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**The impact of trade instruments on a European economy**

***With a focus on the interests of small and medium-sized enterprises***

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# Introduction

International trade has an important impact on a country's economy. Small, medium and large enterprises are encountering more and more possibilities to export to or import from other countries. Due to this interaction of trade however, an increasing (economic) dependence on other countries has been established. On the one hand, international trade has the advantage that it might create new business opportunities, resulting in a positive impact on the economy. On the other hand however, possible dangers might also arise if countries do business with each other. The government might then decide to take restrictive measures to protect the homeland economy against the negative influence of international trade. On international level special agreements (such as the WTO rules) have already been created which outline how various instruments might be used in order to protect the economy against the negative adverse effects of international trade or in particular against unfair trade.

In this thesis I will investigate the impact that trade measures might have on the economy of a typical EU country. Below you will find an overview of my research question and sub-research questions.

## Research question

- Does the global use of trade instruments have a positive impact on the economy of a typical EU country, especially with regards to small and medium-sized enterprises (SMEs)?

## Sub-research questions

- What kind of trade defence instruments or protectionist measures are at the disposal of governments and industry, and what is their importance?
- What is the impact of EU trade defence instruments and other trade policies on the economy of an EU country?
- Does the EU have adequate trade defence measures in order to enhance its trade position?
- How do other continents make use of trade instruments?
- With what kind of trade barriers are SMEs faced during their international activities?
- Can SMEs easily use trade defence instruments in order to protect their position against unfair trade?

In order to answer the above mentioned research questions, I have divided my thesis into four different chapters (including sub-chapters). In the first chapter I will briefly outline the basic economics, in which an economic understanding of the terms 'free trade' and 'protectionism' will be given. What is more, this chapter also contains an overview of the important aspects of the history of international trade. The second chapter will have its focus on the different trade defence instruments and protectionist measures countries might use in order to protect their economy against international trade or against unfair trade. In other words chapter 2 gives an extended overview of the effects these instruments might have on the economy (including SMEs). In the third chapter, information will be given about the use of these instruments, and especially by the EU. What is more, this chapter also provides two examples; one about the implementation of a provisional anti-dumping measure and one about the effects of a technical barrier to trade. The last chapter is concerned with the role of SMEs in international trade. Information will be given about what kind of trade barriers might form an obstacle to

trade for SMEs. What is more, an outline will be given about the different instruments SMEs might use to protect themselves against unfair trade or international trade barriers.

In order to better understand these issues, it is useful to know that governments or industries may use different sorts of trade instruments for various purposes. On the one hand, countries may use instruments to protect their economy against exports from foreign countries, such as by imposing tariffs. The use of non-tariff barriers, such as quotas or national regulations, might also form an obstacle to the practice of international trade. On the other hand however, special trade defence instruments (anti-dumping measures, anti-subsidy and safeguard measures) are at a company's or government's disposal in order to protect the economy against unfair trade practices. In this thesis I will look at the measures used against competition from foreign exports as well as those used against unfair trade. Besides that, I will look at how technical barriers to trade may also form an obstacle to free trade.

This thesis is mostly based on desk research. A lot of the information used in the thesis comes from books, reports and the web such as the websites of the European Union and the World Trade Organisation. Besides desk research, I have interviewed three experts in the field of trade defence instruments and trade barriers, who work for the European Commission in Brussels. These interviews were mainly used to get an understanding on how SMEs might deal with trade barriers or unfair trade.

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# 1. Free trade versus Protection

Free trade and trade protection have become two important issues for small, medium and large enterprises in the world. It is a given fact that free trade has enormous influence on the economic interaction between different countries. If the economy is based on the principle of absolute free trade without any protectionist measures, an economist may argue that an efficient economic equilibrium can be established in the long run. In this view, the economy might be seen as a wave; if the economy is going down, companies will eventually take their own measures, making sure that their company will survive in difficult times. If it goes up, companies will be able to develop themselves in an environment without protectionist measures. As free trade plays an important role in establishing such an efficient global equilibrium, it is an important element for the economy. Many sovereign states have already allowed their economy to be based mainly on international free trade. But if you take a closer look at the real definition of free trade in comparison with the practice of the states, one may start wondering if the countries have really based their economy on this principle.

For the purpose of my thesis, an understanding of the basic economics underlying these issues is necessary, in order to provide the basics upon which I will build in the coming chapters. In this chapter, an introduction will be given about the terms 'free trade' and 'protectionism'. First of all, the history of international trade will be reviewed to gain a brief understanding of the historical views on free trade and protectionist measures. After that, the advantages of free trade will be examined and will be briefly explained. The last section of this chapter will deal with the advantages of protectionist measures to prevent free trade and protect the domestic economy.

## 1.1 History of international trade

The idea of free trade dates back to the Greek and Roman periods. During the following centuries however, the ancient Greeks, government officials, intellectuals and economists were occupied with the question whether international trade would be advantageous for a country or whether it is better to introduce protectionist measures against free trade. In this sub-chapter I will try to discuss the most important thoughts people had concerning the principle of international trade.

Since the time of the ancient Greeks, the views regarding foreign traders were very ambiguous. Some philosophers were aware of the advantages of free trade, regarding the specialisation of labour. On the other hand however, others regarded foreign traders as a threat that would harm domestic industries, which were not a strong supporter of the principle of free trade (Irwin, 2001). In the following centuries the idea of international trade was, on the one hand, based on the doctrine of the universal economy. This doctrine states that God has endowed different groups of people with different quantities and qualities of goods in order to promote and stimulate international trade between various people on earth. This doctrine was first developed by philosophers and theologians, like for example Plutarch. On the other hand however, a dominant scholastic thought during the medieval centuries had more the opinion that free trade might cause a threat to civil life. (Trebilcock & Howse, 2002, p. 1)

Until the 17<sup>th</sup> and 18<sup>th</sup> century, economic reasons did not play an enormous role in maintaining trade relations with foreigners. Nevertheless, during the following centuries a school of thought called Mercantilism was established, which started using economic

arguments in relation with foreign trade (Trebilcock & Howse, 2002, p. 2). An important aspect of this thought was the idea that trade should contribute to a favourable balance of trade. This means that exporting activities have to exceed the import activities. In other words, trade with other countries or regions was only seen as profitable if the value of the exported goods exceeded the imported goods. In short, a balance of trade surplus (more export than import) was more favourable than a balance of a trade deficit (more import than export) (Irwin, 2001).

In the 18<sup>th</sup> century however, criticism was also given on this protectionist view. David Hume argued that international trade by itself would probably already lead to an equilibrium in the balance of payment. *“If a country found itself with surplus currency, domestic prices would tend to rise relative to prices of foreign commodities, and money would flow out of the country. If a country found itself with a shortage of currency, domestic prices would become depressed and would attract foreign currency until the shortage had disappeared”*. (Trebilcock & Howse, 2002, p. 2)

Another economist who resisted against the mercantilist view was Adam Smith (1723-1790), often seen as the founder of classical liberalism. In 1776, Smith published the book *An Inquiry into the Nature and Causes of the Wealth of Nations*, in which he introduced another way of thinking about international trade. Adam Smith argued that specialisation is an important element in economics as it can lead to a greater productivity, meaning that more products are produced with few resources. Furthermore according to Smith, the division of labour also plays an important role in the economic growth of a country. He argued that small markets (having a limited division of labour) normally do not have the possibility to specialise in certain products, whereas large markets do have the possibility. As international trade will increase the size of the market, this would lead to more specialisation in a country. As a result of that, a different division of labour would be created, which would have a positive impact on a country's economy (Irwin, 2001).

David Ricardo (1772-1823) continued developing the ideas of Adam Smith and in 1817 published the book *The Principles of Political Economy and Taxation*. In this book Ricardo introduced the principle of the comparative advantage and illustrated this by the example of international trade between England and Portugal. With this example, Ricardo showed that total output will be increased if countries decide to invest most in activities which are advantageous for them. The theory concerned the relationship between the absolute and comparative advantage. For example two countries produce the same two goods. Country A may have an absolute advantage as it produces the same amount of product X but with less labour than country B. This absolute advantage could become a comparative advantage if country A would produce product X cheaper and economically looking at their available resources in both countries. Country B would then probably specialise in the other product Y. In other words, such a specialisation would enhance the production possibilities for both countries. Furthermore, even though country A has an absolute advantage over B, both countries may benefit if they specialise in product X or product Y ('David Ricardo and Comparative Advantage').

During the late 18<sup>th</sup> and the beginning of the 19<sup>th</sup> century, the concept of free trade was becoming more important. A reason for this concept could be the influence of nation-building on the economy. During this period steps were taken to ban regulations regarding manufacturing techniques and the adoption of standard weights and measures in domestic markets. Nevertheless, this internal free trade was more a national matter, and international

trade continued having its barriers. Nevertheless, the influence of Adam Smith and David Ricardo, the Irish Famine (1845-1850) and political discussions led to the repeal of the Corn Laws (1846). These laws had imposed tariffs or duties on imported corn, which introduced a protectionist measure. The repeal of Corn Laws had as a consequence that tariffs were being removed and the principle of free trade continued having support in the following century, which have led to various free trade treaties and support for the principle of Most Favoured Nation (see chapter 2) (Trebilcock & Howse, 2002, p. 18).

At the end of the 19<sup>th</sup> century and the beginning of the 20<sup>th</sup> century, the European economies started to take more protective measures. The recession during the 1870's, the competition of non European grain producers, the First World War and the Great Depression in the 1920's resulted in more protectionist measures, in order to protect the homeland economy (production and employment) against competition from outside. After the Second World War, plans for restructuring the economy were being made. On international level three institutions were being created: International Monetary Fund (IMF), the World Bank (earlier known as Bank for Reconstruction and Development) and the International Trade Organisation (ITO). (Trebilcock & Howse, 2002, p. 19-20). The goal of IMF is to *'promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease balance of payments adjustment'* (International Monetary Fund). The goal of the World Bank was to construct the economies that were devastated by the war. Finally the ITO was created to negotiate about a new liberal trade system. Although the ITO did not come into existence, a multilateral trading system was being created by the General Agreement on Tariffs and Trade (GATT), see chapter 2.

## **1.2 Elements of free trade**

The principle of free trade is mainly based on the idea that the government should not be involved in all the economic activities of a country. Instead of the government taking decisions and plans, companies will have their own possibility to produce goods or to deliver services. Permission from the government will not be necessary if companies would like to export or import their goods to other countries. In other words, the principle of free trade is based on the idea of an open trading system ('Free Trade vs. Protectionism').

According to many economists, the principle of free trade will maximize the welfare in country. Advantages of the free trade system are described in the following subchapters.

### 1.2.1 Comparative Advantage

Free trade creates the principle of comparative advantage, which is based on the idea that each company has to specialise itself in a specific product or a specific element of a product. Such a specialisation would result in the fact that companies would produce their products more efficiently. What is more, the quality of the products would probably be improved and the price can be kept low due to the efficient work. The advantage of this principle is that companies will produce their goods in the most efficient way. A good illustration of the benefits of the comparative advantage concerns the production of pineapples. In South America a tropical climate is present, which might make it easy to produce pineapples. Looking from an economical point of view, it would be cheaper if pineapples are produced in South America, instead of being produced in a country like the Netherlands where less optimal circumstances are present to produce pineapples (due to its climate). If pineapples

were produced in the Netherlands, extra costs would probably have to be made in comparison with the production costs in South America (like the construction of greenhouses). In short, it would be better if South America specialised their production in pineapples as it can make these products against the lowest price. On the other hand the Netherlands could specialise itself in other products, so that each country has its own comparative advantages. In other words, all products will be produced by the country that can produce them most in the most efficient matter.

### 1.2.2 Freedom of choice for consumers

Free trade also creates more freedom of choice for consumers, as they may choose from a large variety of goods and services ('Free Trade vs. Protectionism'). Due to absolute international trade diverse products can be introduced into the homeland economy. The consumer is not anymore only limited to choose from their own national supply but has the opportunity to buy typical products made in Australia for example. Besides the advantage of more choice, the consumer will also profit from the big supply of products. Such a big supply of products may often result in lower prices, which is of course desirable for consumers.

### 1.2.3 Free trade and job protection

Often the argument of job protection is used to implement protectionist measures. The idea is that by making foreign products more expensive, homeland consumers will start buying more domestic products, which are cheaper. Buying more domestic products stimulates domestic production, which will create more jobs and protects the jobs of the employees already working. According to Blinder (professor of Economics at Princeton University) however, such protectionist measures will have higher costs than not introducing these measures. He argued that the costs for saving jobs may be much higher than the normal wages of employees. Further Blinder argued that according to scientific research, which studied the costs of saving jobs versus the average wage of a worker, restrictive measures would cost more than the average salary. For example the average American textile job would cost 42.000 dollar annually and this is much higher than the worldwide average salary of a textile worker (Blinder). Also, according to an investigation carried out by the European Commission in 1995, one may conclude that protectionist measures will save very few jobs. According to this study roughly 250.000 jobs (3% of the number of jobs in EU) would be saved by protective measures in the 22 different sectors. Nevertheless, the influence of protective measures may vary according to the sector. In certain sectors the savings are almost negligible whereas in other sectors more jobs can be saved by the use of protectionist actions (Messerlin, 2001, p. 54-56). In other words, looking from an economic point of view, protective measures may not be the ideal solution for saving jobs as it pretends to be, whereas the principle of free trade may save the costs involved.

### 1.2.4 Modernisation of the own economy

The principle of free trade has the advantage that the domestic economies have to modernise in order to keep up with the other economies ('Free trade vs. Protectionism'). As competition among companies on international level is becoming more and more present due to globalisation, it is important that companies keep themselves competitive regarding their competitors from outside. If not, companies will have the risk of producing goods less efficiently than its competitors, which would lead to the loss of profits and eventually to the loss of sales. Modernising the economy is therefore often seen as the way to stay competitive.

Normally companies modernise themselves by investing in the department of Research & Development, which would lead to innovation in techniques and technologies. So, free trade provides in a certain way access to innovation and modernisation on the economic level. This modernisation of companies may also have a positive impact on the consumer market, as the supply of goods would be more diverse.

### 1.2.5 Enhancing investments and entrepreneurship

The principle of free trade has the advantage that investment and entrepreneurship is stimulated. If enterprises, especially SMEs, do not have to take trade restrictions into consideration, the investment climate would be more optimal. The idea that the government would impose different measures to restrict the access to the market would certainly not persuade more entrepreneurs to start a business or to enlarge their investments. For example, if a company is producing doors, with the knowledge that their export would be restricted due to quotas or tariffs, it would probably think twice before making investments. These investments would lead to extra costs, whereas the company is not quite sure if it will be able to easily sell the extra doors. Dropping trade protection measures and stimulating free trade could therefore enhance the investment climate for enterprises. Especially for SMEs, who rely most on entrepreneurial spirit, free trade could enhance the investment climate and increase the number of successful SMEs.

## **1.3 Elements of Protectionism**

In contrast to free trade, protectionism is mainly based on the principle that governments must be involved in protecting the national economy. State influence on the homeland's economy is an important element of protectionism. In stead of leaving the decisions to companies, the government will decide what actions it will take to protect the economy. The government has the possibility to take protectionist actions, such as subsidising the producers in its own economy or putting tariffs on products of foreign exporters. The principle of protectionism might be seen as a reaction to the principle of free trade, as free trade may have negative consequences for some sectors of the national economy. The main reasons for implementing protectionist measures often have a total nationalistic character, which might make it easy to gain support of domestic producers (Schuknecht, 1992, p. 12). For this reason, they are often important political tools for national governments.

### 1.3.1 Protection against low price producers

An advantage of the use of protectionism is that it may protect the domestic economy against low wage producers in developing countries. Sometimes other countries (often less developed countries) may produce a product less expensively than a domestic company producing the same product. Consumers of a developed country would therefore be more in favour of buying the cheap foreign product, than buying the same product for a more expensive price from a domestic producer. The difference in prices are normally a result of the different labour costs. As domestic producers have the risk that their products will not be sold due to the cheap price of other imported products, the government might decide to protect domestic producers. So, for instance China can produce cloths for a low price, as the labour costs in this country are very low. If China decides to export its cloth to Belgium, Belgian producers may face a large form of competition as the price of their cloth is much higher than the cloth of China. If the Belgian government would like to avoid that the Belgian cloth companies are

going bankrupt, it may decide to put restrictions on the cheap imported Chinese cloth. In that way, the Belgian producer has the possibility to stay competitive. What is more, it does not have to take extra measures to save costs (such as firing employees) in order to keep the price low, as the Belgian producer now suffers little from competition from import of Chinese cloth.

### 1.3.2 Protection of infant industries

Infant industries are starting companies which normally need to make extra costs and investments in the start of their activities. As these industries have to compete with already developed foreign industries which do not have these start-up costs, their product prices might be higher than the products of their competitors. Therefore infant industries run the risk of not surviving, as consumers would probably not buy their expensive products in this early phase. In order to protect these infant industries, the government may decide to impose tariffs or quotas on foreign imports. These measures allow the domestic producer to develop its company, so that it can produce on the same scale as its competitors. In this way the company will have the possibility to compete with foreign imports on the domestic, and also develop their own export activities. This may result in the fact that the producer becomes an efficient exporter. Nevertheless, there is always the risk that these infant industries will not produce efficiently and will therefore rely on the protectionist measures indefinitely (Gonnelli, 1993, p. 18).

The arguments to use protectionist measures for infant industries might be seen to be based on two main elements. The first element has an economic character. Normally a mature economy will depend on more than one economic sector in order to diversify its activities and to reduce the risk of relying to heavily on one productive base, such as agriculture. The second element is more focused on non-economic reasons, such as national pride (Trebilcock & Howse, 2002, p. 10). Certain products might be highly important for national identity, such as a highly diversified and small-scale agricultural industry in France. Protecting such an industry of national pride can become an important card in the game of international politics.

### 1.3.3 Independence and diversity of the domestic economy

Trade protection has the positive impact that the domestic economy will not become too dependent on other foreign economies. Tariffs, quotas and other measures will make it difficult for foreign exporters to sell their product on a domestic market, as they do not have easy access to it. If the domestic economy is protected in such a way, it has to provide itself with those formerly imported goods. A great advantage of this fact can be the independence of the country. This independence could be very important as it may cover national security issues, such as the production of military hardware (Free Trade vs. Protectionism). Another advantage can be that the domestic economy will stay a diverse economy. Protectionism may form a sort of obstacle to the principle of comparative advantage, in which countries specialise their products into a few industries. Due to this comparative advantage, a country may become very reliant on those few industries. If a country remains less dependent on those few industries and chooses to invest in multiple diverse sectors, the domestic economy will stay diverse. Letting a country produce diverse products would lead to a diverse national market, which would have potential benefits.

### 1.3.4 Balance of payment

Protectionist measures can also be taken in order to provide a good balance of payment (BOP). (Schuknecht, 1992, p. 12) This is a balance which looks at the flow of payments of each country, i.e. exports minus imports. Protectionist measures may have a positive impact if a country happens to have a trade deficit. This means that the country imports more than it exports. In order to establish a correct balance of payment, the government may decide that the imports of its country should be limited, so that a healthy balance can be established. By imposing quotas, tariffs or other measures, imports can be limited, so that imports and exports will find their own balance. As this issue concerns mainly macroeconomics, I will not treat it in further detail here.

### **1.4 Conclusion**

If you look at the history of international trade, it can be easily concluded that people have had different points of view on the principles free trade and protectionism. An example of a protectionist view has been the mercantilism, which was in favour of more government involvement in international trade. Other economists however, such as David Hume, Adam Smith and David Ricardo were more a supporter of free trade in international business relations. During the 18<sup>th</sup> and 19<sup>th</sup> century however, the principle of free international trade became more and more important, which even led to the removal of the Corn Laws and to the creation of various free trade treaties. Nevertheless, a period of more protectionist measures followed in the beginning of the 20<sup>th</sup> century, due to WWI and the Great Depression. From the WWII onwards, more effort was put on how to restructure the economy and to establish an international free trade system.

Besides the history, this chapter discussed the important elements for 'free trade' as well as 'protectionism'. Advantages of a free trade system are: the comparative advantage, freedom of choice for consumers, job protection, modernisation of the economy and enhancing entrepreneurship and investments made by companies. The arguments for imposing protectionist measures however concern the following aspects: protection for infant industries, protection against low price producers, maintaining a diverse and independent economy and creating a good balance of payment.

In short, in this chapter I have tried to outline the most important arguments which might be used in order to choose for a free trade system or a protectionist system. In the following chapters however, the main focus will be on the use of trade measures and how this affects a country's in a positive or negative way.

## 2. Trade instruments

Agreements about trade relationships have existed for a long time already. The use of tolls and trade agreements already have a long history, dating back to as far as the period 2500 BC. (Trebilcock and Howse, 2002, p.17). Nevertheless, to understand the trade defence instruments used these days, it would be better to look at the development of international trade policy after the Second World War. Since the end of the 1940's, world leaders have tried to find agreement on the use of economic measures each sovereign country could use to protect its domestic economy. If I am to understand the effect that protectionist measures have on the economy and especially on SMEs, then a brief overview of these instruments is essential.

### 2.1 History

The first signs concerning the regulation of international trade date back to the end of the 1940's. In this period the following organisations were created: the World Bank, IMF and the GATT agreement of 1948 (General Agreement on Tariffs and Trade). As the war came to an end, great support was present to liberalise international trade. Negotiations even started to create an ITO (International Trade Organisation) which led to the creation of the ITO charter. The ITO however did not come into existence, mainly because of the opposition of the US government (Trebilcock and Howse, 2002, p. 21). What is more, negotiations were started regarding the regulation of protective measures, such as tariffs. These negotiations resulted in 1948 in the GATT agreement.

The original goal of the GATT was to form an organisation to govern international trade, next to the World Bank and the International Monetary Funds. During the first round, agreements were made about trade rules, which resulted in 45,000 tariff concessions affecting about 20% of world trade at that time. From the moment the GATT was created, it did not change a lot during the following 47 years. If changes were made, it was normally done by ways of the so-called 'trade rounds'. In the 1960's for instance, the GATT created the Anti Dumping Agreement, during the Kennedy Round. Its goal was to further reduce the tariffs which existed between the countries involved. During the Tokyo Round in the 1970's, huge changes were in order to reduce tariffs and other non-tariff barriers. (WTO, 'The GATT years: from Havana to Marrakesh').

During the 8<sup>th</sup> round, the Uruguay Round, a lot of changes were made towards the GATT. This round even led to the creation of the WTO (World Trade Organisation) in 1995. By that time more and more countries were becoming a member of the GATT / WTO, which showed that the WTO was a highly recognized system. A reason for the creation of the WTO might have been the changes in the global world trade in the 40 years after the GATT was created. The GATT consisted of parts which were not relevant anymore in 1990's. What is more, during these years more interest was present in making international investments (WTO, 'The GATT years: from Havana to Marrakesh'). All the changes in the past 47 years resulted in the creation of that new multilateral system, the WTO.

### 2.2 WTO

From 1<sup>st</sup> of January 1995, the new international trade system of the WTO entered into force. A difference between WTO and GATT was that the GATT mostly stressed the trade in goods,

whereas the WTO also included issues as '*trade in services, traded inventions, creations and designs (intellectual property)*'. The World Trade Organisation can be seen as the organisation for international free trade. By ways of negotiation, WTO agreements have been created during the years. In these agreements rules have been established which bind governments to comply their trade policy to the WTO-rules. Its main goal is to stimulate free trade. On the one hand this is done by removing obstacles and on the other hand by creating awareness of the trade rules among individuals, enterprises and governments. Besides negotiating and setting rules, the WTO is also busy with delivering neutral procedures in order to solve problems which arise due to different interpretations of the agreements (WTO, 'What is the World Trade Organisation').

By the 11<sup>th</sup> of January 2007, the World Trade Organisation counted 150 members. The WTO is, however, not only composed of countries. Also political entities, such as the European Union, have their rights and obligations. Currently the WTO is involved in the new round 'Doha Development Agenda (DDA)', which has been in development since 2001. Important goals of the new DDA are to facilitate market access and to integrate developing countries in the world trading system. The central theme of the DDA is to stimulate development and to combat against poverty (European Commission, 'The EU and the WTO').

As already mentioned earlier, the WTO also consists of political entities, such as the European Union. During WTO meetings, the EU will speak for all its 27 members, which means that the EU acts one single player for the 27 individual member state opinions. This fact makes the EU an important player in the WTO, as it may act as one player in negotiations due to its common trade policy. Besides its important role in the WTO, the EU also has the possibility to take its own measures in order to protect the EU economy. It has its own trade policy instruments which are in line with the WTO agreements and other international agreements concerning unfair trade practices. The goal of these EU trade policy instruments is mainly to protect EU enterprises when they have become victim of unfair or injurious trade by other states (European Commission, 'Respecting the rules').

An important element of the WTO agreement is the Most Favoured Nation Principle. This principle covers the idea that in the practice of international bargaining, a country is not allowed to give a more favourable treatment of other countries (Trebilcock and Howse, 2002, p. 114). In other words, favourable concessions made to a certain country must also be extended to other countries, so that unfair trade can be avoided.

## **2.3 Trade instruments**

The WTO agreements cover many protectionist measures on how countries might protect their economy. Rules have been established on different issues, such as goods, services, intellectual property, environment, government procurement etcetera. Nevertheless, this paper will have its focus on the trade defence of goods, as it will be difficult to treat all the other themes. What is more, as this paper is especially focused on the impact of trade defence on SMEs, it is more practical to look at the protection of goods (since SME's are likely to trade in goods).

### 2.3.1 Tariffs

The most common form of protecting the domestic economy is by the use of tariffs. Tariffs are certain amounts of money which are levied before goods enter a domestic market. The

effect of the imposition of tariffs will be that the price of the imported goods will be higher in comparison with the price of the domestic produced goods. The level of the tariffs can be outlined in agreements of the GATT / WTO (Cuyvers, 1998, p. 13-14). The EU levies a common tariff on goods, which are imported from non-EU countries. This means that each member state charges the same tariff on a certain product. Once the goods have entered the EU, they are free to be exported to other EU countries. Nevertheless, if these goods are transported to another EU country, extra local costs can be charged, such as Value Added Tax (VAT) for example.

The use of tariffs may have an important impact on the economy of a country. If an EU country would like to export their products to another country, it has to take into consideration that their selling prices will probably be higher due to tariffs. So for example, if an EU country, would like to export Mozzarella to Brazil, it has to pay a tariff of 27% (market access database). A tariff of 27% will probably make the EU produced mozzarella more expensive than mozzarella produced in Brazil. Through the imposition of this tariff, the EU producers might have more difficulties in selling their products, as the Brazilian consumers would probably choose for the cheaper Brazilian mozzarella. So, imposing tariffs would certainly have an impact on the EU economy, as EU mozzarella producers might have difficulties with exporting their mozzarella to Brazil. Especially SMEs, who are more vulnerable to these changes (since changes in price or sales will affect their company much more because they are smaller than the large multinationals), would suffer from these imposed tariffs. Nevertheless, on the other hand, if a Brazilian company wants to export gorgonzola to The Netherlands for example, it also has to pay import tariffs. For each 100 kg of gorgonzola it wants to export to the EU, it has to pay 140.90 EUR of tariffs (export helpdesk for developing countries). By imposing such a tariff, EU SMEs will have an advantage as their products might be cheaper on the domestic market.

### 2.3.2 Quotas

Another important measure to protect the domestic economy is by making use of quota. If a country imposes a quota, it more or less puts a quantitative restriction on a certain imported product (Cuyvers, 1998, p. 14). The main goal of using quotas is to protect the homeland producers, as they would be confronted with less competition from other countries. What is more, the domestic producers might already produce enough products to satisfy the country's citizens. According to Article XI of GATT, the use of quantitative restrictions is prohibited, however some exceptions have been made. Until quite recently, the imposition of quotas played an important role on the restriction of agricultural imports. Nevertheless, under the WTO Agricultural Agreement, these quantitative restrictions had to be transformed in the protection of tariffs. A second exception is that quotas are allowed if a country has serious problems with its balance of payment. A third exception covers the use of quantitative restrictions by less developed countries. These countries may impose quantitative restrictions for the sake of their balance of payment or to protect infant industries. A last exception might be the use of quantitative restrictions if an unforeseen change of circumstances suddenly happened, which would be a threat or would seriously damage the domestic economy (Article XIX) (Trebilcock and Howse, 2002, p. 30).

The impact of a quota is such that foreign producers will supply fewer products due to the quantitative restrictions imposed by the domestic country. As a result, domestic producers will have the advantage of having less competition, which will make it easier to sell their products on the domestic market. SMEs would also profit as they have the advantage of

selling their products. Most SMEs have to rely mainly on domestic markets since they are not big enough to export, and so this protection might be advantageous for them. Nevertheless, distribution companies, importers and consumers can have reason to doubt whether quotas have benefits for them, as the prices of products may get higher due to less competition.

A good example of the use and impact of quota is the example of textile and clothing products. In 1995 The Agreement on Textiles and Clothing (ACT) was established by the WTO. Its main goal was to eliminate all quotas on textile and clothing within a period of 10 years, ending on 31 December 2004. In other words, from January 2005 all quantitative restrictions on textile and clothing products were prohibited. Nevertheless, in the beginning of 2005, the EU producers suddenly faced a sudden increase of the supply of textile and clothing products from China. In order to protect EU textile and cloth producers, the EU and China agreed to let the EU have quantitative limits on the ten most vulnerable categories of clothing, with the aim of having a fully liberalised trade system by the 1<sup>st</sup> of January 2008. (European Commission, 'Textile and footwear sector. Trade in Textile'). With the implementation of this agreement, the EU has more time to adapt to the idea of quota-free trade. What is more, it may decide to invest more in research and development, so that its member states can efficiently produce products against a low price. In that way they can make use of the principle of their comparative advantage in innovative technology.

### 2.3.3 Trade defence instruments: unfair trade

Besides using the common forms of tariffs and quotas, the EU may also decide to take measures to protect its domestic economy against unfair trade. Measures to protect the economy against unfair trade may cover anti-dumping, anti-subsidy and safeguard measures. Whether these instruments are protectionist measures, depends on your point of view. I will explain this with using the example of anti-dumping measures.

On the one hand, one may argue that anti-dumping measures are protectionist measures as it protects domestic producers against competition from foreign trade. If these anti dumping measures were not implemented, domestic producers would have more foreign competition, which could have a negative impact on domestic producers. From this point of view, anti-dumping measures have a protectionist purpose as it protects domestic producers against competition from outside. On the other hand however, one may argue that anti-dumping measures do not belong to the header of protectionist measures. From this angle, anti-dumping measures are seen as a reaction to the practice unfair trade. Using anti-dumping measures would then only be seen as compensation to the loss due to unfair pricing of anti-dumping goods. Furthermore, anti-dumping measures only stimulate legitimate competition and it will not protect companies which do not have a strong competitive position. (European Commission, 'Antidumping. Anti-dumping investigation on Chinese and Vietnamese Footwear'). In this thesis, I will look at the anti dumping, anti subsidy and safeguard measures as trade instruments which countries / political entities use to protect their economy against unfair trade.

#### 2.3.3.1 Anti-dumping

Dumping usually means that a company is selling its good on a foreign market at a lower price than on its domestic market. So for example, if an exporter from a non-EU country X sells his product in the EU for 50 EUR, whereas he sells the same product in its homeland for 30 EUR, the exporter is dumping its product on the EU market. Rules and legislation about which measures can be taken against dumping activities have been formulated in the Anti-

Dumping Regulation of 1995. According to this regulation, the EU may impose duties on industrial goods, *if* the following criteria are met. First of all, there must be evidence that dumping has taken place. In other words, it must be shown that a company is selling its products at a lower price on the foreign market than on its home market. Secondly, the dumping of goods must form a threat to or damage the Community industry in question. Last of all, an anti-dumping measure may only be imposed if the interest of the Community has been taken into consideration. This means that if the costs for the Community of taking measures are disproportionate to the benefits, it is not wise not to take anti-dumping measures (European Commission, 'Anti-dumping. Protection against dumped imports').

There are several possible origins for dumping practices. First of all, dumping may be a result of a lack of foreign competition in the exporting country. This can be caused by tariffs, other barriers, or a lack of competition rules. Through the lack of competitors, domestic companies may raise their domestic prices. (European Commission 'the EU trade defence measures'). What is more, the prices on the foreign market can therefore be held lower. A second explanation for the existence of dumping may be a strategic reason (European Commission 'the EU trade defence measures'). Foreign companies may decide to keep their prices low in order to bankrupt other companies. If these companies have been bankrupted, the foreign exporter has the possibility to raise his exporting price in order to compensate his incurred loss.

Anti-dumping complaints may be directed to the European Commission or the national government. Before a company lodges a complaint, it must be sure that dumping goods are being imported to the EU and that it injures EU companies. What is more, *'the complainants must represent at least 25% of the total EC production of the product in question'*, otherwise an investigation will not be started. Within 45 days the Commission will decide whether enough evidence is provided to launch an anti dumping investigation. If the investigation shows that injurious dumping is taking place, it may impose provisional duties after Member States have been consulted. Definitive duties may be imposed after the anti-dumping investigation has been completed. However, only the Council of Ministers, has the authorization to decide on the imposition of these definitive duties.

The imposed anti-dumping duties normally expire after 5 years. Nevertheless, if removal of duties would lead to new dumping complaints because dumping would continue or recur, the Commission may decide, after investigation, to extend the measures (European Commission, 'Anti dumping. Protection against dumped imports').

### 2.3.3.2 Anti-Subsidy

Subsidising companies means that companies receive a financial contribution. Normally, the government, public bodies or other countries are willing to give a subsidy to domestic companies in order to protect the own economy (European Commission, 'the EU trade defence measures'). A subsidy gives a company the possibility to sell its products at a lower price, due to the financial help. In 1995 the WTO Agreement on Subsidies and Countervailing measures came into force, which was directly translated into EU legislation. In the agreement of Subsidies and Countervailing measures, the WTO makes a difference between two types of subsidies which are prohibited: prohibited subsidies and actionable subsidies. Prohibited subsidies concern those subsidies which are given to support producers of the domestic market and to meet export targets. These subsidies are always prohibited. Prohibiting an actionable subsidy demands that a country has to prove first that a certain subsidy from

another country has a negative impact on its economy. If this cannot be proven, the subsidy is allowed (WTO, 'Anti-dumping, subsidies, safeguards: contingencies, etc').

The EU legislation is only concerned with imposing duty measures against non-EU countries which supply unlawfully subsidised goods. As with imposing anti-dumping measures, certain criteria must be met before duties may be imposed. First of all, it must concern a specific subsidy, such as an export subsidy or subsidy for certain types of industries. Secondly, there must be evidence that the imported subsidised goods form a threat or have caused injury to the EU industry. Last of all, a measure against the subsidising may only be taken if the interest of the Community has been taken into consideration (European Commission, 'Anti-subsidy. Protection against subsidised imports'). If a complaint meets the criteria, the procedure for launching an investigation will be the same procedure as with anti-dumping measures (see 2.4.1).

Nevertheless, there are some exceptions to the use of export subsidies. First of all, agricultural products may be subsidised under certain conditions. In the Agricultural Agreement it is stated that agricultural subsidies are only allowed if the subsidy is specified in the list of commitments. During WTO negotiations, developed countries agreed to reduce the value and quantities of export subsidies. (WTO, 'Agriculture: fairer markets for farmers'). Besides the exemption of certain agricultural products, countries may also allow export subsidies under certain circumstances. There are 25 countries which have the possibility to subsidize their exports, on the condition that the subsidy is only valid for the product for which '*they have commitments to reduce the subsidies*' (WTO, 'Export subsidies, competition and restrictions').

#### 2.3.3.3 Safeguard measures

Safeguard measures are measures a country may take if its industry is threatened by sudden massive imports that could injure its producers of the product concerned (European Commission 'Safeguards'). So, if foreign country Y suddenly exports a lot of products to domestic country X, that it threatens or injures the domestic economy of country X, then country X may take safeguard measures in order to protect its economy from exporting country Y. Nevertheless, before safeguard measures may be implemented, it is important that the rules in the WTO agreement on Safeguards are respected. The main goal of this agreement is that import restrictions may only be allowed if imports form a serious injury to a country's industry. Besides protecting its own economy against suddenly massive imports, the Agreement also made an end to the grey area measures. An example of a grey area measure is when a country tries to persuade exporting countries to limit their export in order to protect its own economy against exports. According to the WTO agreement on Safeguards however, WTO members may not make such voluntary restraints, which prohibit grey area measures (WTO, 'Anti-dumping, subsidies, safeguards: contingencies, etc').

If a company or industry thinks it qualifies for making use of safeguard measures, it may request action by its national government. In the case of the EU, the relevant body is the European Commission. This national government will then start a safeguard investigation which must be inline with the requirements set out by the WTO. In the Agreement on Safeguards criteria are mentioned how to assess serious injury and which circumstances have to be taken into consideration before implementing a safeguard measure. If the investigation concludes that safeguard measures are allowed, these may be implemented in different forms, such as quota or tariffs. Normally a safeguard measure is valid for 4 years; however it may be

extended in some cases to 8 years (WTO, 'Anti-dumping, subsidies, safeguards: contingencies, etc').

In a certain way, exporting countries and developing countries are protected by these regulations. Normally, the exporting country which encountered a safeguard measure is allowed to seek for compensation. Agreements about this compensation are in most cases made by ways of negotiations or by taking individual actions, such as imposing (higher) tariffs for that country (WTO 'Anti-dumping, subsidies, safeguards: contingencies, etc'). Developing countries are also protected in a certain way by the imposition of safeguard measures:

*'An importing country can only apply a safeguard measure to a product from a developing country if the developing country is supplying more than 3% of the imports of that product, or if developing country members with less than 3% import share collectively account for more than 9% of total imports of the product concerned.'* (WTO, 'Anti-dumping, subsidies, safeguards: contingencies, etc')

#### 2.3.4 Technical regulations and standards

Besides tariffs, quota, anti-dumping, anti-subsidy and safeguard measures, technical regulations and standards may also form a great barrier to free trade. These technical regulations and standards indirectly ask the exporting company to adapt their products to the national product standards of the importing country. This implementation of standards may cause extra costs for the exporter, as the company has to take into consideration all the (national) requirements in order to gain permission for its products to be sold on the foreign market. From this point of view, standards do form a type of trade barrier. On the other hand, technical regulations could have advantages for the importing country, as those companies might have a better competitive position in comparison with the exporting countries.

In order to avoid that regulations and standards may form unnecessary obstacles, the Agreement on Technical Barriers to Trade was created in 1995. On the one hand, this agreement is in favour of not creating unnecessary obstacles to trade, whereas on the other hand the agreement accepts the right that countries have to implement standards if they consider it appropriate (WTO, 'Standards and safety'). Furthermore, the TBT Agreement states that each member has to inform other members about their proposed technical regulations and conformity assessment procedures. In that way, the system creates a very transparent framework (European Commission, 'Presentation of the TBT Agreement'). In other words, companies really have advantage as they have the possibility to know which requirements they have to meet in order to export their product to a country.

Technical barriers may form an important barrier for SMEs. As SMEs have a relative small turnover, it may cost a lot of money in order to adapt their exporting product to the standards of the importing country. Since most SMEs may encounter difficulties to recover from this investment, technical barriers are particularly harmful to SMEs. Large multinational firms on the other hand, are usually large enough to make such an investment and have the possibility of earning it back by selling a high volume of products. Most SMEs are unfortunately just too small to do this. With the TBT Agreement however, more transparency has been created which provides SMEs with extra information about the requirements for exporting their product. By already knowing the requirements in advance, SMEs may adapt their production processes to the requirements.

With the aim of reducing technical barriers among EU countries, the EU created the so called 'New Approach' in 1985. The main goal of this system was to try to harmonise European standards, to remove the technical barriers to trade and to stimulate trade between the EU members. With the implementation of the New Approach, trade among EU companies might have been facilitated. This new system could therefore have its benefits for SME's, which, as I discussed, could be vulnerable for technical barriers. Nevertheless, certain EU member states still have their own national norms, which companies have to take into consideration. For an example of technical barriers, see the "Hushkit dispute" example in chapter 3.

### 2.3.5 Trade Barriers Regulation

Another instrument which can be used to protect European companies is the use of the Trade Barriers Regulation. This regulation came into force in 1995 and aims at removing trade obstacles to non-EU countries. With the introduction of the Trade Barriers Regulation, EU companies have the possibility to launch a complaint to the European Commission, which may then start an investigation about the trade obstacle. Nevertheless, the Commission will only deal with '*obstacles to trade which are contrary to international obligations*'. On the one hand, a complaint can be made about a trade barrier of a non- EU country, which have a negative impact on the export from EU member states. Examples of trade barriers which export companies may be faced with are: tax discrimination, limited market access, lack of transparency, discrimination of prices or difficulties with customs regulations (European Commission, 'The Trade Barriers Regulation'). On the other hand however, complaints can be made about a trade barrier of a non-EU country, which have a negative impact on the EU market, such as the non-availability of products in the EU (Open markten voor Europese exporteurs).

Different solutions can be made in order to reach a compromise with the non EU country. If the Commission concludes that an EU company is faced with a trade barrier, it may decide to take various types of actions in order to try to remove the trade obstacle. In many cases, negotiations with the authorities of the non-EU country often lead to a modification of the country's system so that the trade barrier for the EU country will be eliminated. The Trade Barriers Regulation may also be used to put pressure on the non-EU country, so that it will change its system to reduce the obstacle to trade. This can be done by publishing a complaint in the Official Journal or by threatening non-EU countries with starting dispute settlements proceedings (European Commission, 'The Trade Barriers Regulation').

## **2.4 Conclusion**

Since the 1940's various international organisations have been created in order to regulate international trade. The creation of the GATT in 1948, which led to the creation of the WTO in 1995, might be seen as an important historical event in the 'fight' against the use of protectionist measures. Through the establishment of these two organisations, a boost was given to international negotiations to enhance free trade, by minimising protectionist measures. During the different 'rounds', many attempts were made to reduce the use of tariffs. The use of quotas has also been discussed various times, although the use of these is still present nowadays. Besides these well-known protectionist measures (tariffs and quotas), countries may also take anti-dumping, anti-subsidy and safeguard measures in order to protect their domestic economy against unfair trade. Nevertheless, before such measures can be imposed, it should meet certain criteria, which are outlined in the WTO regulations or EU

legislation. A final measure I discussed in chapter two was the use of technical regulations and standards on imported goods. Through these extra regulations domestic companies might be protected, as exporting companies might be unable to supply many goods due to extra costs of adapting their product to the standards.

In this chapter, I have tried to outline the different sorts of trade defence instruments which countries have at their disposal in order to protect their economy (from a theoretical angle). In the following chapter however, I will investigate how often these instruments are really used. What is more, I will try to give a short overview, by using examples, of situations in which countries have used trade instruments.

### **3. The use of trade instruments and trade barriers**

In the 21<sup>st</sup> century, the use of instruments in order to protect domestic trade is still an important element of international politics which is used by many countries. Countries or political entities often make recourse to the use of quotas and tariffs in order to limit the import of foreign products, so that domestic producers can be protected. Although the use of tariffs and other trade barriers has been discouraged by the WTO rules during the last centuries (see chapter 2), countries still use these instruments in order to protect their domestic market. Besides the use of quotas and tariffs, many countries / political entities make use of the anti-dumping, anti-subsidy and safeguard measures to protect domestic companies against unfair trade practices.

As my thesis concerns the impact of TDI's and trade barriers on the EU economy, and especially on SMEs, it is important to include an overview of the use of these instruments so far in the real world. In this chapter the focus will mainly be on how countries have used trade defence instruments / trade barriers and how this has affected their economy (in a positive or negative way). I will begin by briefly reiterating on the use of these instruments as discussed in previous chapters, and will then proceed with actual examples.

#### **3.1 Development of the use of trade protection**

From a historical point of view, the EU economy is mainly based on the principle of the liberalisation of free trade. This means that the EU is a supporter of free trade and is not totally in favour of state intervention to protect the domestic economy. Although its economy is mainly based on free trade, the EU has taken different measures to protect the domestic market from economic threats from third countries. Since the introduction of the General Agreement of Tariffs (GATT) of 1948, trade became more regulated. The so-called rounds even led to a great decrease in tariffs. Especially during the Tokyo Round commitments were made to reduce the level of tariffs in order facilitate foreign companies exporting to other countries.

These international developments, the decrease of tariffs and quotas, could have led countries to seek other ways to protect their domestic market. In the 1970's and 1980's more and more effort was made in order to implement trade defence instruments (TDIs) against unfair trade. The Tokyo Round for example even led to negotiations about a new anti-dumping agreement, although it stayed a plurilateral agreement. This means that the agreement was only applicable to countries who signed the agreement. Also during the Declaration of 1986, WTO members showed their effort to reach a comprehensive agreement on safeguards (Palmer, in Petersman & Pollack, 2003 p. 146 and 158). From these developments we may conclude that WTO members were more in favour of liberalising free trade (due to their commitments to reduce tariffs and quotas). Nevertheless, one may also argue that other ways were sought to protect their economy, as certain trade defence instruments against unfair trade have become more popular since the 70's and 80's. Even though the use of tariffs and quotas were reduced (such as tariffs and quotas), many countries found other "back door" solutions to protect their economy against unfair trade practices.

#### **3.2 Importance of trade defence instruments**

The most well-known form to protect the economy against foreign competitors is the use of tariffs and quotas. As already mentioned earlier, the use of anti-dumping and anti-subsidy

measures is more focused on the consequences of unfair trade practices. An important reason to apply trade defence instruments is to maintain a diverse EU economy. If for instance China is dumping goods on the EU market, certain EU enterprises may experience a negative impact of this dumping activity, as they might be faced with unfair competition. This unfair practice may result in the fact that certain EU enterprises go bankrupt which may damage the diversity of the EU economy.

If you look in particular at the use of anti-dumping, anti-subsidy and safeguard measures, we may conclude that there are different reasons why these measures against unfair trade might be necessary. First of all, these trade measures might be essential in the world economy, due to the absence of international competition rules. In order to establish these competition rules, it is necessary to find all countries willing to agree on how international trade should be ruled, such as the matter state subsidisation (Hoven, Van den, 2006). As this might be difficult to establish, it is important that countries have the possibility to protect their economy by using TDI. Besides the difficulties with establishing competition rules, there is still a great deal of violation of international trade rules. As it might be hard to find agreement on how to deal with these violations, it might be easier to use TDI in order to deal with unfair trade practices directly, as a sort of punishment instrument against unfair trade practices.

Another important argument why countries may decide to use TDI is that these measures are relatively rapid to implement. Within 45 days after having made a formal complaint, the European Commission decides whether a formal investigation can be started for an anti-dumping case. Especially for SMEs, which have a relative small turnover, it is practical that trade defence measures can be implemented in a short time (before they go bankrupt). In that way, their turnover might not be affected so much and this will reduce the risk of not surviving.

### **3.3 The use of TDI and technical barriers**

During the last decennia many countries have tried to make use of trade instruments in order to protect their economy against unfair trade. If a country does impose such a trade defence measure, then this is likely to be an anti-dumping measure. A reason why companies are less in favour of anti-subsidy measures, may be the fact that anti-subsidy measures might lead to retaliating measures from the country which is affected by these measures (Commissie van de Europese Gemeenschappen, 2006, p. 6). As the Green Paper on TDI already presents, the European Commission could take more initiative by starting an anti-subsidy investigation. This way, it is not the company which makes a complaint, but the complaint will come directly from the European Commission. This may have as consequence that companies might be less directly involved in retaliating measures from the involved countries, as the complaint comes then from the European Commission.

#### 3.3.1 Example: the EU as a moderate user of anti-dumping measures

Looking at the numbers of anti-dumping investigations launched on world level, we may conclude that less anti-dumping investigations have been initiated since 2001 (see table below). In 2001, 364 investigations were initiated, whereas in 2006, only 187 investigations have been started. Although one may be inclined to conclude that anti-dumping measures would be further reduced in the near future, the Global Trade Protection Report 2007 argues that anti-dumping is cyclical with peaks and troughs (Stevenson, 2007, p. 3).

## Anti-Dumping Investigations Initiated

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
157	225	243	257	354	292	364	312	232	213	191	187

source: Global Trade Protection Report 2007, C. Stevenson

*'EU anti-dumping measures and anti-subsidy measures represent less than 0.45% of the value of total imports'* (European Commission, 'EU trade defence measures'). This could be a surprising fact, if you know the numbers of investigations which have been started. In 2006 the EU has launched the most anti-dumping investigations in the world, most of them directed against China ('EU tops world anti-dumping charts', 2007).

## Countries initiating anti-dumping investigations in 2006

EC	35
India	31
Argentina	19
Brazil	12
Australia	10
China	10
Egypt	9
Canada	8
Turkey	7
US	7
<b>All countries</b>	<b>174</b>

source: Global Trade Protection Report 2007, C. Stevenson

In comparison with other countries, the EU has launched many anti-dumping investigations in 2006. Nevertheless, looking at the period 1995-2004, one may argue that the EU is a moderate user of anti-dumping investigations and definitive anti-dumping measures. From the table below, you may conclude that the EU has imposed the least investigations and definitive anti-dumping measures in comparison with India and the US. Where for example the EU only implemented 189 definitive anti-dumping measures, the US and India certainly imposed much more of these measures to protect their economy against dumping. Big users of anti-dumping measures are the US, India, Argentina and Australia (European Commission, 'Europe's Trade Defence Instruments', 2006).

Jan 1995 - Dec 2004	Definitive anti-dumping measures	Investigations
EU	189	300
US	262	352
India	306	383

(statistics from Europe's TDI, fact sheet, 2006)

Also regarding the use of anti-subsidy and safeguard measures, one may argue that the EU is might not be seen as the biggest user of these instruments. Looking at anti-subsidy measures for example, the EU has 12 anti-subsidy measures in force as of 31 October 2006. What is more, under the WTO rules, the EU has only imposed 8 safeguard measures (European Commission, 'Europe's Trade Defence Instruments', 2006).

Most of the anti-dumping measures have been directed at China. In the period 1995-2004, the EU initiated 52 cases, whereas the US initiated 57 and India 76. In 2005 however, the EU has

initiated 8 anti-dumping investigations, which is less than the year before 2005. Nevertheless, one may argue that China is not really affected by these measures, as these measures only affect less than 2% of China's export (European Commission, 'Europe's Trade Defence Instruments', 2006).

### 3.3.2 Example: the use of EU provisional anti-dumping measures

A good illustration about the use of anti-dumping measures is the investigation which was done on the export of Chinese and Vietnamese footwear on the EU market. The European Commission launched an anti-dumping investigation, as China and Vietnam were suspected to sell dumped goods on the EU market. As dumping footwear products would have a negative impact on the EU footwear market, an anti-dumping investigation has been initiated. During its investigation, the EC investigated Chinese companies which '*represent approximately 15% of the Chinese footwear production sector*'. The STAF (Special Technology Advanced Footwear) and children's leather shoes were excluded from the anti-dumping investigation. Reasons were that EU industry did not produce so much STAF leather shoes that the industry would be injured by the dumping activity. Children's shoes were excluded in order to spare parents extra costs due to the increase of children's shoes. (European Commission, Anti-dumping investigation on Chinese and Vietnamese Footwear, 2006). In other words, one might argue that the interests of EU consumers, namely parents, have been taken into consideration in deciding whether children's shoes should be examined in the anti-dumping investigation.

The anti-dumping investigation proved that the Chinese and Vietnamese leather shoe producers received a financial contribution from their governments which led to the fact that their leather footwear was dumped on the European market. According to the investigation, Chinese leather footwear producers sold their shoes on the EU market at about 80% of normal its value. The investigation suggested further that the Vietnamese leather shoes were sold on the EU market at about 50% of its normal value (European Commission, Anti-dumping investigation on Chinese and Vietnamese Footwear, 2006). These numbers clearly show that dumping was present (criteria 1). Besides the fact that dumping was proved, evidence also showed that the dumping actions injured the EU market (criteria 2). Since 2001, the EU industry of leather footwear has been reduced by 30%. What is more, the investigation concluded further that since 2001 the EU industry has lost more than 40.000 jobs in the footwear sector and that more than 1000 footwear companies were closed. The general interest of the EU has also been taken into consideration about the impact of anti-dumping measures on importers, retailers and consumers (criteria 3). The investigation concluded that taking limited action would be best for the EU economy as a whole (European Commission, Anti-dumping investigation on Chinese and Vietnamese Footwear, 2006).

On 23 March 2006, the European Commission adopted provisional anti-dumping measures against China and Vietnam which came into force on 7 April 2006. These measures were imposed in a progressive way during a period of 5 months, in order to minimize the risk of sudden changes regarding imports. The anti-dumping duties on leather shoes for China would rise to 19.4% and for Vietnam would rise to 16.8% ('Commission adopts provisional anti-dumping measures', 2006).

Although the anti-dumping measure had the goal to protect the EU economy against unfair trade from China and Vietnam by imposing extra import duties, the impact of the consumer shoe prices would be minimal. The investigation showed that only 9 pair of shoes from every

100 pair of shoes bought by Europeans would be affected by the anti-dumping measures. ‘A duty would add about 1.5 euro on average import prices of 8.5 euro for leather shoes that retail between 30-100 euros’. The main reason why the impact of the measures on shoe prices would be minimal has to do with the relation between the import prices and the consumer prices. An investigation concluded that during the last five years import prices of leather footwear from China have dropped 20%, whereas the consumer prices of shoes have remained the same or have risen slightly. This means that there is a certain margin between the import price and the consumer price. An extra duty on the import prices, as the anti-dumping measure, can be absorbed in this margin which will be spread out among the different distribution and product chains (‘Commission adopts provisional anti-dumping measures’, 2006). As these extra import duties will be spread among the different stages of production and distribution, the consumer might not notice very much price difference.

In short, since anti-dumping of Chinese and Vietnamese leather footwear has been determined, the European Commission launched a provisional anti-dumping measure in order to protect the EU economy against unfair trade. Through the adoption of this measure, China and Vietnam were faced with extra import duties, which would protect the EU industry against unfair competition. Higher priced foreign shoes could be in the advantage of a European footwear producer, as they may be faced with less unfair (cheap) Chinese and Vietnamese prices. On the other hand however, European distributors would be less satisfied with the situation, as the extra import costs may be absorbed by their chains.

### 3.3.3 Example: technical barriers to trade – the Hushkit dispute

A good illustration of a technical barrier to trade is the Hushkit dispute. This dispute concerned EC Regulation 925/1999. In this regulation it was stated that within the EU it is prohibited to register or to operate certain old aircrafts which have adopted technical changes in order to meet the international noise standards. New hushkitted aircrafts, of which the jet engine has been changed to comply with noise standards, were banned by this regulation (‘The European Union Hushkit Dispute’, 2001). On the one hand, this regulation can be regarded as a technical regulation, as it concerns a prescription of characteristics of a certain product. On the other hand however, this regulation can be seen as a regulation of services, as certain services provided with the product (such as registration) have been restricted. In this way, the regulation does not really concern the sale of the product (Abbott in Petersman & Pollack, 2003, p. 264).

The EU decided to adopt EC Regulation 925/1999 while taking into consideration the following grounds:

1. Public noise complaints near European airports,
2. The proliferation of local restrictions which formed an obstacle to a common aviation market,
3. The failure of the negotiations in ICAO (International Civil Aviation Organisation). This organisation is concerned with putting (international) standards for the airline industry.

Although the regulation had already been adopted in 1999, it entered into force in May 2000. As a result of the introduction of this regulation, the US made a complaint in the same year. The US argued that the regulation did not conform to the international aviation regime. What is more, it also argued that this EU legislation could lead to serious damage on US industry

(‘The European Union Hushkit Dispute’, 2001). In order to solve this dispute, mediation by a third party was seen as an important tool. The US as well as the EU requested the mediation procedure. This mediation was done by Dr Assad Kotaite, the President of the ICAO council. Besides using mediation in order to solve the dispute, both parties continued their negotiations in the ICAO. In a certain way, these negotiations led to the establishment of new noise standards in 2001. Besides new standards, noise policies were also created, which were implemented in EU legislation. These developments led to the withdrawal of the EU regulation in April 2002. As a consequence, the US dropped its complaint a couple of months later (Abbott in Petersman & Pollack, 2003, p. 264).

The Hushkit dispute is a complex dispute, which concerns a lot of technical details about the ICAO. For the purpose of my thesis, I will not discuss the technical side of the case, but I will focus on the impact of this technical barrier to trade on the EU and US economy. The ‘controversial’ EU regulation has come into effect as the EU sought stricter noise standards, due to environmental reasons and public complaints. What is more, the EU may also have wanted to protect its own industry in a certain way, as it puts extra restrictions on foreigners wanting to export their Hushkits aircrafts to the EU. As a result of the adoption of the regulation, the US made a complaint about the regulation. An important reason why the US made this complaint is that the US has resisted for years new standards due to the great influence that the aircraft industry has in the US (Abbott in Petersman & Pollack, 2003, p. 280). With the adoption of the regulation, it would be difficult for the US to sell their hushkit aircrafts to the EU. Besides the US aircraft industry, the European industry itself might also be faced with a new technical barrier that replaced local rules in place before that time. With the implementation of the new standards, European enterprises would have to make extra costs to meet these standards.

In short, the Hushkit dispute shows that technical barriers to trade, such as the prohibition to register hushkit aircrafts in the EU, may have an important impact on the US and EU economy. Harmonisation of international standards is becoming more and more important for aircraft noise regulations. In order to reduce the numbers of disputes arising from technical barriers, international as well as national standards may become more transparent. In that way, other countries have the possibility to take a new standard into consideration. The possibilities for consultation may also be extended, which may facilitate dialogue between parties in order to adapt to the regulation in question (Abbott in Petersman & Pollack, 2003, p. 280).

### **3.4 Conclusion**

In this chapter I briefly summarised the theory on trade instruments, before proceeding to give an account of how these instruments are actually used in the real world, particularly by the EU. It could be said that the EU has launched the most of anti-dumping investigations in 2006. Nevertheless, looking at statistics of 1995-2004, one might consider that the EU is a moderate user of implementing definitive anti-dumping measures. Furthermore, I continued by elaborating two examples on trade defence instruments and technical barriers: dumping of footwear and the hushkit dispute. These examples are a good way to understand how TDI’s and technical barriers actually work, and why they play such an important role in international politics. In short, in this chapter I tried to look at the practical and real-world elements of international trade regulation, while the next chapter will zoom in on the effect these regulations have on small and medium-sized companies.

## **4. Small and medium-sized enterprises**

From the previous chapters, we may already conclude that trade defence instruments and measures against trade barriers play an important role in the EU economy. It should be noted however, that these instruments are not only at the disposal for large companies. As small and medium-sized enterprises (SMEs) represent about 99% of all EU enterprises and provide about 65 million jobs in the EU, it is important not to underestimate their economic position in the EU economy. According to a European definition, typical SMEs are companies that have fewer than 250 employees and have a maximum annual turnover of 50 million euros or a balance sheet total not exceeding 43 million euros (European Commission, 'SME Definition').

As trade barriers or unfair trade would certainly affect the SME sector (as they are strongly represented in the economy), it is important to include a chapter on what kind of influence SMEs have on trade defence instruments. In this chapter the main focus will be on the role of trade barriers and unfair trade. I will start by describing the vulnerable position of SMEs in international trade and will then proceed with the different types of actions SMEs might take in order to protect their economy or gain access to other markets. Finally this chapter will conclude with a short overview of the initiatives and programmes already made on the EU level to facilitate market access to third countries.

### **4.1 Vulnerability of SMEs in international trade**

Comparing the international position of different sorts of enterprises, it is easy to conclude that large companies have a stronger position in international trade than small and medium sized companies. As SMEs have a small size and a relatively small turnover, they maintain a vulnerable position in the world economy. In this sub-chapter, the focus will be on how their small size makes them vulnerable.

According to Mr. Brakeland, Head of the Legal Unit of DG Trade EC, (personal interview, 10 May 2007) an important reason why SMEs maintain a vulnerable position has to deal with the possibility of spreading the risks. For example, large companies are more likely to have a large market, which might give them the opportunity to sell different sorts of products to various countries. In contrast to large companies, SMEs are normally active in a smaller market and are therefore more likely to sell a specific type of product to only a couple of countries. As a result of their relatively small market, the turnover of SMEs is likely to be affected when they are faced with a technical barrier of a third country. In other words, due to the fact that SMEs cannot spread their products among different countries, a technical barrier from just one country, may already put SMEs in a vulnerable position if this country is the main sales target of the company. Large companies however, normally exporting to various countries, are more likely to cover the risks if export activities are blocked by one country. In their case, large companies may rely and concentrate their export activities on all their other countries with which they maintain business relations. In short, a trade barrier is likely to have less influence on a large company such as Philips as this company may minimize the risk by exporting their products to any other countries. As small companies cannot spread their risks among different countries or products, they are far more vulnerable to trade barriers.

Besides the fact that SMEs cannot spread their risks, other factors also play an important role in making them more vulnerable than large companies. An important argument has to deal with a SME's limited access to resources. For instance, due to their small size and limited

turnover, SMEs are likely to encounter problems in participating in lobbying activities to get favourable laws and regulations (Fliess and Busquets, 2006, p.10). In contrast to SMEs, large companies are more likely to influence the trade policy process due to their possibility to invest their large resources into these activities.

Furthermore, SMEs might also be faced with constraints if you look at their ability to adapt to changes in their production requirements. Due to their fixed-cost barriers (i.e. small companies cannot support high amounts of fixed costs in their organisation, which you need to be able to make new and innovative investments), SMEs are in a vulnerable position to adapt to sudden production changes, which they need in order to stay competitive (Fliess and Busquets, 2006, pp 10). It should be noted, however, that the vulnerability of SMEs may not only be caused at the export side. The import side might also contribute to the vulnerable position of SMEs. The implementation of protectionist measures by the home market might create problems for SMEs that heavily rely on imported goods from outside the EU. As SMEs are increasingly importing goods components or raw materials from other countries, these import prices might be influenced by tariff and non-tariff measures (Fliess and Busquets, 2006, pp 10). In short, the export side as well as the import side may contribute to the vulnerable position of SMEs in international trade.

A good illustration of the vulnerability of SMEs can be shown by the problems which SMEs may encounter during custom procedures (J.F. Brakeland). If for example a Belgian SME would like to export its product to Argentina, it might be faced with complicated and difficult custom procedures. As a result of these long and dragging procedures, the Belgian SME does not have the possibility to sell his product on the Argentinean market directly. What is more, as SMEs often do not have the time to wait until the long custom procedures are over, days or weeks do matter for them (J.F. Brakeland). In other words, a SME has probably not enough reserves to cover the costs created due to the long custom procedures. So, long procedures encountered for clearing goods might bring SMEs in a vulnerable position. For large companies however (which have a relatively large turnover and reserves) delays resulting from custom procedures are less of a problem as large companies they can afford to be patient. For them, it is more a matter of months instead of days or weeks. In short, large enterprises are more likely to cover the costs caused by custom procedures, whereas SMEs often do not have the time to wait.

## **4.2 Overcoming trade barriers for SMEs**

### 4.2.1 Importance of joint action

If a SME considers itself to be a victim of a trade barrier or of unfair trade practices, it is of great importance that they contact other companies in order to regroup themselves. According to Ms. Van Raemdonck, administrator in Unit H1 of DG Trade of the European Commission, (F. Van Raemdonck, personal interview, 10 May 2007) and Mr. Brakeland, many complaints about trade barriers or unfair trade are brought by federations (such as a textile federation or a steel federation), which may represent many SMEs. These organisations, uniting many SMEs in a certain industry sector, might either be active on a national or European level. An example of a complaint made by a national federation is the complaint launched by FEBELTEX (a Belgian textile federation) against the Brazilian system of import licences in 1998. At European level for instance, EURATEX (the European Apparel and Textile Organisation) also launched a complaint against Argentina as the Argentinean rules had a negative impact on the import of textile and clothing ('Open markten voor Europese exporteurs').

A complaint from one single SME to a barrier to trade cannot really work in practice (J.F. Brakeland). Investigations are normally not initiated if one SME considers itself to be injured by a certain trade barrier. In order to gain influence as a SME, it is important to contact other companies, which are preferably active in the same sector. What is more, a federal organisation might help companies for two different reasons. On the one hand, such an organisation might play an important role in gaining evidence of a trade barrier or unfair trade, as they may acquire information and data from other companies. In other words, SMEs are helped in such a way that evidence may be acquired more easily. The second reason why federations might help companies has to do with the risk of being attacked by retaliation measures (J.F. Brakeland). If for example a Belgian company launches a complaint against China concerning textile products, then this company might be attacked by China through the use of retaliation measures. In order to avoid such a retaliation measure, a company might lodge a complaint via a federal organisation such as FEBELTEX (a Belgian textile federation). So if the complaint is lodged by the Belgian textile federation, then the Belgian company itself might not be faced with retaliation measures, as the complaint is not brought by their company but by FEBELTEX.

Although it might seem obvious that a federation lodges a complaint acting as a representative of SMEs, it should be noted that certain sectors are more organised than others. The way a sector is structured, may indeed affect the level of difficulty in lodging an anti-dumping or anti-subsidy complaint, certainly for fragmented industries. The higher the number of companies in the sector, the more obvious is the need for well structured sectorial organisations (F. Van Raemdonck). In other words, if SMEs are active in sectors which are not well organised, they are likely to be faced with difficulties in gaining evidence that a trade barrier or an unfair trade practice injures the EU industry.

A good illustration of SMEs which regrouped themselves was the (trade barrier) complaint launched by Federtessile (Italian Federation of Textile Industries) in 1996. This organisation, strongly representing Italian SMEs, made a complaint about the new US rules of origin for textile and apparel products (J.F. Brakeland). Federtessile argued that a change in US rules of origin would form an obstacle to the community exports of textile products, as these exporters were suddenly faced with quantitative restrictions for certain products, which the US imposed on a third country. What is more, the new US rules changed the use of labelling a product in such a way that certain products could not longer be sold under the label 'made in Italy'. So for instance, silk scarves made by Chinese fabrics but processed in Italy, had to be labeled under 'made in China' instead of 'made in Italy'. As these changes in labelling would affect the brand image of Italian exporters, it might have a negative impact on Italian exporters to the US. The European Commission considered that sufficient evidence was present and an investigation was initiated. In 1997 the EC initiated a WTO dispute settlement, which however was suspended in 1997, as more success was expected from negotiations. Bilateral negotiations between the US and the EU finally brought a solution to the dispute in 1999, which led to certain changes in US rules (European Commission, '2000/667/EC Commission Decision of 20 October 2000'). In short, as a result of joint action of SMEs in the organisation Federtessile, SMEs had a strong position in order to lodge a complaint. In the end, negotiations between the EU and US led to changes in the US rules which were advantageous for European exporters of textile products.

#### 4.2.2 The disposal of instruments for SMEs

As already discussed in the sub-chapter above, it is important that SMEs regroup themselves when they intend to use the instruments at their disposal when they consider to be injured by dumping (anti-dumping) or subsidy (anti-subsidy) activities from third countries. Regarding the Safeguard instrument, it should be noted, that investigations are not initiated by the industry, but are mostly initiated upon request of the national government. According to Ms Van Raemdonck however, safeguards are not a frequently used instrument by the EU, as the conditions for their use are more difficult to fulfil and because of their less surgical effect on world trade (erga omnes effect, i.e. against all countries, as opposed to anti-dumping and anti-subsidy which only involve those countries engaging in unfair practices).

In order to facilitate the use of trade defence instruments for SMEs, the European Union has set up a Trade Defence Helpdesk for SMEs. The main goal of this helpdesk is to provide them with information about TDI's and how SMEs may lodge a complaint, which is the first step in the anti-dumping and anti-subsidy proceeding. If a SME for example considers to be victim of unfair trade, it may also contact the Trade Defence Helpdesk in order to gain more information on what further steps can be taken in order to protect the company against this unfair trade. The Trade Defence Helpdesk will provide the SME with user-friendly and practical information, such as for example '*a guide on how to draft an anti-dumping complaint*'. This document may be seen as a standard document, which can be used by any company or organisation, which wishes to lodge an anti-dumping complaint. A guide concerning the lodging of anti-subsidy complaints is also available for EU companies. Finally, mini-questionnaires are at a SME's disposal, which will also facilitate the process of lodging a complaint. As language can be a barrier for SMEs, these documents are available in all the official Community languages (F. Van Raemdonck).

Furthermore, it is very important that the company keeps any information which could be relevant for the complaint, both own data and data on other Community and non-EU (exporting) companies. As mentioned above, the Commission advises however, that SMEs try to contact other EU companies or industrial associations, as those might be helpful in the search for data or may even lodge the complaint themselves (European Commission, 'Fair trade for SMEs').

If a SME or a federal organisation of SMEs decides to lodge a complaint, it is important that the complaint provides sufficient evidence on the following issues:

1. *'Evidence of dumping and or subsidisation from specific third countries*
2. *Evidence that import volumes from each of these countries are significant*
3. *Evidence that these imports are having a negative impact on at least 25% of Community producers'*. (European Commission, 'Fair trade for SMEs').

Besides providing information to companies who lodge complaints, the Trade Defence Helpdesk is also occupied with helping companies that consider to be attacked by TDI's from third countries (this helpdesk does not only focus on SMEs) (A. Manoussopoulou, personal interview, 10 May 2007). For instance, if Argentina lodges an anti-dumping measure against Belgian textile companies, then this might influence the export activities of these companies. As a result, the Trade Defence Helpdesk will inform companies, national governments or federal organisations about the case. If desirable, the Helpdesk might help companies or organisations with more information about the complaint, such as giving advice on how to prepare the case. What is more, the European Commission may help companies in order to

coordinate one common defence for EU companies and may take action in accordance with the WTO rules. Besides that, the Commission may maintain contacts and put political pressures on third countries (European Commission, 'Fair Trade for SMEs'). Whether it concerns TDI's or other trade barriers, it is always wise for SMEs to organise themselves to establish one point of view in case of eventual disputes.

### **4.3 SMEs and trade policy**

As SMEs play an important role in the EU economy and represent about 99% of all EU enterprises, it is important that trade policy is established in such a way that it also benefits SMEs. As already discussed in chapter 4.2.2, SMEs may contact a special Helpdesk in order to gain information on what steps can be taken against unfair trade. What is more, special information sessions have been established in order to provide SMEs with information about TDI's, especially through the use of EIC's (Euro Info Centres). Besides these practical information helpdesks, it is also important that regulations and laws are created in such a way that SMEs may also profit from them. An example of a change in law has been the amendments made in 2004 regarding the Basic Anti-dumping and Anti-subsidy Regulations. The main goal of these amendments was to create more transparency and to enhance legal certainty, which would also be advantageous to SMEs. What is more, the European Commission has also been actively involved in encouraging EU enterprises and in particular SMEs to enter third markets. Important initiatives which the EC has established are 'Gateway to Japan' and the 'Executive Training Programme'. The programme 'Gateway to Japan' is mainly focused on helping SMEs with their entry to the Japanese market, whereas the 'Executive Training Programme' has been created in order to provide EU executives with information regarding the business culture and language in Japan and Korea (European Commission, 2005, pp. 46-47, The activities of EU for SMEs).

Although the European Union has taken the interest of SMEs in international trade policy into consideration, it is of importance that SMEs try to continue exerting influence on the trade policy process. According to Fliess and Busquettes, SMEs may overcome their constraints by implementing a special framework which aims at facilitating trade policy process for SMEs, which stresses an interactive relationship between SMEs and the government. On the one hand this relationship might be enhanced by the involvement of SMEs in public consultation processes. On the other hand however, special programmes may be set up in order to help SMEs when they are faced with trade barriers. A good illustration of such a programme has been the introduction of the 'Market Access Database' which provides information on trade barriers in other countries (Fliess and Busquets, 2006, pp. 13-15).

### **4.4 Conclusion**

In this chapter, I wanted to stress that trade barriers or unfair trade are not only hot topics for large companies. SMEs might also be faced with this sort of obstacles to trade. Due to their small turnover, small size and their inability to spread risks, SMEs have a vulnerable position when they are faced with trade barriers or unfair trade. A good illustration of their vulnerability has been given about the difficulties SMEs face during custom procedures. In order to overcome trade barriers, it is of great importance that SMEs collectively organise themselves in federal organisations. Such an organisation might help companies in gaining evidence and reduce the risk of encountering retaliation measures. On EU level, a special Trade Defence Helpdesk has been created for SMEs, which can be consulted for questions about TDI's and the eventual steps to be taken against unfair trade. What is more, the

Helpdesk may help EU companies, when they are faced with TDI's measures imposed by other countries. Besides the creation of this special Trade Defence Helpdesk, the EU has already established different sorts of programmes in order to facilitate market access for SMEs to third countries. Nevertheless, it remains important that SMEs continue to advocate their interests in various federal organisations. These may then represent the SME's points of view and may exert influence on trade policy processes.

## 5. Conclusion

After having thoroughly researched the issues surrounding the subject of my thesis, I will now try to answer my central research question:

*Does the global use of trade instruments have a positive impact on the economy of a typical EU country, especially with regards to small and medium-sized enterprises (SMEs)?*

I will proceed by briefly summarising my research findings and will end with presenting my conclusions.

In this thesis I have given an outline of the various trade instruments that governments and industry might use in order to protect their economy against competition from foreign exports or against unfair trade. If a country is in favour of regulating its trade practices, it has the possibility to implement different sorts of trade instruments for various purposes. As a consequence of these introductions, the EU economy will probably become aware of the changes that these measures have induced. Whether these instruments have a positive or negative impact on the economy depends on your point of view. For example, consumers and producers may have different interests, as consumers normally want to buy cheap products, whereas a producer is more likely to be in favour of selling products for a high price. This thesis mainly has its focus on the interests and effects of trade instruments on enterprises and especially on small and medium sized enterprises. Tariffs, non-tariff barriers and trade defence instruments against unfair trade do play an important role in the EU economy.

If a country decides to impose a tariff or a non-tariff barrier on foreign goods, then the domestic economy as well as foreign economies might be affected by these measures. Due to the introduction of a tariff for example, extra duties will be imposed on foreign goods. As a result of that, the price of the imported goods will be higher in comparison with the price of the domestic produced goods. This will have as consequence that domestic producers might be protected by the implementation of tariffs, whereas foreign exporters might be faced with extra costs in selling their products on a certain market. In other words, the global imposition of tariffs might complicate access to foreign markets, which might in the end lead to a smaller turnover for companies around the world.

Besides tariffs, other trade defence instruments against unfair trade certainly play an important role in the EU economy. Although these instruments might not be well-known by everyone, the EU industry has the possibility to take anti-dumping or anti-subsidy measures against unfair trade of third countries. As its goal is to protect the EU economy against unfair trade, these measures have a positive impact on those companies which are harmed by unfair trade practices. Furthermore, these instruments might be seen as an effective tool, as anti-dumping and anti-subsidy measures can be introduced in a relatively short time period. Nevertheless, these defence measures might also have a negative influence on the EU economy due to the risk of retaliation measures from other countries when anti-subsidy measures are imposed.

Technical barriers to trade or national standards may also form an obstacle to trade, as the access to foreign markets might be blocked. If for example a certain national regulation describes that foreign products need to have certain requirements before being sold on the domestic market, then this might lead to extra production costs for foreign exporters. As not all companies have the resources to adapt their production process to the imposed

requirements, less export might be the result, which might in the end cause companies to suffer losses. In short, technical barriers might have a negative impact on foreign exporters, whereas domestic producers might be in an advantageous position.

Not only large companies will be affected by the implementation of the above mentioned instruments. Small and Medium-sized Enterprises will also notice the effects of the measures. In contrast to large companies, SMEs have a relatively small turnover and an inability to spread risks, which make them vulnerable to trade barriers. The impact of technical barriers (such as a national standard) is therefore likely to be very big for SMEs, as they might not have enough resources to adapt changes. Nevertheless, SMEs might gain a stronger position in international trade if they organise themselves into federal organisations. What is more, SMEs might also count on the help the trade Defence Helpdesk in order to obtain more information and advice about the use of TDIs.

In short, countries have different forms of trade measures at their disposal. On the one hand, these measures protect the own domestic economy from imports of third countries. On the other hand however, these protectionist measures lead to trade barriers to third countries, which forms a barrier for exporting countries. Protectionist measures certainly have their influence on the 'well-being' of SME's. Due to their small size and relatively small turnover, they are more likely to be (negatively) affected by trade barriers than larger companies. However, if SMEs organise themselves in federal organisations, they might exert more influence in international trade. It should be noted however, that SMEs try to advocate their interests in trade policy and trade instruments as much as possible, as they continue to play an important role in the EU economy.

So in answer to my research question, one might say that the global use of trade instruments probably does not have a positive impact on the economy of a typical EU country, especially not with regards to small and medium-sized enterprises (SMEs), for the reasons stated above.

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