Opening International Trade Doors For Small Business

New Orleans City Business
Edward Hayes
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International trade typically conjures images of container ships traversing the ocean or multinational corporations negotiating billion dollar mergers and acquisitions in massive Hong Kong office towers.

Reality diverges from myth, however, in the current international trade and business climate. The U.S. recession and European crisis altered the international playing field. Many countries, including the United States, are focusing inward and incentivizing small- and medium-sized enterprises to stimulate dormant economies.

President Obama initiated the National Export Initiative with the ambitious goal of doubling U.S. exports in five years. The NEI emphasizes small- and medium-sized enterprises (SMEs), which often have greater potential market growth in export markets than larger companies, which have either saturated the market or report retraction.

Louisiana accepted the President’s NEI challenge. Our state economy had 2,388 SMEs actively exporting goods in 2009 according to the U.S. Department of Commerce. Louisiana SMEs are now benefiting from numerous programs associated with the initiative. The Small Business Administration, working in partnership with the Louisiana Department of Economic Development, launched the State Trade and Export Promotion grant program in 2012. The federal-state partnership seeks to provide SMEs with the capacity to enter the international marketplace through a $30 million, three-year authorization by the Small Business Jobs Act of 2010.

Louisiana qualified for $850,000 in grants to identify and train SMEs. The Louisiana Small Business and Development Center, in collaboration with LED and the Department of Commerce Export Assistance Center, hosted the Step Up to Exporting Summit across Louisiana from March through May of this year. The full-day seminars addressed the nuts and bolts of how Louisiana SMEs can engage in or enhance international trade.

The primary elements of an export plan involve staffing, marketing, financing and legal preparation. Experts from throughout the Gulf South provided advice and guidance to SMEs in Louisiana seeking to reach beyond domestic borders with their goods and services.

From a legal perspective, the primary goal for the summit was to familiarize small business leaders with two areas: payment security and liability. Sellers have various methods to ensure timely and secure payment for international orders. Cash in advance through wire transfer is the preferred method of payment, particularly for initial or one-off transactions. Otherwise, we generally recommend using letters of credit, which allow banking institutions to receive payment on the buyer’s account and distribute payment once certain documentary requirements are satisfied. More seasoned exporters may offer payment terms and conditions, but the risk of nonpayment is greater and recommended primarily for mature, long-standing business relationships.

Aside from actual payment options, SMEs can look to the Export Import Bank of the United States for credit insurance that significantly diminishes, or in some cases eliminates, the risk of non-payment.

Minimizing the liability risk of doing business overseas is more complicated but nevertheless achievable with some in-house due diligence. SMEs can do several things to limit their potential legal liability in overseas transactions.
First, focus on markets where the United States has free trade agreements. FTAs not only minimize or eliminate tariffs, they also provide fundamental legal protections including non-discriminatory treatment, minimum standards of due process for investments and access to transparent dispute settlement procedures.

Second, establish an internal regulatory position to review incoming overseas orders to avoid doing business with sanctioned countries, complying with anti-boycotts or engaging in conduct contrary to the Foreign Corrupt Practices Act. Guidance on all of these issues is available from the Export Assistance Center.

A small amount of diligence goes a long way to preventing problems and achieving success in the export marketplace.