



**SMEs ARE MORE IMPORTANT THAN YOU THINK!**  
**CHALLENGES AND OPPORTUNITIES FOR EU EXPORTING SMEs**

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*Abstract*

*This paper highlights the heterogeneity among SMEs exporting outside the EU across EU Member States and reviews how barriers facing SMEs can be tackled trade policy discussions. With over 600,000 goods exporting SMEs (over 80% of the total number of EU goods exporting firms) accounting for one third of total EU exports and employing over 6 million people in Europe, EU exporting SMEs play a non-negligible role in EU trade performance. However, SMEs have an untapped export potential, given the intrinsic and trade-specific hurdles that SMEs still face.*

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### 1. INTRODUCTION

The expansion of European small and medium sized enterprises (SMEs)<sup>1</sup> into international markets is an important EU policy objective that can significantly benefit the European economy. Facilitating the internationalisation of EU SMEs is part of the objectives set out by the European Commission in its Communications *"Small Business Act" for Europe* (EC, 2008) and *"Small Business, Big World"* (EC, 2011a). Supporting SMEs' economic activities outside the EU is also embedded in the Union's overall competitiveness strategy as outlined in the Europe 2020 Communication on Industrial Policy and the EU 2010 *Trade, Growth and World Affairs* strategy (EC, 2010a), notably on the implementation and enforcement side of EU trade policy and the revised Market Access Strategy *"Global Europe - a stronger partnership to deliver market access for European exporters"* (EC, 2007).

Such EU policy initiatives are already helping a large number of EU SMEs reach international markets outside the EU. However, there is potential for an even larger number of EU SMEs to reach international markets. This is because barriers specific to individual SMEs, the sector in which they operate, and other barriers outside the SMEs' control can prevent them from reaching international markets. Even those firms already targeting markets outside the EU could enhance their performance in international markets. Most EU exporting firms continue to have a narrow export strategy. The data available from Eurostat Trade by Enterprise Characteristics (TEC) database suggests that 60% of all exporting firms (including SMEs) depend on exports to only one or two extra-EU markets. It could be argued, that a less concentrated export strategy could reduce the exposure to volatility in markets and in addition enhance the SMEs potential to reach a wider number of international consumers.

Free Trade Agreements (FTAs) help SMEs wishing to enter international markets outside the EU. SMEs exporting to these markets are already benefiting due to reduction in direct or indirect trade-specific barriers. This is specifically indicated in the 2010 *Trade, Growth and World Affairs* Commission strategy. This strategy highlights that EU trade policy does provide tangible benefits to EU large companies and SMEs alike. By eliminating protective tariffs abroad or reducing the cost of non-tariff measures the access to international markets is facilitated. Furthermore, specific provisions for SMEs in FTAs can further ease EU SMEs exports outside

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<sup>1</sup> SMEs are defined in EU law (under EU recommendation 2003/361) as enterprises ranging between 0 and 249 employees and either a turnover below 2 million euros or a total balance sheet below 2 million euros. However, there is no common SME definition across all WTO members.



the EU. Nevertheless, no study has to date, quantified the benefits of having direct provisions to SMEs in FTAs.

This paper tries to contribute to this debate by bringing together two separate strands of analysis: firstly, a quantitative analysis of export performance of EU SMEs based on Eurostat TEC Database; secondly, a literature review on SME-specific trade barriers. The rest of the paper is organised as follows: section two outlines the characteristics of EU exporting SMEs across different Member States and presents a number of key facts on their overall exporting performance. Section three reviews the existing literature on the barriers facing SMEs. Section four concludes and provides a few ideas for further policy analysis in this area.

## **2. THE PARTICIPATION OF EUROPEAN SMEs IN EXTRA-EU TRADE OF GOODS: A QUANTITATIVE ANALYSIS**

The increasing availability of firm-level data has enabled the rapid growth of academic articles analysing trade at firm level and a deeper understanding of national export performance. One of the conclusions of this emerging literature is that international trade is a world of "happy few" exporters. Based on a sub-set of EU Member State firm-level data, Mayer and Ottaviano (2007) found that a handful of firms accounts for a disproportionate share of aggregate exports. While this conclusion is true in relative terms and supported by many other subsequent analyses, this may not be true in absolute terms.

Looking at the Eurostat Trade by Enterprise Characteristics (TEC) database one can identify the number of European goods exporters (both SMEs and non-SMEs) in markets outside the EU (Table 1). The number of EU exporting firms is quite significant: there are over 750,000 European companies exporting outside the European Union.<sup>2</sup>

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*In 2011, there were over 750,000 European companies exporting outside the EU*

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One key feature of the Eurostat TEC database is that exporting firms are counted by enterprises size (micro, small, medium and large) and are grouped under the EU nomenclature of economic activities (NACE sectoral classification). Table 1 presents the total number of exporters and their value in 2011, broken down by size category. The largest number of exporting SMEs corresponds to the size band of micro enterprises (0-9 employees). However, the largest average export value per exporting SME corresponds to medium sized enterprises (50-249 employees).

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<sup>2</sup> Throughout this paper the term "EU exports" is used to denote the exports of EU-based companies towards destinations outside the European Union and therefore does not include the intra-EU trade.



**Table 1.** Breakdown of the total number and value of enterprises by size category, in 2011.

	<b>1-9 employees (Micro)</b>	<b>10-49 employees (Small)</b>	<b>50-249 employees (Medium)</b>	<b>250+ employees</b>	<b>Unknown status (*)</b>	<b>Total EU exporting firms</b>	<b>Share of exporting SMEs (0-249) to total exporting firms (*)</b>
Number (**)	352,900	187,402	73,551	23,319	121,556	759,849	81%
Value (million euro) (**)	122,303	143,388	254,454	816,300	210,055	1,546,499	34%

Source: Eurostat TEC database.

Note: (\*) Several reasons indicate that the "unknown" category of firms in the TEC database is most likely comprised by SMEs, notably micro-firms, for which statistical reporting requirements is less demanding. If a large proportion of the "unknown status" firms in the Eurostat TEC database were SMEs, the importance of SMEs in EU exporting performance would be even greater. In particular, there are a large share of enterprises in Germany and Spain with "unknown status". However, this note uses SME data as reported in TEC and ignores the firms with "unknown status".

(\*\*) The Netherlands has been included in the 2011 totals although the latest year available was 2010.

Despite large enterprises (250+ employees) accounting for the large share of EU exports by value, most exporting enterprises are SMEs and they generate a non-negligible share of EU exports (Table 1). In 2011, SMEs accounted for more than a third of total EU exports and they represented 81% of the firms exporting outside the EU.<sup>3</sup>

The TEC enterprise size distribution can also be used to calculate a rough estimate of the total number of jobs that are supported by EU exporting SMEs. If the lowest employment value in each band is considered, it is possible to conclude that at least 6 million jobs in Europe are found in EU exporting SMEs.<sup>4</sup> In fact, this is a conservative

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*At least 6 million jobs in Europe are found in SMEs exporting outside the EU*

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<sup>3</sup> The SME share in EU exports would be even higher if indirect SME exports were added. As an example, SMEs participate indirectly in exports through global value chains by supplying products to large companies. In addition, it is expected that a large share of the firms that have not disclosed their size category in TEC (i.e., unknown status) are SMEs.

<sup>4</sup> These calculations ignore the firms with an unknown status in TEC. Also, the calculations do not take into account the share of exporting activities in the total turnover of EU exporting SMEs. Hence, the estimate should not be interpreted as a precise indicator of the number of jobs exclusively dependent on exports.



estimate as the distribution of EU SMEs within each of the size bands is not available in Eurostat TEC data.

**Table 2.** Share of SMEs (0-249 employees) to total exporting enterprises (number and value), in 2011.

Year 2011  Member State	SMEs exporting Extra-EU		Share of exporting SMEs to total exporting enterprises	
	Number of exporting enterprises ('000)	Export Value (€ billion)	Number of exporting enterprises (%)	Export value (%)
Italy	119.6	80.2	90%	49%
France	82.2	54.8	94%	33%
Spain	72.7	31.7	65%	44%
Germany	72.3	118.6	59%	28%
United Kingdom	61.7	49.6	90%	27%
Poland	28.3	8.1	93%	27%
Sweden	25.4	15.4	94%	26%
Netherlands <sup>a</sup>	20.6 <sup>a</sup>	40.8 <sup>a</sup>	91% <sup>a</sup>	41% <sup>a</sup>
Portugal	18.4	5.1	94%	47%
Austria	14.8	13.1	95%	35%
Denmark	13.7	9.8	89%	35%
Belgium	11.9	32.4	69%	34%
Czech Republic	7.9	4.4	60%	22%
Slovenia	7.7	2.8	88%	38%
Lithuania	7.6	3.1	98%	39%
Hungary	7.5	3.4	92%	17%
Greece	7.4	4.3	62%	37%
Finland	7.3	6.1	91%	24%
Bulgaria	7.2	2.5	86%	33%
Romania	5.7	4.7	87%	36%
Latvia	3.1	1.7	97%	53%
Ireland	3	22	79%	57%
Slovakia	2.8	1.4	87%	16%
Estonia	2.7	2.6	61%	64%
Cyprus	0.9	0.3	73%	65%
Luxembourg	0.8	0.4	76%	12%
Malta	0.6	0.9	91%	49%
<i>Total EU</i>	<i>613.8</i>	<i>520.2</i>	<i>81%</i>	<i>34%</i>

<sup>a</sup> The latest available data for the Netherlands was 2010, unlike the figures for the other Member States.

**Source:** Eurostat TEC database.



Eurostat TEC data also highlights a large heterogeneity between Member States in the participation of European SMEs in exports outside the EU. Table 2 presents the number of SMEs from different Member States exporting outside the EU, the value of their exports and the share of their exports by number and value to all firms exporting outside the EU in 2011. No data was available for the Netherlands in 2011 so values from 2010 are included in Table 2.

As indicated in Table 2, over 600,000 (81% of all EU exporting enterprises outside the EU) were SMEs and generated over 500 billion euros (more than a third of EU total exports).<sup>5</sup> Italy, France, Spain and Germany accounted for more than 50% of total EU SME exports. This

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highlights the importance of SMEs as a generator of export value in many EU countries.

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At the same time, there is also a significant difference in the share of exporting SMEs in the total number of exporting enterprises, by Member States. For 13 EU

Member States, SMEs accounted for 90% or more of the total number of exporting enterprises. At the other end of the spectrum, there are several countries (e.g. Spain, Germany, Czech Republic, and Greece) with an SME share below the EU average.<sup>6</sup>

Overall, the role of exporting SMEs, both in terms of number of enterprises and share of export value is quite heterogeneous across EU Member states. Figure 1 highlights visually this heterogeneity between Member States. When benchmarked against EU averages, SME export performance by Member State can be plotted along two dimensions: (i) the share of SMEs to total exporting enterprises by number and (ii) the share of SMEs to total exporting enterprises by value (columns 3 and 4 in Table 2). The EU average by number and value is indicated by the horizontal and vertical lines (81% and 34%, respectively) in Figure 1.

The chart represents the EU Member States SMEs export performance in four main groups. The position of Member States in the top left quadrant suggests that a smaller number of SMEs have been capable of exporting a higher value of goods than the EU average. There can be many reasons for this result. One reason could be the specialisation of Member States on a sector that drives them to obtain a higher export value. Another reason could be a particular size of SME

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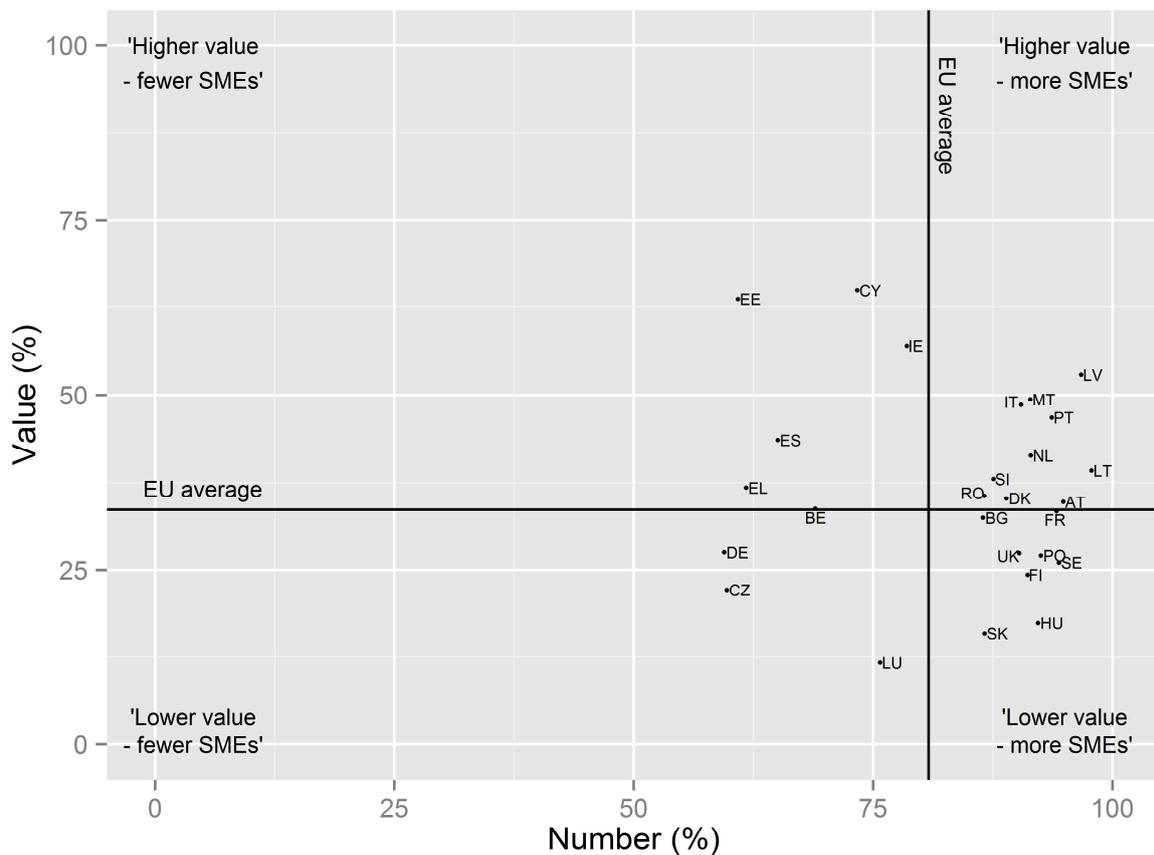
<sup>5</sup> This figure measures only the direct exports of EU SMEs and does not include indirect exports such as parts and intermediate components that are incorporated into finished goods exported by large companies.

<sup>6</sup> Both Germany and Spain have a large number of enterprises with an "unknown status" in TEC database. If SMEs included enterprises with an unknown status the overall picture of SME exports performance for these two Member States would be improved.



generating the majority of the export value. Medium size enterprises (50-249 employees) are generally observed to drive the majority of export value.

**Figure 1.** Share of exporting SMEs to all exporting enterprises Extra-EU by value and number for all sectors together, in 2011.



Source: Eurostat TEC database. Netherlands included using 2010 values.

**Legend:**

"High value – fewer SMEs": countries in this quadrant have a higher share of SME exports in total export value than the EU average and a lower share of exporting SMEs in the total number of exporting firms

"High value – more SMEs": countries in this quadrant have a higher share of SME exports in total export value than the EU average and a higher share of exporting SMEs in the total number of exporting firms

"Low value – fewer SMEs": countries in this quadrant have a lower share of SME exports in total export value than the EU average and a lower share of exporting SMEs in the total number of exporting firms

"Low value – more SMEs": countries in this quadrant have a lower share of SME exports in total export value than the EU average and a higher share of exporting SMEs in the total number of exporting firms



Member States in the bottom quadrants perform below EU average in terms of exporting value. Some countries lag behind only in terms of value (bottom right quadrant), but others both in terms of number and value (bottom left quadrant). EU Member States lying in the bottom right quadrant suggest that most export value was generated by a small number of large enterprises in these countries. This heterogeneity suggests different policy priorities for each group of countries in terms of the nature of SME policies and overall export promotion activities.

In summary, EU SMEs are heterogeneous and important for the European economy. They represent a third of total export value and the vast majority of the total number of exporting enterprises. The large share of SMEs to total exporting enterprises particularly highlights the importance of SMEs as an employer. At least 6 million jobs are supported by SMEs exporting outside the EU.

Despite exporting SMEs representing a large share of total exporting enterprises outside the EU, they represent a small share of the millions of existing SMEs in the EU (Gagliardi *et al.*, 2013). So indeed, the relatively few SMEs successfully exporting outside the EU could be considered as the "happy few". This highlights another important fact: given that a small share of EU SMEs account for one third of "direct" exports outside the EU in value, there could be a large untapped potential for the European economy if more SMEs were targeting international markets outside the EU. A survey conducted on behalf of the European Commission has already pointed out a positive correlation between SMEs being internationally active (importing and/or exporting) and those achieving a higher turnover and employment growth (EC, 2010b).

*There could be a big untapped potential for the European economy if more SMEs were making the leap to "exporter status" and target international markets outside the EU*

The role of global value chains (GVCs) and the ability of SMEs to leverage their GVC participation to become successful exporters is also important. One empirical study, based on a sample of Italian exporting firms, found a positive correlation between the participation of SMEs in global value chains and the propensity to become an exporter (Giovannetti, Marvasi and Sanfilippo, 2014). This evidence proves the need to better comprehend the difference in performance between SMEs, best practices across Member States and the need to detect which trade barriers are most affecting SME export performance. Some of these trade-specific factors are reviewed in the following section, based on a literature review of academic studies, policy reports and SME surveys.

There is also need for further improvements in our quantitative and qualitative information regarding enterprise characteristics that promote or act as bottlenecks on trade competitiveness. Eurostat TEC database used in this analysis provides a uniform dataset that compares over different years the number of SMEs exporting goods and their export value across EU Member-



States. However, the database could be improved by indicating in greater detail the different products exported by firms in different economic sectors (if possible using the Harmonised System trade classification). Also, the database could cover trade in services and offer data on EU SME exports to key destinations.

The role of SME services exporters could be worth exploring, both in terms of more quantitative analysis and through a literature review. Several WTO working papers (Adlung and Soprana, 2012; Adlung and Miroudot, 2012) have concluded that GATS rules offers additional avenues to consider SME-specific issues in trade agreements, given the possibility to have trade disciplines by supplier characteristics (e.g. SMEs vs. large enterprises). An emerging academic literature also compares the various GATS and FTA commitments for trade in services specific to SME (Persin, 2011).

### 3. SHORT OVERVIEW OF FACTORS AFFECTING THE INTERNATIONALISATION OF SMEs

The low participation of SMEs found in international activities can be due to several barriers, which can be specific to the individual SME, the industry, specific to the country or stem directly or indirectly from trade and investment policies. These barriers have been classified in the literature as *internal* (e.g., inadequate skills at the enterprise level) or *exogenous* (e.g., inadequate national institutional arrangements, market conditions, etc.) (Hessels and Parker, 2013). Other barriers can stem from existing trade and investment rules. A summary of these barriers is detailed below.

#### *a. Internal SME-specific impediments for internationalisation*

The literature has identified several barriers that hinder the internationalisation of SMEs due to their size. These can be classified in three types of constraints: firstly, the human resources constraint, which can be defined as the lack of managerial skills, staff qualifications, and time and knowledge; secondly, financial constraints with particular shortages of capital and difficulties to access loans; thirdly, constraints due to limited or asymmetric information in foreign markets and foreign rules and regulations (EC, 2011b; Lejárraga et al., 2014).

#### *b. Exogenous impediments at domestic level*

The domestic business environment in each Member State can cause internationalisation barriers for SMEs, such as domestic policies and administrative practices. National initiatives could



facilitate SMEs' access to finance, export insurance, more transparency and more efficient administration to increase international activities (both exporting and importing).

### *c. Trade and investment-specific barriers*

Trade and investment policies can affect SMEs internationalisation both directly and indirectly.

SME exporters suffer from relatively higher costs and challenges than larger exporters due to less human resources and capital. These barriers include tariffs, quotas and stringent rules of origin (USITC, 2010; EP, 2008). Non-tariff measures (NTMs) affect SMEs disproportionately due to fixed compliance costs that do not vary with the amount traded and the inability of SMEs to spread these costs over large export values. Examples of NTMs include compliance with certain foreign technical standards, difficult licensing procedures and certifications. Other challenges that SMEs are faced with include complex custom procedures, export controls, and lack of IPR enforcement. The lack of transparency regarding trade rules and other relevant domestic regulations pose also additional difficulties to exporting SMEs. One empirical paper found that exchange rate fluctuations may have a worse impact on SME exporters than on two-way traders or large exporters (Amiti, Itskhoki and Konings, 2014).

Differences in standard-related measures remain one of the main obstacles to deepening the participation of SMEs in international trade not only in the EU but also in the United States (USITC, 2014). In addition, the costs of meeting technical regulations and other requirements are often very high because in many cases they are required to perform extra tests, which are more time consuming for SMEs. One potential solution is to determine the cost of specific trade barriers for EU exporting SMEs and whether SME-specific FTA provisions could respond adequately to the needs of EU SME exporters.

Different initiatives could be envisaged to help SMEs export outside the EU. One solution would be to create a common certification/standards scheme in some selected sub-sectors with a high SME export intensity (such as common organic product standardisation). Another important issue that could be improved relates to the heavy labelling requirements that differ from country to country. The protection of IP rights is an important issue in any EU FTA, and one that may be relevant for European SMEs. In particular, those engaged in exporting products protected by Geographical Indications (GIs) and/or Protected Designation of Origin (PDOs) are relevant. Finally, certain specific customs procedures (e.g. advance rulings, customs valuation, rules on split containers, approved economic operator status, etc.) could provide additional avenues for SME-specific provisions that would facilitate their ability to internationalise and take advantage of existing and future FTAs.

One possible measure tackling several NTMs that are systematically affecting SME export performance could be the creation of a common SME help desk for FTA partners. Therefore, providing an official "one-stop shop" for technical and trade facilitation information, with advice



on export procedures. The EU has already taken the initiative to put in place such a system for both EU importers and exporters. Several policy initiatives are available at EU level to tackle some of these trade impediments. The European Commission has launched several helpdesks (the IPR SME Helpdesks, a TDI SME Helpdesk, Export Helpdesk) and the Market Access Database with product specific information on tariffs, import formalities and other relevant import information in main EU export markets. The EU is monitoring actively trade impediments, including those for SMEs, and has been implementing an ambitious Market Access Strategy. Trade barriers are reported through direct information by Member States, business associations or directly by exporting companies. If other trading partners followed suit, the trade benefits and possible synergies for SMEs would be even greater.<sup>7</sup>

#### 4. CONCLUSIONS

While the scope of this note is essentially descriptive, several of its findings suggest some interesting policy implications. The paper puts forward 7 key messages:

1. The "happy few" EU exporters are numerous. More than 750,000 firms are successfully engaged in extra-EU exporting activities. This makes a fairly large "economic constituency" that stand to benefit from existing and future EU trade policy initiatives. Increased participation by exporting enterprises giving feedback can increase the fine-tuning in EU future trade policy priorities.
2. There are more than 750,000 EU exporting firms, of which more than 80% are SMEs (over 600,000 exporters).
3. The value of SME exports is larger than one might think. With over 500 billion euros of merchandised exports, SMEs account for over a third of EU exports. These exporting SMEs employ more than 6 million people throughout Europe.
4. The export performance of EU SMEs by Member States is diverse. When benchmarking SME export performance by Member States against the EU average, they can be clustered in two dimensions: (i) the proportionate number of exporting SMEs and (ii) the value of their exports. Some countries excel in both dimensions, whereas others fall behind in one or in both aspects. Clustering identifies different SME policy priorities and overall export promotion activities.

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<sup>7</sup> See the information provided by the EU Export Helpdesk (Available at: <<http://exporthelp.europa.eu/thdapp/index.htm>>) and the EU Market Access database (Available at: <<http://madb.europa.eu/madb/indexPubli.htm>>).



5. Surveys of EU exporting SMEs have identified a wide range of potential trade barriers. Many of the barriers affect the exporting firms from small to large. Therefore the various EU trade policy initiatives, although not specifically aimed for SMEs, offer good exporting opportunities for all EU exporters.
6. Certain trade barriers may be SME-specific. In-depth analyses in the way these barriers could be avoided would be useful.
7. Given the large number of EU exporting SMEs and their important share in EU exports, it would be important to identify and tackle the most detrimental SME-specific trade impediments (e.g. transparency, trade facilitation, NTBs, etc.) in future EU trade policy initiatives.

The key conclusion of this paper is that SMEs are not a negligible player in EU export performance. More detailed firm-level trade information for large, medium, small and micro exporters will be key to identifying EU trade policy priorities, in line with complex and fast-changing economic realities. In the words of Mayer and Ottaviano (2007): "This simple truth makes it clear that understanding the firm-level facts is essential to good policy making in Europe".

Detailed statistical information from Eurostat TEC database, whilst preserving the confidentiality requirements, could create valuable firm-level export performance indicators to feed trade policy debates. These indicators would allow policy makers to have more information on SME export performance and breakdowns by extra-EU market destinations of their exports. The US is the prime example of this need for more detailed statistical information. In addition, an annual SME survey identifying the trade barriers they face in key markets would be in line with current EU policy priorities. This type of survey could be similar to the one currently ongoing as part of the Sustainability Impact Assessment for the Transatlantic Trade and Investment Partnership (TTIP) negotiations with the United States.



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