

Surviving Technical Barriers: Towards a Trade Related Capacity Building for SMEs in Trinidad and Tobago

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Abstract

With the progressive erosion of tariffs and other forms of non-tariff barriers that can restrict international trade, countries are turning to Technical Barriers to Trade (TBTs) as a means of regulating markets, protecting their consumers and natural resources, and possibly discriminating against imports in favour of domestic products. For food product exporting SMEs in developing countries, the impact of these technical barriers applied as standards and regulations is more damning because in many respects they lack the necessary Trade-Related Capacity to implement the various technical requirements in export markets; a prerequisite for international competitiveness. This study proposes a theoretical framework for Trade-Related Capacity Building (TRCB) towards international competitiveness for SMEs in the beverage industry in Trinidad and Tobago. Preliminary analysis of findings calls for action particularly as standards and regulations are not likely to go away anytime soon. This study proposes a tripartite/joint framework approach for trade-related capacity building in SMEs in Trinidad and Tobago. It concludes that the ability of SMEs to foster productivity, efficiency in product and process methods towards international competitiveness, requires joint and regional efforts. This study makes significant contribution to the development of the manufacturing base of Trinidad and Tobago.

Background

With the proliferation of Free Trade Agreements (FTA) and Regional Economic Integration (REI) among trading countries in recent times and the subsequent eradication of tariff and other forms of quantitative barriers to trade, technical barriers to trade (TBTs) are increasingly becoming commonplace in today's trading system. Some scholars have put forward reasons for the increased proliferation of non-tariff barriers in today's market.¹

TBTs refer to divergent measures that countries use to regulate markets, protect their consumers, and preserve natural resources, but which can also discriminate against imports in favour of domestic products.² There are technical standards and regulations. Standards do not form part of

¹ Alan Deardoff and Stern Robert, *Measurement of Non-tariff barriers* (The University of Chicago Press, 1998). These include the institutional constraints which are built into the GATT/WTO rules and into national constitutions that limit the use of tariffs; the roles of firms and workers in influencing the choice of policies; considerations of reaction to or retaliation against the policies of trading partners; and uncertainty about the ways in which different policies may perform"¹.

² Geoffrey Becker, *Agricultural Exports: Technical Barriers to Trade*. Congress Report for Congress, (National Library for the Environment, 1997)

national legislation and as such, compliance is voluntary although compliance is necessary for market presence. A regulation on the other hand is part of legislation and compliance is necessary for market access. TBTs that pose the greatest problems to food and beverage products are sanitary and phytosanitary (SPS) measures which are designed to ensure the protection of humans, animals and plants from harmful diseases, pests and other contaminants. TBTs also include product characteristics such as product weight, size, packaging and mandatory nutrition labelling.

It is impossible to ignore the importance of standards and regulations for consumers. Also, the importance of compliance to quality standards for food safety in processed food and beverage products cannot be overemphasized. Consumer trust is pivotal in order to sustain the increasingly globalized nature of food production, processing, and distribution in the international trading relations of states.³ However, there is persistent fear among small developing countries about the rate at which new and possibly more complex standards and regulations are being introduced into the global market.⁴

There is no doubt that by adhering to international standards and regulations, SMEs can gain competitiveness in the global trading environment. Those that invest more in exceeding set standards will tend to have a competitive advantage over competitors that are not as proactive.

Emerging Issues

Market Access: Although market access is not generally threatened by market-driven voluntary standards, failure to comply with standards or technical regulations in both national and international law can mean refusal of products by customs at points of entry. A product can be affected by standards and regulations through food safety rules, labelling and packaging rules, certification and inspection rules. Even where countries are allowed duty-free access into the European market (e.g. with the EPA Agreement), presence in the market is not guaranteed because they could be blocked by technical requirements.

³ Aginam, Obijiofor and Hansen, Christina (2008). "Food Safety and Trade Liberalization in an Age of Globalization". Policy Brief. United Nations University.

⁴ Broberg, Morten (2009), "European Food Safety Regulation and the Developing Countries" Regulatory problems and possibilities. DIIS Working Paper 2009:09

Protectionism: Domestic regulations and standards can constitute a variety of barriers to trade depending on upon their intent and the structural changes and behavioural responses that are induced. An important factor in assessing protectionism is the extent to which the market is altered.

Competitive Advantage: Those that invest more in exceeding established standards conceivably will tend to have a competitive advantage over competitors that are not as proactive. Standards and technical regulations can indeed facilitate trade and improve market access and competitiveness. Standards and technical regulations are not going away. To ensure the competitiveness of national goods (particularly beverage products) in the global market, SMEs have to develop a culture of quality.

Towards a Trade Capacity Building Model for SMEs in the Beverage Sector

The process of developing trade-related capacity building model for SMEs in the beverage sector of Trinidad and Tobago requires a joint framework that speaks to the conditions and uniqueness of the environment in which these SMEs operate. The epistemological assumption of this joint framework is that the ability of firms to export products that meet international standards and regulations is based on the development of international competitiveness through intra and inter relationships within and outside the national economy.

Competitiveness: The concept of competitiveness has been the preoccupation of many countries for that past two decades. It is defined in terms of a country's share of world markets for its products⁵ and in terms of the productivity of a firm in an external market.⁶ Similarly, the concepts of comparative advantage and competitive advantage are often used interchangeably although there are marked differences.

While comparative advantage has been traditionally explained with the Hechscher-Ohlin Model as a concept which is based on natural resource factor endowments, contemporary writers have broadened the factor base by including knowledge-based factors and technology as sources of

⁵ Michael Porter, *Enhancing the Microeconomic Foundations of Prosperity: The Current Competitiveness Index*, (Harvard Business School), 55

⁶ Marjo Haataja and Jussi Okkonen, *Competitiveness of a Knowledge Intensive Organization- A Synthesis of Three Competitiveness Models*, (Business Information Management, 2004), 1-13

comparative advantage. However, competitive advantage is distinguished from comparative advantage because international competitiveness derived is not just the product of factor endowments, but the interplay of economic structures, history, values, institutions and cultures.⁷ For the purposes of this study, competitive advantage is the international competitiveness of a country's exports in international markets.

Collective Efficiency: The concept of collective efficiency is defined as the competitive advantage derived from local external economies and joint action is used to capture this gain. Collective action stems from clustering⁸ which encompasses both geographical and sectoral concentration.⁹ This theory argues that traditional sources of clustering explained by people like Krugman¹⁰ do not provide sufficient explanation of the gains of clustering because they are just instances of local external economies and the theory rests entirely on external economics and all the benefits accrued from such clustering is not voluntary or "sought-after" but rather incidental. The fact that a group of food product companies are located in the e-TecK Industrial area in Cunupia in close proximity to each other constitutes a cluster, but this does not guarantee sustained benefits because benefits are not essentially sought after but rather incidental. Sustained growth (or failure) can only come through well planned and active joint action and not unplanned passive effects.¹¹

Horizontal and Vertical bilateral cooperation by SMEs can also contribute to trade-related capacity building. Horizontally, bilateral cooperation can entail individual enterprises sharing testing facilities as a way of helping each other towards meeting product requirements. At the

⁷ Michael Porter, *The Competitive Advantage of Nations* (NY: The Free Press, 1990), 6

⁸ Schmitz (1997) defines a cluster as a group of small producers making the same or similar things in close vicinity to each other.

⁹ Hubert Schmitz, "Collective Efficiency: Growth Part for a Small Scale Industry" *Journal of Development Studies* 4 Vol 13 (1995): 529

¹⁰ Alan Krugman, *Geography and Trade* (Cambridge MA: MIT Press, 1991);

Krugman identifies three (3) causes of clustering: labour market pooling, intermediate inputs and technological spillovers.

¹¹ Hubert Schmitz, "Collective Efficiency: Growth Part for a Small Scale Industry, 1995.

regional level it can also entail cooperation by an association of regional food and beverage producers who can work together especially in those precompetitive areas. Vertically, bilateral efforts can mean cooperation by both producers and suppliers towards meeting for example, the EU HACCP traceability requirements.¹²

Regional Economic Integration: There is also a possibility that competitive advantage may exist on a regional scale. The framework provides for possible increase in connectivity and joint-action between food producers in different Caribbean countries through infrastructure and pre-competition development, which can significantly improve their trade-related capacity in areas such as standards and regulations.

By pooling their financial resources and human capital together, SMEs can reduce costs while at the same time ensuring adequate representation at forums. SMEs in the region can build their capacity in product quality through access to accredited regional laboratories competent to carry out certification and which can service all business in the region. Instead of individually bearing the costs of complying with the various requirements in trading countries which obviously can be onerous on their growth, SMEs can complement individual resources with regional capabilities. Although the Caribbean Regional Organization for Standards and Quality (CROSQ) was established to promote regional efficiency and competitiveness in products and services through the process of standardization and quality verification, this study is advocating something more. In line with Porter's emphasis on the shift in focus from nations to firms and also Shmitz's emphasis on deliberate joint-action, firms are likely to be more successful in any regional effort if it is private driven and not government driven.

Conclusion

Standards and regulations (private and public) are increasingly being seen as constituting TBTs for SMEs in small developing countries. For the governments and consumers, standards and regulations are necessary to ensure human safety, protect and maintain animal and environmental well being; as well as an important means of ensuring the compliance of food producers to best practices in production and processing methods.

¹² The HACCP System is a “systematic preventive approach that is set up to identify potential food safety hazards so that certain predefined actions can be taken to reduce or eliminate the risk of the hazard being realized.

Some of the emerging concerns about TBTs relate to market access constraints as lack of compliance will most likely result in refusal at points of entry. Other concerns related to the use of TBTs as tools of protectionism in favour of domestic food producers over producers in developing countries, especially with the proliferation of private standards. There is also an emerging view that SMEs can improve their competitiveness in international markets through investments in standards and production of quality products.

In building a tripartite theoretical framework, Porter's Diamond of National Advantage is assessed in terms of the factors that are necessary in building a country's competitiveness and the extent to which the industry is supported by factors in the national environment. Collective efficiency focuses on the competitive advantage that can be derived from local external economies through joint action and the theory of regional economic integration is explored because of the possibility of competitive edge with regional cooperation or at the regional scale.

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