



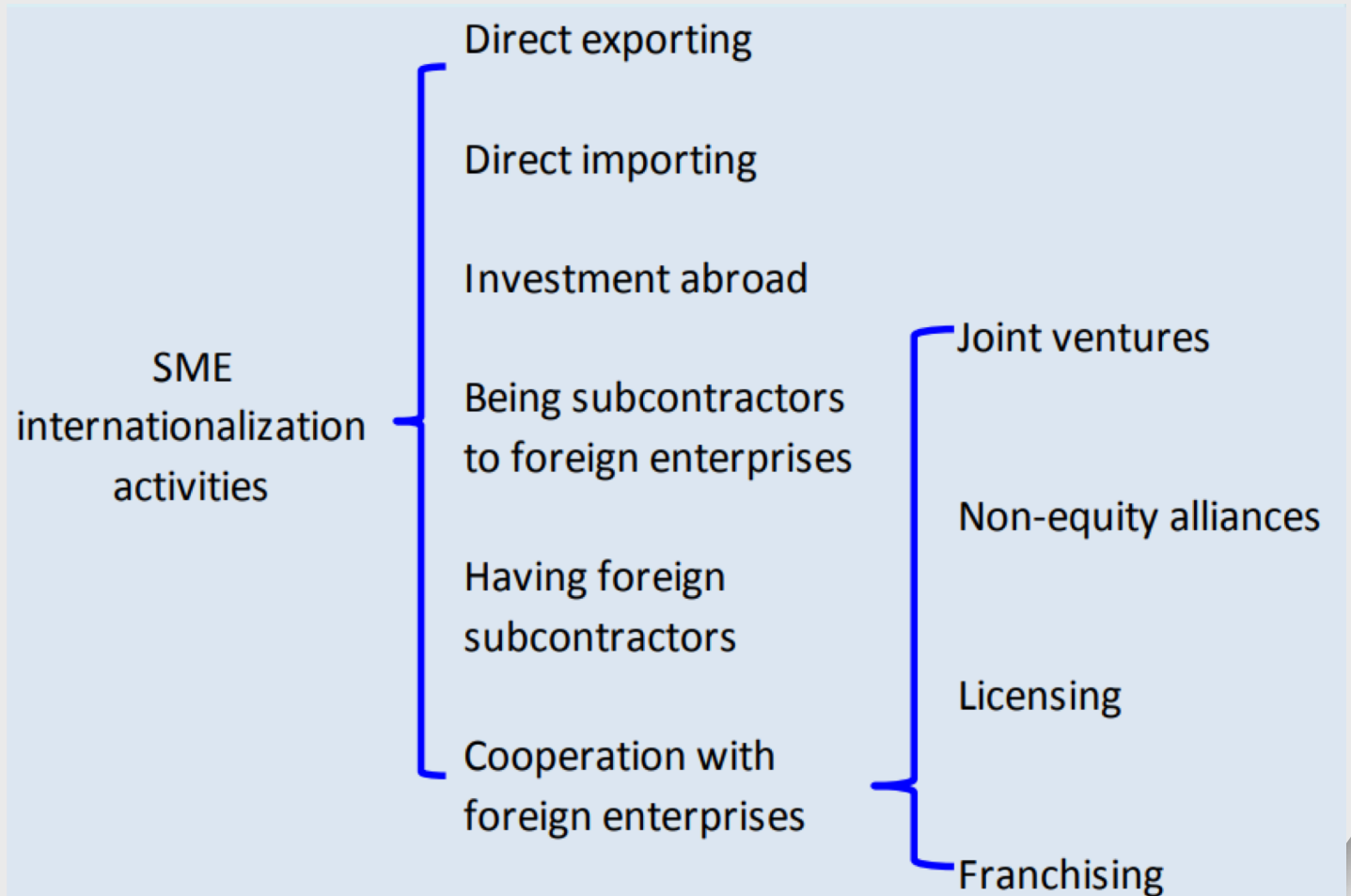
**Asia-Pacific
Economic Cooperation**

SMEs Internationalization: Experience and Challenges

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APEC Policy Support Unit

SMEs Going Global



Zhang Yuhua, B. (2015). *SME internationalization and measurement* (Policy Brief No. 12). APEC Policy Support Unit.

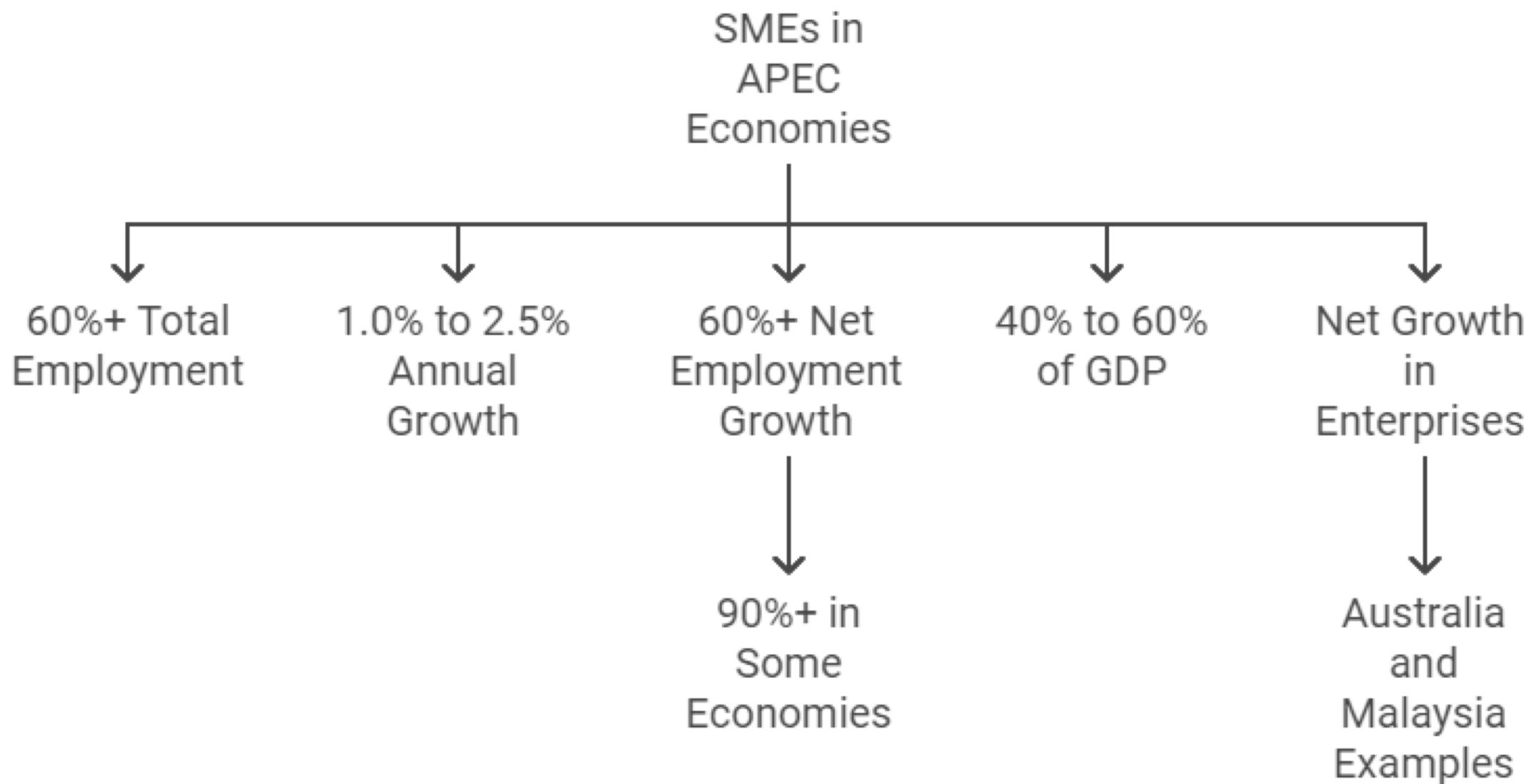
Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization

- Report submitted to APEC SMEWG, published in April 2020.



An update to a previous study conducted in 2010, this report presents an overview of the SME sector across the APEC region – a profile of SMEs and their contribution to the economy. The report also discusses the market access and internationalization of SMEs. It looks at policies that aim to raise the level of engagement of SMEs in cross-border activities, particularly through increasing exports, as well as some of the current initiatives in place among APEC economies to improve the internationalization of SMEs. The report ends with recommendations to increase the internationalization of SMEs in APEC economies.





SME Exporters in APEC

SME Exporters in APEC

- SMEs generally account for over 70% of total goods exporters in APEC economies with available data, though this share varies widely.
- The number of large exporters has grown faster than SME exporters over the past 5 to 10 years.
- SME exporters contributed over 70% to the net growth in the total number of exporters during the reference period.
- SMEs' contribution to total goods export value varies, with some economies having shares below 15% and others above 25%.
- The value of goods exports from large enterprises has grown faster than that from SMEs, but SMEs in most APEC economies still experienced annual growth rates of over 4%.

Trade Barriers

- SMEs face a mix of internal and external barriers that hinder their participation in global trade, varying significantly across industries.
- Common constraints include lack of access to finance, inadequate production capacity, and insufficient internal capabilities such as skills and time.
- The World Trade Organization found that trade costs (both fixed and variable) impact SMEs' ability to export more adversely than large firms.
- E-commerce and participation in regional and global value chains can help SMEs overcome major trade obstacles, facilitating easier internationalization.
- Despite these opportunities, SMEs still face many of the same barriers to entering global value chains (GVCs), and ICT-enabled trade presents unique challenges.

Number of SME Goods Exporters

| Economy | Number of SME Exporters | Share of Total Exporters (%) | Share of Total SMEs (%) | Year | Number of SME Exporters | Share of Total Exporters (%) | Share of Total SMEs (%) | Year |
|----------------------------|-------------------------|------------------------------|-------------------------|---------|-------------------------|------------------------------|-------------------------|---------|
| Australia ¹ | 46,252 | 87.2 | 2.0 | 2017-18 | 38,687 | 89.8 | 1.9 | 2007-08 |
| Canada | 33,970 | 96.6 | 2.7 | 2018 | 33,201 | 96.8 | 3.0 | 2011 |
| Chile | 4,516 | 55.3 | 0.5 | 2017 | 4,354 | 57.9 | 0.6 | 2009 |
| Mexico ² | 4,069 | 83.1 | 3.6 | 2017 | 4,133 | 80.4 | 4.3 | 2014 |
| New Zealand ³ | 7,212 | 67.9 | 1.4 | 2018 | 4,116 | 65.2 | 0.9 | 2009 |
| Peru | 4,895 | 70.5 | 0.3 | 2017 | 5,845 | 75.2 | 0.4 | 2013 |
| Thailand ⁴ | 26,984 | 71.0 | 0.9 | 2018 | 22,110 | 59.6 | 0.8 | 2010 |
| United States ⁵ | 282,855 | 97.5 | 0.9 | 2017 | 270,053 | 97.6 | 1.0 | 2009 |

Source: APEC PSU (2020). "Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization"

SME Goods Export Value

| Economy | Value of SME Exports | Share of Total Export Value (%) | Year | Value of SME Exports | Share of Total Export Value (%) | Year |
|-----------------------------|----------------------|---------------------------------|---------|----------------------|---------------------------------|---------|
| Australia ¹ | AUD 13.5 billion | 4.3 | 2017-18 | AUD 12.6 billion | 6.9 | 2007-08 |
| Canada | CDA 199.6 billion | 39.3 | 2018 | CDA 147.6 billion | 38.8 | 2011 |
| Chile | USD 1.4 billion | 2.2 | 2017 | USD 1.2 billion | 2.4 | 2009 |
| Indonesia ² | INR 293.8 trillion | 14.4 | 2018 | INR 162.3 trillion | 17.0 | 2010 |
| Korea | USD 206.2 billion | 34.1 | 2018 | USD 134.1 billion | 36.9 | 2009 |
| Malaysia | MYR 167.4 billion | 17.3 | 2017 | N/A | 16.9 | 2011 |
| Mexico ³ | MXN 192.0 billion | 12.5 | 2017 | MXN 165.5 billion | 13.8 | 2014 |
| Peru | USD 2.3 billion | 5.6 | 2017 | USD 1.8 billion | 4.8 | 2013 |
| Chinese Taipei ⁴ | TWD 1.5 trillion | 13.7 | 2018 | TWD 1.3 trillion | 16.9 | 2009 |
| Thailand ⁴ | THB 2.3 trillion | 28.7 | 2018 | THB 1.7 trillion | 27.3 | 2010 |
| United States | USD 459.7 billion | 33.4 | 2017 | USD 308.9 billion | 32.9 | 2009 |

Source: APEC PSU (2020). "Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization"

Exporters as a Share of Firms & Exports as a Share of Total Sales by Size (%)

| Economy | Share of Firms Exporting Directly | | | Share of Total Sales Exported Directly | | | Year |
|------------------|-----------------------------------|--------|-------|--|--------|-------|------|
| | Small | Medium | Large | Small | Medium | Large | |
| Chile | 0.8 | 3.8 | 22.5 | 0.2 | 1.5 | 5.7 | 2010 |
| China | 4.6 | 12.5 | 29.4 | 3.3 | 5.7 | 13.9 | 2012 |
| Indonesia | 2.8 | 6.0 | 23 | 2.4 | 2.3 | 9.0 | 2023 |
| Malaysia | 3.5 | 10.2 | 43.3 | 1.5 | 4.6 | 24.1 | 2019 |
| Mexico | 0.2 | 1.5 | 10.3 | 0.0 | 0.2 | 3.8 | 2023 |
| Papua New Guinea | 11.5 | 4.9 | 0.0 | 1.2 | 2.1 | 0.2 | 2015 |
| Peru | 3.7 | 7.2 | 22.4 | 1.8 | 2.4 | 11.4 | 2023 |
| The Philippines | 1.3 | 4.0 | 20.2 | 0.8 | 3.4 | 13.8 | 2023 |
| Russia | 1.6 | 3.2 | 5.8 | 0.3 | 1.6 | 1.5 | 2019 |
| Thailand | 2.2 | 3.4 | 28.1 | 0.8 | 2.0 | 18.9 | 2016 |
| Viet Nam | 0.8 | 8.3 | 30.8 | 0.7 | 5.7 | 23.9 | 2023 |

Note: The classifications of firm size are based on number of employees: Small (5-19); Medium (20-99); Large (100+). The share of firms exporting directly include only those firms where direct exports constitute at least 10% of total annual sales.

Source: The World Bank Enterprise Surveys, available at www.enterprisesurveys.org.



Case Study: Chile

- Chile identifies four main challenges for SMEs in internationalization: management, capital, structural barriers, and lack of information.
- Service exports are concentrated in the Santiago Metropolitan Region, which accounts for 85% of service exports. A key challenge is expanding SME service exports to other regions.
- eCommerce ProChile supports SME exports through three digital channels:
 - Exporta Digital helps SMEs build an online presence.
 - Marketplace Chile B2B simplifies finding buyers.
 - Nostalgia Amazon Program helps SMEs diversify export channels.
- Other initiatives: Associative Networks Program (Redes Asociativa) - aims to improve SME productivity in order to access new and/or better market opportunities; Market Networks Program (Redes de Mercados) – supports the access and use of market information relevant for exports; External Trade Guarantee (COBEX) – provides financial support to SMEs that are directly or indirectly engaged in foreign trade.
- While 63% of large enterprises continuously export, only 38% of SMEs do. In 2018, 58% of SME exporters sold to just one foreign market.

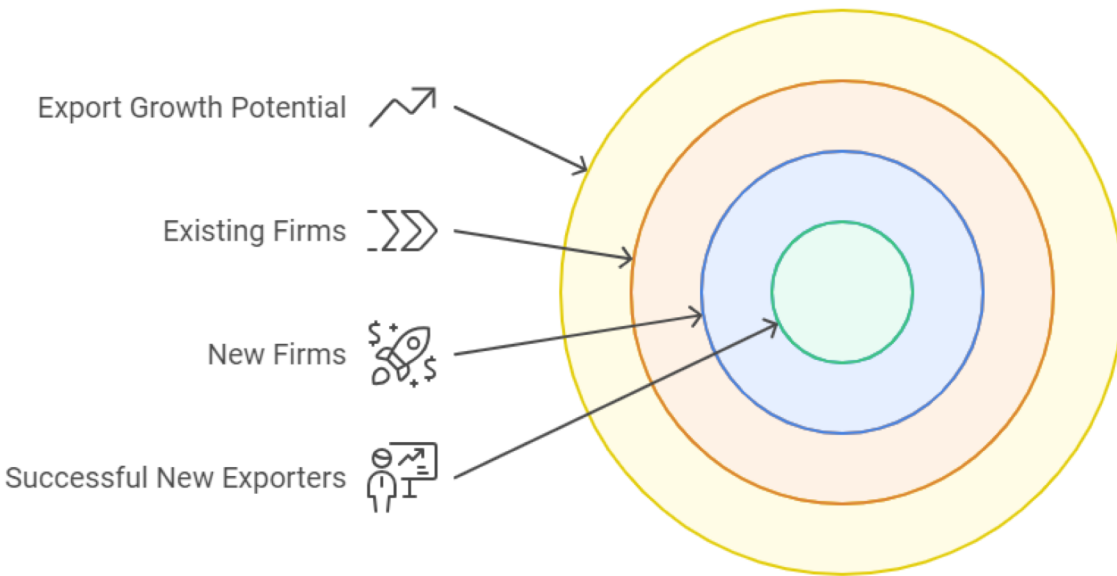
Chile's SME Internationalization Landscape



Source: APEC PSU (2020). "Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization"

DNA of successful exporters

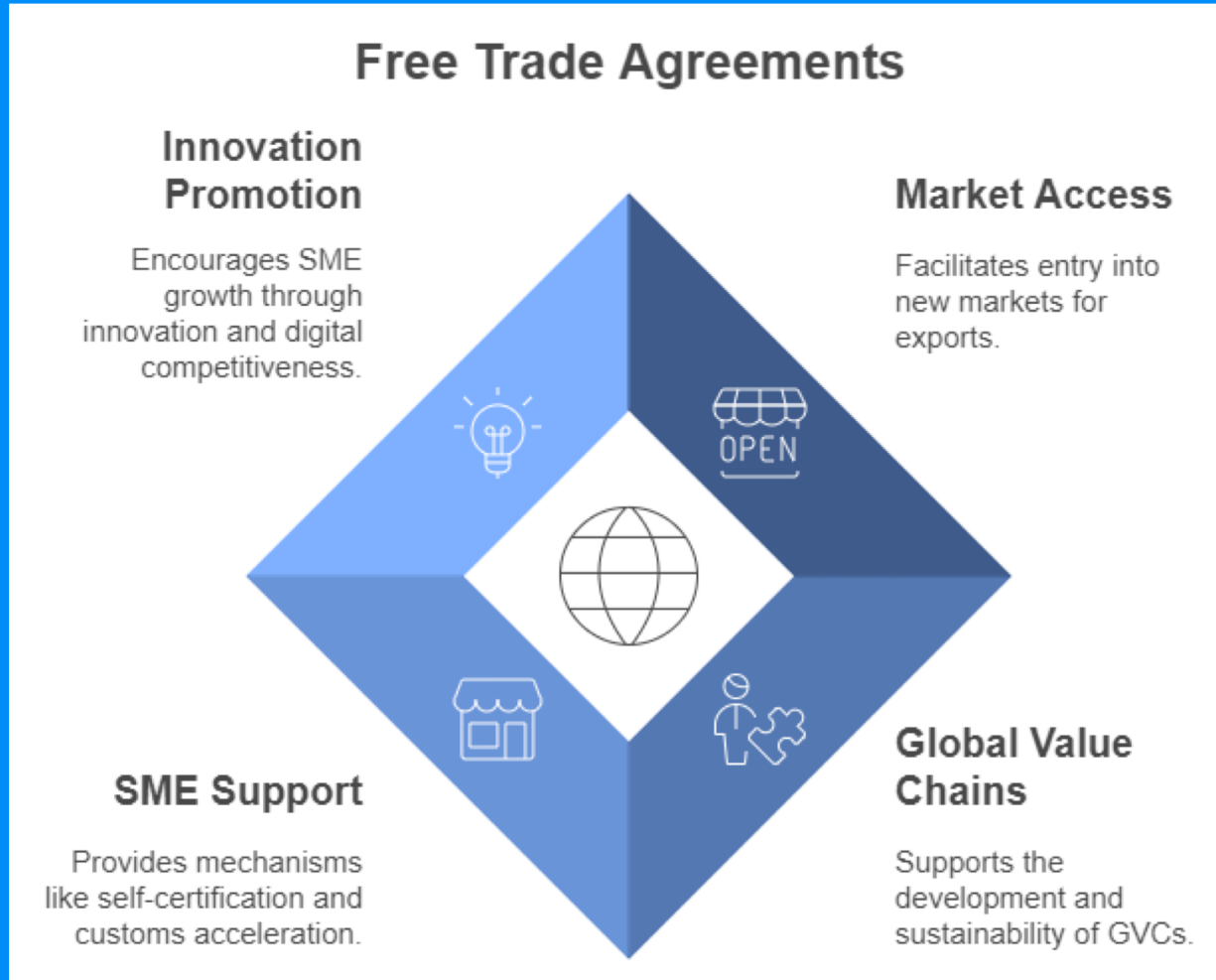
Chilean Export Growth Dynamics



- Data on Chilean firms (1995–2009) reveals two types of new exporters: existing firms transitioning to export and newly established firms.
- Existing firms, active in domestic markets for at least two years, make up 80% of new exporters annually but contribute only 10% to aggregate export growth. They start with small exports, grow gradually, and often exit foreign markets within the first year.
- New firms, founded within a year of exporting, are few but drive most export growth. These firms start large, maintain stable export shares, and are less likely to stop exporting early.
- Successful new exporters are often linked to established corporations, leveraging technological capacity, physical assets, and business knowledge. They dominate export value and sustain growth with strong domestic sales.
- Chile's export growth potential lies not in converting domestic firms or entrepreneurship but in ventures backed by existing domestic and foreign firms with solid fundamentals and resources.

Source: "The DNA of New Exporters: Spin-offs and FDI at the Extensive Margin of Trade", by B. S. Blum, S. Claro, I. Horstmann and T. Tombe (2020).

Making FTAs more inclusive



The principle of equal treatment in trade agreements sometimes makes it difficult to grant specific advantages exclusively to SMEs without also applying them to all businesses.

Source: Jurado, T. (2023). SMEs and Free Trade Agreements: Engagement and Policy Development.

Making FTAs more inclusive

High-tech firms may view FTAs as ineffective for improving market access, as their digital operations bypass traditional trade barriers.

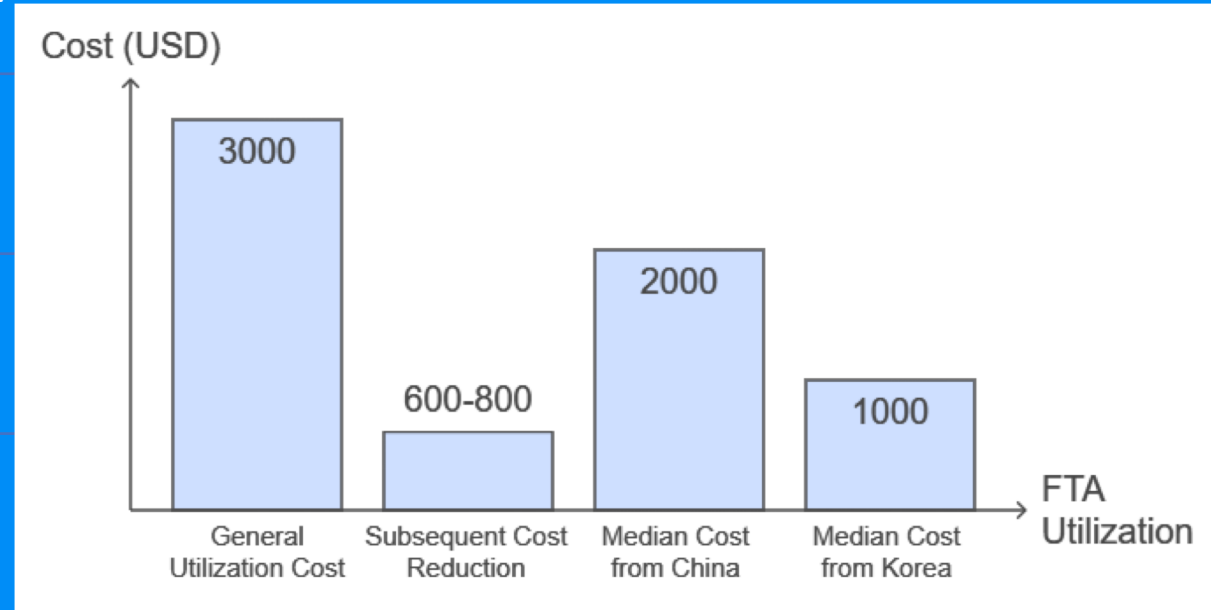
FTAs are not seen as that useful for addressing immediate trade challenges, such as the "tyranny of distance."

Credibility issues often hinder trade with specific jurisdictions, which FTAs sometimes do not address.

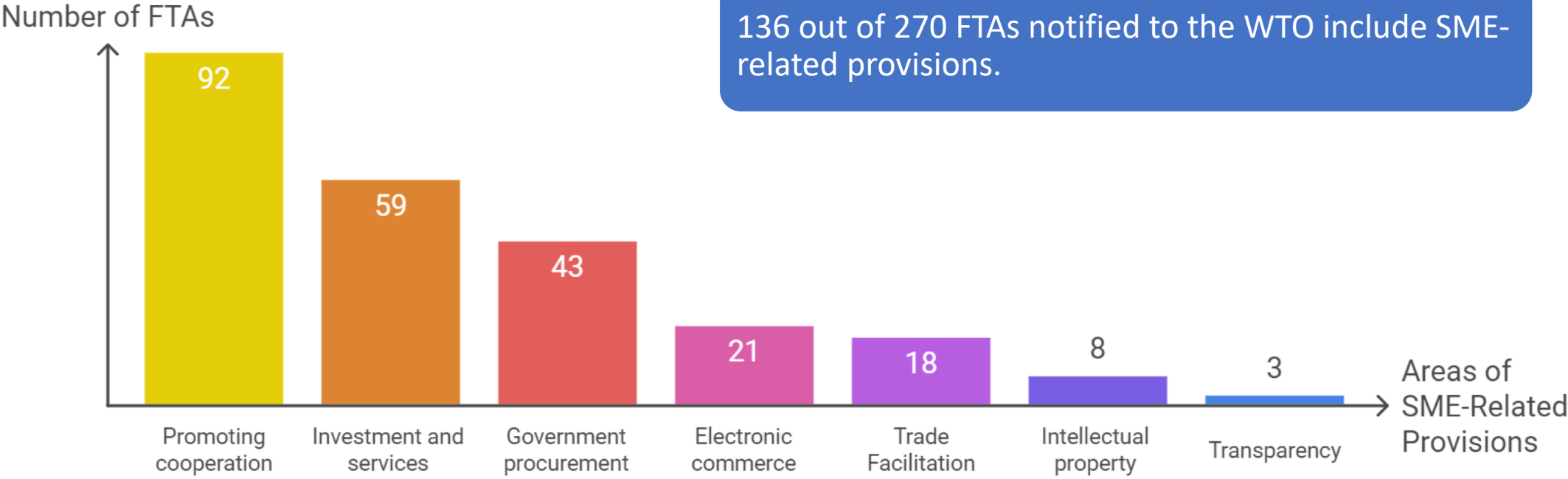
Policymakers historically assumed that general trade liberalization would benefit SMEs without implementing targeted measures.

High utilization costs limited FTA use, with costs around \$3,000 requiring shipments above \$80,000 to justify; these costs fell by 60-80% in subsequent years (Alfie Ulloa and Rodrigo Wagner, 2012).

For Thailand: the median costs for FTA utilization were estimated to be around \$2,000 for exports from China and \$1,000 for exports from Korea (Hayakawa, K., Laksanapanyakul, N., & Urata, S., 2015).



SME Support in FTA Texts



Distribution of SME-Related Provisions in FTAs

Source: WTO World Trade Report 2016

SME Chapter in RCEP and CPTPP

CPTPP

- SME dedicated chapter:
 - Information sharing: maintain a public website with Agreement details, SME-specific resources, trade-related links, and regularly updated, accessible information.
 - Committee on SMEs: Assist SMEs in leveraging commercial opportunities; share best practices on SME support; organize seminars and workshops on Agreement benefits; develop capacity-building initiatives; promote SME integration into global supply chains; monitor agreement implementation for SME impact.
- SME-related provisions: Trade Facilitation, Digital Trade Government Procurement and IPR.

RCEP

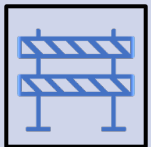
- Chapter 14: to increase the ability of SMEs to utilise and benefit from the opportunities created by the agreement
- Two approaches: the promotion of information sharing and cooperation
- Economic and Technical Cooperation: Improving small and medium enterprises' access to markets and participation in global value chains, including by promoting and facilitating partnerships amongst businesses

Three Standards for Identifying Best Practices for SMEs in FTAs



Market liberalisation and general provisions

The degree of: (i) market liberalisation in goods and services; (ii) regulatory transparency and cooperation to reduce unnecessary incompatibility; and (iii) trade facilitation regardless of the size of companies



SME-related provisions/chapter

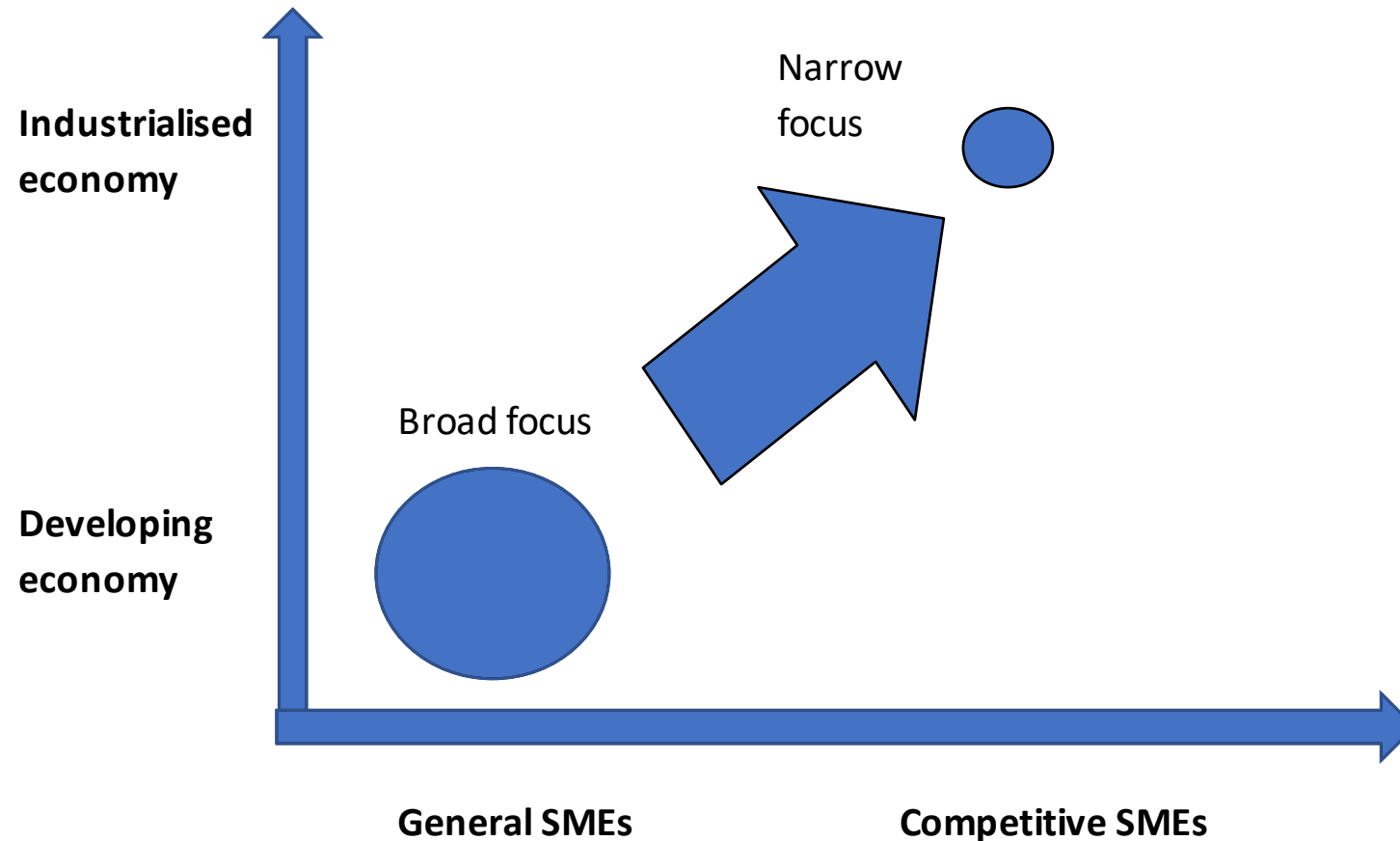
The quality of SME-related provisions, whether it plays good governance roles that address SME constraints or redress trade barriers disproportionately affect SMEs



SME support schemes

Shared information among FTA signatories and domestic level support schemes to improve SMEs' awareness and understanding of an FTA to maximise opportunities for SMEs

SME policy focus may differ



Competitive Small and Medium Enterprises: A diagnostic to help design smart SME policy; by Parth S. Tewari, David Skilling, Pranav Kumar, Zack Wu (2015)

Cherry picking strategy for SMEs growth?

| | From | To |
|-----------------------|---|---|
| Policy Goals | <ul style="list-style-type: none"> • Increase number of companies | <ul style="list-style-type: none"> • Enable high potential companies to grow |
| Policy themes | <ul style="list-style-type: none"> • Business planning, productivity tech adoption and broad internationalisation | <ul style="list-style-type: none"> • Management capacity building • Internationalisation (“micromarket”) • Innovation (“creator”) |
| Policy Process | <ul style="list-style-type: none"> • Broad themes, each of which ends up supporting a few promising companies (note: selection and resource prioritisation happens but they done on an ad-hoc basis) | <ul style="list-style-type: none"> • Define ~ 500-1,000 competitive SMEs • Understand special needs, design policy/initiatives • Track progress • Measure and give feedback on effectiveness of government programmes based on companies’ performance |

IPS Exchange. Number 8. January 2016 Supporting a Dynamic SME Sector: Challenges Faced by SMEs in Singapore Yahya, Faizal; Chang, Zhi Yang; Ng, Yan Hao and Tan, Meng Wah

Conclusion

- SMEs are crucial to the economy, contributing significantly to employment and GDP across APEC economies.
- SMEs face numerous barriers, including access to finance, production capacity, and internal capabilities, which hinder their participation in global trade.
- Leveraging e-commerce and digital platforms can help SMEs overcome trade barriers and expand their international presence.
- Successful new exporters are benefiting from network to established corporations, leverage technology, assets, and knowledge to dominate export value and sustain growth through strong domestic sales.
- Trade policy is not a silver bullet for inclusivity. To make trade work for everyone, it must be complemented by supportive domestic policies.
- Fostering competitiveness are key to supporting SME growth and internationalization.

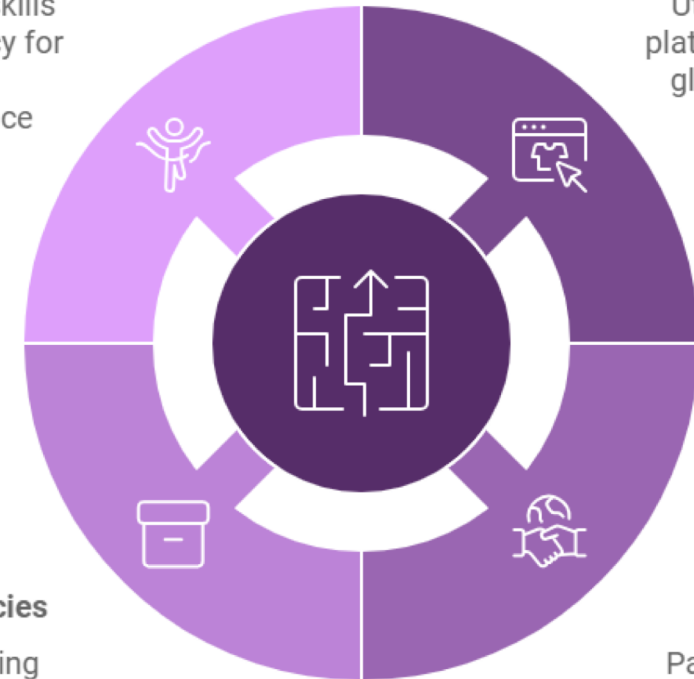
SME Growth Strategies

Competitiveness

Enhancing skills and efficiency for better performance

E-commerce Solutions

Utilizing digital platforms to reach global markets



Trade Policies

Implementing supportive trade regulations

Corporate Networks

Partnering with established firms for growth

Thank you

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