SME Internationalisation: Characteristics, Barriers and Policy Options

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SME INTERNATIONALISATION:
CHARACTERISTICS, BARRIERS AND POLICY OPTIONS

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PART I:
SME INTERNATIONALISATION & CHARACTERISTICS
2014 - APEC Strategic Blueprint for Promoting Global Value Chains lists key policy priorities

“5. Assist SMEs to benefit from GVCs: develop and implement initiatives to assist SMEs in the areas that matter to GVCs:

- Infrastructure and supply chain connectivity,
- Innovation and skills,
- and adoption of international standards.

How?:

- capacity building activities,
- facilitating SME access to trade and investment related information,
- enhancing intellectual property protection,
- and providing further information on tools and processes that would help them enter and move up GVCs.
- APEC should also foster linkages between SMEs and MNEs by helping our economies build an open and transparent regulatory and investment climates.”

Different types of SMEs require different policies

Manufacturing Sector
- Direct Exporter
- Export Processor
- Indirect Exporter

Services Sector
- Tradable Services
- Non-tradable Services
Example: Manufacturing SMEs and areas of importance for internationalisation

<table>
<thead>
<tr>
<th></th>
<th>Standards</th>
<th>Innovation</th>
<th>Marketing</th>
<th>Finance</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct exporter</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Export processor</strong></td>
<td>✓</td>
<td>~</td>
<td>~</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td><strong>Indirect exporter</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>~</td>
</tr>
</tbody>
</table>

✓: Area of importance for the company operations
~: Intermediate level of importance
✗: Area of less relevance

PART II:

BARRIERS TO SME INTERNATIONALISATION & GOVERNMENT POLICY MEASURES
Barriers to SME internationalisation

Barriers

Internal constraints
Barriers internal to the enterprise associated with organisational resources/capabilities and company approach to internationalizing

External constraints
Barriers stemming from the home and target business/host environment in which a firm operates

Internal barriers to SME internationalisation

Internal Constraints

EXAMPLES

Low productivity & competitiveness
- Difficulty meeting product quality, standards, specifications of foreign markets
- Difficulty matching competitors’ prices

Information barriers
- Lack information on internationalisation process

Financial barriers
- Shortage of funds to finance investment and working capital

Human resource barriers
- Insufficient quantity or untrained personnel for internationalisation
Internal constraints: possible government policies

**Internal Constraints - Possible solutions -**

- **Low productivity & competitiveness**
  - Test R&D tax incentive (sunset!)
  - Establish research centres and links with knowledge networks
  - Training programmes for SME personnel

- **Financial barriers**
  - Broaden the range of finance instruments: OECD SME Financing Scoreboard

- **Information barriers**
  - Organise trade fairs or prepare sector specific market analysis
  - SME portal

- **Human resource barriers**
  - Provide training programmes to SME personnel

External barriers to SME internationalisation

- **Foreign government barriers**
  - Costly/non-transparent foreign government regulations
  - Restrictions to foreign ownership

- **Procedural barriers**
  - Language barriers
  - Unfamiliar administrative procedures
  - Differing standards

- **Home government barriers**
  - Lack of information on foreign markets and business opportunities due to lack of home government SME support services
External constraints: possible government policies

- Possible solutions -

**Foreign government barriers**
- Free Trade/Investment Agreements – OECD Investment Declaration

**Home government barriers**
- Create/strengthen SME agencies that support SME export and internationalisation activities

**Procedural barriers**
- Create/strengthen the export promotion agency
- Create platform for exchange for foreign business councils

PART III:
GOOD PRACTICES AND A PROPOSAL
• Gaps within the region.

• Specific policies and actions for individual member country and the region – to prioritize, provide mutual supports, and allocate resources, i.e., to improve ‘Technology and Technology Transfer’, ‘Access to finance’, ‘Access to support service’, ‘Promotion of entrepreneurship’, and make ‘Cheaper, Faster Start-up and Better regulations’, closer to good practices.

Good practices: 2) Financing SMEs and entrepreneurs: An OECD Scoreboard

• Provides a framework to monitor access to finance for SMEs and entrepreneurs

• Provides information on relevant government policies

• Currently collects data for 10 APEC members (Canada, Chile, Japan, Korea, Mexico, New Zealand, Peoples Republic of China, Russia, Thailand, and the USA).

• Some results for these countries
  – Credit conditions often remain tight, but are improving
  – Compared to the Scoreboard average, credit to SMEs is expanding at reasonable pace in the APEC region
  – Alternatives to bank finance are garnering increasing attention from policy makers
Good practices: 3) Encouraging linkages and clusters

Cluster and linkages policies

- Incentives for promoting knowledge and skill transfer to local counterparts

Inter-ministerial cooperation: Invest in Canada’s works with Industry Canada to identify clusters and local partners, size and profile of structure / functions

SME programmes and meet-the-buyer events: supplier development programme supported by the World Bank and supervised by MNEs to upgrade participant SMEs’ production and management; events to promote MNE-SME linkages (Serbian Investment and Export Promotion Agency)

- Cluster support programme subsidising cluster mapping (surveys, studies, workshops by regional authorities, academic and R&D institutions); cluster development (joint projects costs, market analysis, consulting services, overhead costs)

Proposal for discussion

- Include more APEC members in the OECD SME Financing Scoreboard
- Explore the potential for an index measuring SME internationalisation policy readiness
- A good practice manual for SME internationalisation support could be drafted and presented end 2015*
- Building on the current OECD investment policy reviews of some APEC members, a handbook on policies to strengthen SME/FDI linkages could be drafted and presented end 2015

*Building on the APEC May 2014 Issues/Paper No.6 on Integrating SMEs into Global Value Chains
THANK YOU