



**Asia-Pacific
Economic Cooperation**

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SME Internationalization Different Aspects and Related Issues

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Advancing
Free Trade for Asia-Pacific
Prosperity

SME Internationalization

--Different Aspects and Related Issues



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Outline



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1. SME Internationalization
2. SME Export
3. Barriers to SME Internationalization
4. Measurement of SME Internationalization

SME Internationalization




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International activities of SMEs include all forms of transferring goods and services across borders such as **export activity, joint ventures, non-equity strategic alliances, licensing, establishment of subsidiaries or branches, franchising, and importing**. Exporting, either directly or indirectly, has been most common and traditional form of internationalization.

Drivers (benefits) of internationalization:

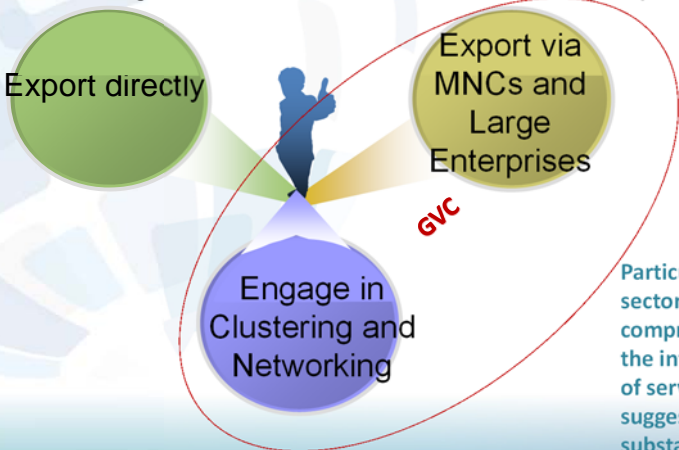
- Spreading business risk across different markets and ventures
- Improving technological quality and service standards in the organization
- Generating more revenues and funds for reinvestment and further growth
- Exploiting idle operating capacity and improving production efficiency
- Attracting and rewarding shareholders and employees through the creation of a better profit base

SME Export



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Three strategies for SME to access external markets through exports



Export directly

Export via MNCs and Large Enterprises

Engage in Clustering and Networking

GVC

Particularly in the service sector, although no comprehensive data to capture the international outsourcing of services, anecdotal evidence suggests that it has increased substantially.

Barriers to SME Internationalization

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Barriers to SME access to international markets can be characterized as being contingent and dynamic.

| Barriers Internal to the Firm | Barriers External to the Firm |
|---|--|
| <p>Informational</p> <ul style="list-style-type: none"> --Limited information to locate/analyze markets --Problematic international market data --Identifying foreign business opportunities --Inability to contact overseas customers <p>Functional</p> <ul style="list-style-type: none"> --Lack of managerial time to deal with exports --Inadequate/untrained personnel for exporting --Lack of excess production capacity for exports --Shortage of working capital to finance exports <p>Marketing</p> <ul style="list-style-type: none"> <i>Product</i> --Developing new products for foreign markets --Adapting export product design/style --Meeting export product quality standard/specs --Meeting export packaging/labeling requirements --Offering technical/after-sales service <i>Price</i> --Offering satisfactory prices to customers --Difficulty in matching competitors' prices --Granting credit facilities to foreign customers <i>Distribution</i> --Complexity of foreign distribution channels --Accessing export distribution channels --Obtaining reliable foreign representation <i>Logistics</i> --Unavailability of warehousing facilities abroad --Excessive transportation/insurance costs <i>Promotion</i> --Adjusting export promotional activities | <p>Procedural</p> <ul style="list-style-type: none"> --Unfamiliar exporting procedures/paperwork --Problematic communication with overseas customers --Slow collection of payments from abroad <p>Governmental</p> <ul style="list-style-type: none"> --Lack of home government assistance/incentives --Unfavorable home rules and regulations <p>Task</p> <ul style="list-style-type: none"> --Different foreign customer habits/attitudes --Keen competition in overseas markets <p>Environmental</p> <ul style="list-style-type: none"> <i>Economic</i> --Poor/deteriorating economic conditions abroad --Foreign currency exchange risks <i>Political-Legal</i> --Political instability in foreign markets --Strict foreign rules and regulations --High tariff and nontariff barriers <i>Socio-Cultural</i> --Unfamiliar foreign business practices --Different socio-cultural traits --Verbal/nonverbal language differences |

Measurement of SME Internationalization

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SMEs' share in total export


| Country (Year) | Share (%) |
|-----------------------|-----------|
| Australia (2010/11) | 5% |
| Canada (2010) | 41% |
| Chile (2010) | 7% |
| China (2011) | 68% |
| Indonesia (2011) | 16% |
| Japan (2012) | 15% |
| Korea (2011) | 35% |
| Malaysia (2011) | 19% |
| Peru (2012) | 4% |
| Singapore (2009) | 16% |
| Chinese Taipei (2011) | 16% |
| Netherlands (2011) | 30% |
| United States (2009) | 22% |
| Viet Nam (2010) | 29% |

A data collection system for measuring the indicator should also possess certain qualities.


- **Reliability** means that measurement is conducted the same way every time.
- **Validity** refers to the extent to which indicators clearly and directly measure the performance intended to be measured.
- **Timeliness** covers frequency, currency, and relevance.

Report on Internationalization of European SMEs

- 9,480 extended interviews
- Disproportional stratified sample and weight (33 economies, 26 sectors, size and age of firm, legal form, and position of interviewee)
- 4 months: January to April 2009



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