

Activating America's Export Engine: Ideas for the SBA to Drive Small Business Internationalization

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I. Introduction

Small and medium-sized enterprises (SMEs), firms with fewer than 500 employees, are the backbone of U.S. economy and exports. They account for over half of U.S. non-farm GDP, and represent 98 percent of all U.S. exporters and 34 percent of U.S. export revenue. At the same time, still only a minority of U.S. SMEs engage in trade. In 2014, 301,923 companies engaged in exports, or only about 5 percent of U.S. employment-providing businesses.² There were even fewer importers, or 184,208 in 2013, the latest date data are available on importers; 83,199 firms both export and import. In addition, of the few firms that export, most are narrow exporters: they export typically 1-2 products to 1-2 markets, and exports make up only a limited portion of their revenue. Many exporters are also struggle to survive in the export game – typically about one half of companies that start exporting today are no longer exporting a year later.

While these trends might appear discouraging, they also mean that both SMEs that do not engage in trade and those that do are a vast latent source of additional trade, growth, and job-creation in the U.S. economy. Rigorous academic research shows that SME internationalization is a worthy public policy objective. Not only does trade support millions of U.S. jobs and add to America's GDP growth; companies that export tend to be particularly potent sources of growth, outperforming the broader market by such key metrics as productivity, employment, revenue growth, and stability.

Positively, there are several reasons why U.S. SMEs are poised to increase their participation in international trade and expand and diversify their exports. These include such factors as the forthcoming Trans-Pacific Partnership (TPP) agreement, greater ease of international business resulting from ecommerce and digital trade, and the rise of new sources of fast-disbursing loans and growth capital. At the same time, SMEs face old and new challenges to thrive in global markets. For example, they need to learn to meet changing trade rules and standards, adopt new technologies that are key to competitiveness in the 21st century world economy, navigate the maze of export assistance programs and trade finance instruments, and manage arcane customs procedures. The purpose of this brief is to stimulate fresh thinking and dialogue on ways that the Small Business Administration (SBA) can help expand U.S. SMEs' international footprint in light of the emerging opportunities and challenges, in the main areas of SBA activity – entrepreneurial development and capacity-building, advocacy, and financing.

II. Emerging Opportunities and Legacy Challenges

There are several factors that shape U.S. SMEs' trade and competitiveness. Among them, there are six areas that are timely and where the SBA could play an accentuated role:

- **Regulatory compliance.** TPP will open opportunities for U.S. SMEs to access to new markets and customers, streamline trade operations, and craft new, cost-saving supply chains in the Asia-Pacific region. While TPP includes commitments for the parties to provide SMEs access to information on ways to utilize the agreement, it is not clear that SMEs are prepared to take advantage of all that TPP offers. For example, the agreement is likely to create new challenges for regulatory compliance in such areas as food safety, intellectual property, technical standards, and rules governing foreign direct investment (FDI). Surveys by the U.S. International Trade Commission and others indicate that despite substantial efforts by federal, state and local agencies and other entities, SMEs continue struggling in these areas – and in general have trouble using free trade agreements to find foreign partners, establish affiliates in foreign markets, deal with rules of origin, structure and process payments, and so on.³ Some putative reasons include SMEs’ limited in-house trade management capabilities and the still rather one-size-fits-all nature of export capacity-building when each SME’s circumstance is different.

Against this backdrop, there is a need for fresh thinking on ways the SBA could offer customized yet scalable models of export advice and assistance for SMEs to start exporting and expand their exports, perhaps by leveraging technology solutions and new partnerships with the numerous local, state, and federal stakeholders that are also actively helping SMEs export.

- **Export finance.** Surveys in the United States and across the advanced and emerging world indicate that access to finance is a leading constraint to SMEs’ engagement in trade. While online lending and crowdfunding platforms have opened important new opportunities for SMEs to meet financing needs not satisfactorily filled by banks, export-driven SMEs tends to have additional, specific needs – including for working capital to fulfill what are often large export orders, trade credit insurance to hedge against the risk of non-payment by the foreign buyer, and credit lines for the foreign buyer to purchase the U.S. seller’s products or services. While the SBA provides export working capital and international trade loan guarantees and the U.S. Export-Import Bank provides export working capital loan guarantees, trade credit insurance, and foreign buyer finance, surveys show that SMEs and their local banks often lack knowledge of the various export finance instruments and government windows.⁴ Smaller SMEs may also not qualify for bank financing. Moreover, the rise of the “born global” companies that globalize early in their life cycles before they can bear debt accentuates the need for considering equity financing in the export space – much as the Los Angeles-based TradeUp Capital Fund is doing.

In tandem with the political challenges faced by the Ex-Im, the persistent financing gaps in the export space point to the need for fresh thinking on ways SBA can bolster its export finance instruments and approaches, possibly working in a close relationship with selected state governments interested in offering SMEs a wider array of financing options, smaller local and regional banks, and possible new partners that tend to employ more flexible approaches than banks do, such as non-bank lenders, factors, and equity investors.⁵

- Ecommerce.** Ecommerce is turning the numbers on SMEs' export participation on their head. In the United States, 95 percent of companies selling on eBay export. Ecommerce sellers regularly reach on average 19 foreign markets, a stark contrast to traditional brick and mortar exporters that typically export to just 1-2 countries, usually Mexico and/or Canada.⁶ And unlike offline exporters that typically do not last long in the export game, online exporters have staying power: of even the very smallest companies, 54 percent remain active exporters after five years of exporting. However, many U.S. companies, perhaps particularly business-to-business (B2B) companies, have yet to open their online store or start using a major ecommerce platform to sell, let alone export. In addition, the current online sellers are typically accidental exporters – they are found online by the buyer. For SMEs to strategically use ecommerce to export and substantially increase their sales requires much more sophisticated approaches and a broader knowledge base, especially as the battle over the online shopper's wallet space intensifies. SMEs need to be able to identify and target customers in the cyberspace; position and localize their products and services online; master digital marketing and advertising; identify shipping options that are fast and reliable yet cost-effective; leverage open source services, plug-ins, and new metrics, and so on.

These areas have yet to become a strong focus of export training and assistance. Furthermore, SMEs that sell online need to navigate a changing international policy environment, including national rules on data flows and data privacy, and limited online payments in many developing economies. An innovative SBA-led program, perhaps with selected ecommerce platforms that helps SMEs become aware of and leverage online sales opportunities, could significantly raise U.S. SMEs' export participation and grow their sales at home and abroad.

- Customs procedures.** Trade facilitation has gained keen global attention over the past few years, including with the conclusion of the Trade Facilitation Agreement at the 2013 WTO Ministerial. The United States fares well in international surveys on trade facilitation, and also many key U.S. trading partners such as Mexico have reduced customs clearance times and improved border administration in recent years. However, customs procedures continue posing a hurdle to American SME exporters and importers. In a 2010 U.S. International Trade Commission survey of 2,349 U.S. SMEs, customs procedures was the most burdensome non-tariff barrier faced by SMEs. Some 62 percent of SME manufacturers stated that customs procedures posed "some burden", while almost 50 percent said customs procedures pose "a major burden".⁷ These patterns are echoed in a 2013 U.S. ITC survey of 3,466 companies in digitally-intensive industries, whereby 48 percent of SMEs saw customs requirements as an obstacle to trade.⁸ The challenges are amplified today as many importers and exporters are now individuals and microenterprises engaged in ecommerce. These entrants in trade have limited abilities to meet customs regulations, let alone to qualify for Trusted Trader programs aimed to fast-track compliant companies' trade.

At the same time, there are constructive new ideas, such as a "Trusted eTrader" program proposed by a Center for Strategic and International Studies (CSIS) working paper, for streamlining customs procedures and simplifying compliance for companies engaged in

ecommerce that can now be harnessed and scaled.⁹ SBA could play a role also in this area, helping both on- and offline sellers access the knowledge and capabilities to consistently meet trade rules, and advocating for reforms that both facilitate and secure SME trade. For example, there are opportunities to leverage technology platforms where SMEs can quickly gain information and appropriate forms to ensure compliance in any product and market, and partner with such stakeholders as express shippers and trade compliance advisors, each of whom could work with several SMEs at once.

- **Digitization.** New disruptive technologies – the cloud, 3D printing, ecommerce, Big Data, Internet of Everything, and so on – are revolutionizing the economics of global production and trade. They are dramatically lowering costs for SMEs of all kind, analog and digital, to gain visibility to their global competitors, customers, prices, and supply chains, and to make, move, and market their products and services worldwide. In other words, digitization is leveling the playing field in international business: it is reducing informational asymmetries between SMEs and large firms, lowering the fixed costs firms incur to start exporting and variable costs associated with each export transaction, and enabling SMEs to reap scale economies that only large companies used to have. Furthermore, digitization can dramatically expand SMEs’ opportunities to export online services, a space where U.S. companies are highly competitive. A forthcoming analysis by Magento, National Center for the Middle Market, and Nextrade Group shows that SMEs’ digitization initiatives indeed translate into cost-savings and competitiveness. SMEs that invest in digitization score an average return on investment of 28 percent; those that invest particularly heavily in digitization get ROIs of 37 percent.¹⁰ These gains are likely also reflected in SMEs’ performance in selling to international markets.

At the same time, many SMEs are still struggling to learn about new technologies and to assess which ones to invest in and in which sequence, so as to maximize trade and growth opportunities. Digital SMEs that export online services also face challenges in international markets, such as data privacy rules, IP violations, forced server localization policies, and barriers to trade in digital goods and services. Though these challenges are typically more pressing for large, globalized digital companies, the 2013 U.S. ITC survey of 3,466 companies in digitally-intensive industries found that SMEs too believe that the removal of these barriers would increase their sales.¹¹ The SBA can play a role in expanding awareness of the competitiveness gains for analog companies from acquiring digital capabilities, and in calling for international policy changes for America’s digitally-intensive SMEs to better access foreign markets.

- **Acceleration and incubation.** According to recent estimates, while there were 12 startup incubators (that develop entrepreneurial skills) or accelerators (that help companies expand their revenues) in the United States in the 1980s, today there are more than 1,250.¹² Incubators and accelerators help legitimize SMEs and open their access to capital. Touching an array of companies across America, incubators and accelerators can play a very meaningful role in bolstering SMEs’ competitiveness and in helping SMEs engage in trade. Indeed, some incubators do provide companies aspiring to sell in overseas markets with advice and contacts, albeit perhaps on an *ad hoc* basis. There are also a number of U.S. incubators such as Dat Ventures in Boston that provide a “soft

landing” for international companies that want to access U.S. markets, partner with U.S. firms, or access resources in the United States. Helping U.S. SMEs gain competitiveness and offering touchpoints to countless of SMEs that can become exporters, incubators and accelerators can be an important partner for the SBA. Furthermore, the United States can learn from accelerators and incubators in foreign markets, such as from INcubes in Canada, that have very robust systems to help their client companies export.

III. Conclusion

While opportunities for SMEs to engage in international trade abound, still only a sliver of American SMEs export or import. This means that SMEs are a vast latent source of trade and growth in the U.S. economy. This brief has discussed a set of areas where the SBA can help American SMEs take advantage of the emerging opportunities for trade-led growth, such as new trade agreements and the rise of ecommerce, while managing the associated costs and risks.

The SBA can use various fresh tools and approaches – such as scalable technology platforms, new public-private partnerships, and stepped-up state-federal initiatives – to tap the new opportunities for internationalization and help both non-exporter SMEs export and current SME exporters expand their exports. In particular, the proposed approaches ought to offer scalable yet tailored solutions that suit different types of SMEs in different types of situations, such as small “born global” tech companies looking to penetrate foreign markets for the first time, and seasoned manufacturer exporters seeking to expand their exports in the B2B space. While it has never been easier for U.S. companies to engage in trade and while American goods and services are in demand in overseas markets, obstacles for U.S. SMEs to engage in trade remain. With creativity and right partnerships, the SBA can play a leading role in unlocking SMEs’ export opportunities.

Notes

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² “Preliminary Profile of U.S. Exporting Companies, 2014,” U.S. Census Bureau, 6 October, 2015 <<https://www.census.gov/foreign-trade/Press-Release/edb/2014/2014prelimprofile.pdf>>.

³ See, for example, U.S. International Trade Commission. 2010. “Small and Medium-Sized Enterprises: Characteristics and Performance.” USITC Publication 4189 (November).

⁴ National Small Business Association and Small Business Exporters Association, “2013 Small Business Exporting Survey,” available at www.nsba.biz/wp-content/uploads/2013/06/Exporting-Survey-2013.pdf (October 16, 2013).

⁵ See, for example, Kati Suominen and Jessica A. Lee. 2015. “Bridging Trade Finance Gaps: State-Led Innovations to Bolster Exporting by Small and Medium-Sized Firms,” Brookings Institution Report (January) >http://www.brookings.edu/~media/Research/Files/Reports/2015/01/08-export-finance/RF_ExportFinance_May15.pdf?la=en?>.

⁶ eBay. 2012. “Enabling Traders to Enter and Grow on the Global Stage.” <http://www.ebaymainstreet.com/sites/default/files/EBAY_US-Marketplace_FINAL.pdf>.

⁷ U.S. International Trade Commission. 2010. “Small and Medium-Sized Enterprises: Characteristics and Performance.” USITC Publication 4189 (November).

⁸ U.S. International Trade Commission. 2014. “Digital Trade in the U.S. and Global Economies, Part 2.” Publication Number: 4485 (August) <<http://www.usitc.gov/publications/332/pub4485.pdf>>.

⁹ Suominen, Kati. 2015. “Fueling the Online Trade Revolution: New Customs Security Framework to Secure and Facilitate Small Business Ecommerce.” A Report of the CSISI Europe Program (April).

¹⁰ “How Digitized Are You? Use of Digital Technologies by U.S. Middle Market Companies.” Report by Magento, National Center for the Middle Market, and Nextrade Group (forthcoming).

¹¹ U.S. International Trade Commission. 2014. “Digital Trade in the U.S. and Global Economies, Part 2.” Publication Number: 4485 (August) <<http://www.usitc.gov/publications/332/pub4485.pdf>>.

¹² Jay Samit, “4 Proven Advantages of Startup Incubators,” *Wall Street Journal*, 2 April 2015.