

Australia can't afford to forget smaller businesses when negotiating trade deals

Written by David Treisman, Lecturer in Economics, Bachelor of International Business, Monash Business School, Monash University

Politicians [often cite](#) the large market value of exports as justification for free trade agreements. But this misses a fundamental point about trade - we benefit most when we focus on exporting the goods and services we are the most efficient at producing, rather than simply increasing the absolute value of our exports.

It is a firm's productivity, not the market value of its exports, that signals success in international trade. In this regard, Australian small and medium-sized businesses have demonstrated considerable longevity and importance.

Yet these businesses account for [less than 5% of our total exports](#) .

Traditionally, smaller businesses were believed to be [less productive](#) than larger ones.

However, a business's [success at domestic sales](#) is also recognised as a major contributing factor to success in export markets.

After all, if you are not productive at home, you will not survive long enough to look abroad. Australian small and medium-sized businesses contribute more than 50% of national output, despite their relatively small contribution to total exports.

This huge differential is evident in several sectors. The Australian agricultural, forestry and fishing sector provides such an example. In terms of domestic sales, approximately 92% of this sector is made up of sales from small and medium businesses.

Yet, these small businesses contribute only 14% of the exports from this sector.

With such a high differential between domestic sales and exports, one must consider what more can be done to foster exports by Australia's small and medium businesses?

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In economics, the answer is found within the concept of [comparative advantage](#). This says that a business will gain from international trade if it focuses its efforts on exporting a good or service that it produces more efficiently than its competitors.

This has been [shown to be best achieved](#) through government policies that encourage foreign direct investment abroad, integration of value chains, and domestic regulations that support greater, not lesser, international trade.

This is often forgotten by policy makers who focus more on the big numbers than the big picture.

Read more: [*The hidden resource agenda within Australia's Asian free trade agreements*](#)

The importance of comparative advantage underpins the notion that Australia's agriculture, forestry and fishing sector is [the big winner](#) from the revitalised Trans-Pacific Partnership (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership).

But the same is not true of Australian exporters of vegetables or other food products.

Who gains from trade?

When you focus the debate of free trade on the big numbers and not the big picture, the debate on free trade, one way or another, focuses on the validity of the fundamental economic principle that international trade can make everyone better off - also known as "[gains from trade](#)".

This assumption does not always hold true and every now and then, special interest groups will ensure that a wave of free market or [protectionist sentiment](#) will sweep across policy making

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circles.

Read more: [Free trade agreements fail to boost Australian agriculture and food manufacturing](#)

To the ordinary, hard-working Australian small and medium business owner, not engaged in special interest politics, the questions of “[how many eligible exports](#) are covered by a free trade agreement?” are secondary considerations.

A street-smart business owner knows that it is impossible to produce all goods and services efficiently, nor can all be exported. They are rightly more interested in how trading internationally will contribute to the business's bottom line.

Of greater immediate concern for Australia's small and medium businesses is the fall out from a [trade war between our major trading partners](#)

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If you are an Aussie small and medium business owner, you are accustomed to being a battler. Whether or not more is done to foster exports, in the current international climate, staying nimble and focusing on domestic sales may not be such a bad idea.

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