. First of all, you need a good understanding. Once the choice is made, you need to find the means of managing a situation which is not necessarily comfortable but which is nevertheless part of the game if you want to enter the market in question.

I think that expansion into the export business is an eminently important step. Not doing so means fending off competition and not accepting it. However, it will ultimately arrive, even in the most protected countries. Finding the means and resources to improve competitiveness is vital for any company. Facing up to fiercely competitive environments is a key element of progress.

How important is it to cooperate with external partners in this process?

Jacques Boubal: Clearly this is also important. Nevertheless, external partners don't know your business as well as you do. They are familiar with the rules of the game and the regulations in force in the country, but it's up to you to manage your business.

Some people believe that the World Trade Organization is currently in the throes of an existential crisis. Would you agree?

Jacques Boubal: Today, there is a certain gap between economic reality and the "bubble" of the WTO, with its size and weight. The legitimacy of the organization is waning. The WTO regulations are the result of innumerable meetings and are supposed to govern trade between countries. However, it would appear that this has been thrown overboard and that it is now a case of survival of the fittest. Bilateralism is really coming to the fore and is bypassing the WTO and its more multilateral approach. The arbitrations of the WTO are no longer respected. Nations, and in particular the US, must comply with a process. However, the current US administration is unpredictable, and this turns the rules of the game on their head. It is becoming very difficult to manage business in such an environment.

How do you see the future of global trade?

Jacques Boubal: It's rather hectic at the moment, but I don't think we should exaggerate the transition we are currently experiencing. I am not at all pessimistic: It will all calm down and we will recover our bearings. We will probably have a slightly different way of working compared to the past, with slightly different rules. We can certainly reject this change and try to combat it, but I'm not convinced that we would do so with any great success. I think the best course of action is to adapt.



"Facing up to fiercely competitive environments is a key element of progress."

Jacques Boubal is an entrepreneur and CEO of the Cha Technologies Group. The group produces fibers and yarn, non-woven textiles, and filters, essentially for industrial and technical use. In addition to China and the US, it has plants in the UK, Brazil and Australia as well as a new production site in Vietnam. Cha Technologies Trading and Services SA, the head office based in Nyon/VD, handles the group's financial, management, and trading activities.

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