

# SMALL BUSINESS AND TRADE IN APEC

A REPORT HIGHLIGHTING THE  
CONTRIBUTION OF MEDIUM,  
SMALL AND MICRO ENTERPRISES  
TO THE ASIA PACIFIC REGION

# ABOUT THIS REPORT

Over the last decade APEC economies have opened their markets achieving significant gains in exports and global growth. In line with this increasing economic integration is the growing recognition by governments in the region of the potential for greater participation by small business in international trade to contribute to income, employment and overall economic growth. Developing economies are especially seeing small businesses as potential instruments to alleviate poverty.

This report highlights the fact that while gains have been achieved from reductions in tariffs, small business contribution to trade can be further improved by addressing other barriers to trade and investment. It also brings together six case studies of successful individual small and micro firms located in six APEC member economies, which have met the challenges of growth and accessing the international market. While the small businesses considered in this report have diverse backgrounds and characteristics, having operated in very different markets and economies, there are commonalities in their experiences and factors for success in growth and accessing overseas markets.

This report provides policy makers involved in the development of small business programs with some evidence on the many challenges and diverse conditions under which small business operates, particularly in the context of a competitive global market place. For small business operators there are factors to be aware of, and lessons to be learnt, from the experiences of others.

This report has been prepared for the APEC Ministers Responsible for Trade Meeting in Puerto Vallarta, Mexico on 29-30 May 2002, and as a contribution to the deliberations of the High Level Meeting on Micro-Enterprises to be held in Mexico in July 2002.

The assistance of the Small Business Research Unit, Victoria University of Technology, Melbourne, is gratefully acknowledged. Information provided by Dr Chris Hall, PECC Expert Advisor on SME Issues, which significantly contributed to the weight of this report, is also very much appreciated.

## KEY POINTS

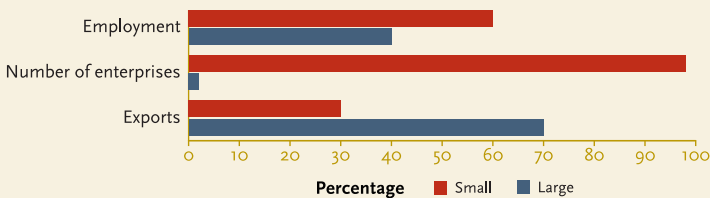
- **Small business plays a major role in many of the economies of APEC.** Small firms are big employers and significant exporters. On average in APEC, small businesses make up:
  - over 98% of all the region's enterprises,
  - 30% of direct exports (some US\$930 billion in 2000),
  - 10% of foreign direct investment by value, and
  - 60% of private sector employment.
- **Small business issues are not just developing economy issues, they are APEC-wide issues.** In fact, there are more small businesses per head of population in developed economies than in developing economies. And opening markets does not diminish the importance of small business to an economy.
- **Tariff cuts in APEC to date have not produced a relative increase in the small business contribution to regional exports.** While APEC member economies have made substantial cuts in tariffs, which have led to a significant growth in trade, the small business contribution to direct exports has remained static if not declined. As traditional trade barriers such as tariffs come down, other impediments to trade in goods and services must be addressed, in order to promote further trade by small business.
- **APEC's second decade agenda could help small business to contribute an additional US\$1.18 trillion in exports over a five year period.** APEC's agenda of improving governance, building capacity, reducing transaction costs, promoting further liberalisation, addressing non-tariff barriers, increasing internet access and facilitating trade and investment are all directly relevant to improving the capacity of small business to export. Moving forward with APEC's agenda in all these areas is a high priority for the future success of regional small business.
- **Open markets matter to small business, but issues of infrastructure, access, and skills are also keys to success.** Access to finance; enhancement of professional skills, particularly in information technology, management, accounting and entrepreneurship; improved business infrastructure; and the removal of trade barriers that particularly affect small business remain core issues directly related to the successful development of small business in the APEC region.
- **Small business will be part of the region's "new economy" as much if not more than is the case for more traditional forms of commerce.** Currently e-commerce use amongst small businesses lags behind their larger counterparts. However, the majority of small businesses view e-commerce as providing cost savings and growth potential. Although eager to incorporate the technology into their operations, small businesses must find ways to deal with high set-up and usage costs, as well as the lack of adequate infrastructure and IT skills.

# SMALL BUSINESS IN CONTEXT

The idea of small business differs significantly from economy to economy – reflecting their size and stage of development – within the region. For simplicity purposes, the definition of small business in this report captures the range from 1 employee to 100 employees – including micro enterprises which employ less than 5 persons.

The importance of small businesses across APEC member economies is reflected by their sheer number and their contribution to employment. Small businesses constitute about 98% of all enterprises, accounting for around 60% of private sector jobs and 30% of total employment. Moreover, they generate about 50% of sales, 30% of direct exports, and generate about 10% of foreign direct investment by value and over 50% by cases.<sup>1</sup>

## Firms in the APEC Region



Small business contribution to employment varies from about 70% in Chinese Taipei and Japan, to about 20% in Singapore. Overall, small business contribution to employment is greater in developed economies.

The characteristics of small businesses and the environment in which they operate differ between economies in the region. As a consequence, their role and contribution, and sometimes their trend of development may differ from economy to economy.

<sup>1</sup> Profile of SMEs and SME Issues in APEC 1990-2000, Hall, 2001, 2nd draft report.

For example, there are fewer small businesses and entrepreneurs in developing economies (1 small business for every 100 people) than in developed economies (1 small business for every 20 people), which might suggest that as economies mature and gain access to open markets the relevance of small business does not necessarily diminish.

In developing economies, micro businesses (employing less than 5 persons) form a larger proportion of the total number of enterprises and employ a greater proportion of the total number of the workforce than their larger counterparts. Micro businesses make up 73% of all private sector enterprises in APEC, contributing 21% to total APEC-wide employment.

Small businesses provide about 80% of employment in the services sector, and about 15% in the manufacturing sector. In line with the broader development of economies, small businesses in the region are moving away from agriculture and manufacturing towards services.<sup>2</sup>



A significant number of small businesses are headed and managed by women. Women make up about 30% of employers and self-employed people in APEC economies, a proportion which grew slightly between 1990 and 1998. There is some evidence that women-owned firms grow faster than male-owned ones, but the former are more likely to be micro-enterprises and in many cases one-person, owner-operated firms.

2 *Profile of SMEs and SME Issues in APEC 1990-2000*, Hall, 2001, 2nd draft report

# SMALL BUSINESS AND TRADE

There is currently limited available data on small business participation in international trade, which has constrained efforts to establish a clearer and fuller picture of the situation. An estimate of small business direct contribution to APEC exports has been put at 30% of total APEC exports of US\$3.1 trillion – approximately US\$930 billion in 2000<sup>3</sup>. However, anecdotal evidence suggests the trend for small business contribution to exports has been static if not declining.

Small businesses also contribute indirectly to exports through their supply relationship with other firms. This contribution maybe larger than the direct contribution to exports. Unfortunately, due to a lack of data it is difficult to be absolutely certain of this and of its growth trend.

In spite of APEC's considerable progress in reducing tariffs – average tariffs in APEC declined by one-third from 12% in 1995 to 8% in 2000, which led to an estimated growth rate in merchandise exports of 4.7% per annum in the period 1995-2000 – there is a general perception that small businesses have not been able to fully exploit opportunities to export.

The inherent characteristics of small business put it at a significant disadvantage relative to larger firms when faced with existing non-tariff and regulatory barriers. Business concerns remain in such areas as:

- customs procedures;
- mobility of business people, as well as students and tourists;
- standards and labeling requirements;
- access to finance;
- mutual recognition of professional qualifications;
- consumer protection especially regarding on-line transactions; and
- intellectual property protection.

Efforts to simplify exporting processes in any of these areas, including by making rules and procedures more simple, transparent, fair and predictable, would alleviate some of the comparative burdens faced by small business, as well as facilitate greater access to global export markets. APEC's goal to reduce transaction costs by 5% over the next 5 years would make a direct and significant contribution in this regard, delivering substantial gains to small business in reduced costs and efficiency savings.

If APEC member economies make significant progress in trade facilitation measures and in removing non-tariff barriers across all sectors, APEC small businesses could contribute an additional US\$1.18 trillion in exports over a five year period based on an assumed export growth of 6.2% per annum and an increase in small business contribution to exports from 30% to 35%.

---

<sup>3</sup> *The APEC Region Trade and Investment 2001*, Department of Foreign Affairs and Trade (DFAT), 2001, Australia.



Based on previous studies/ models of the impact of liberalisation measures on trade and export, it is reasonable to assume that substantial across-the-board removal of non-tariff measures and implementation of trade facilitation initiatives, which lead to a 5% reduction in transaction costs, could raise APEC's average export growth rate to 6.2% per annum from the current average of 4.7% per annum.<sup>4</sup> It is expected that small businesses will respond in a significant way with an increase in contribution to trade from 30% to 35%. Over a five year period, the 35% small business contribution to trade at a 6.2% annual average export growth rate would translate to US\$6.53 trillion compared to a 30% small business contribution of US\$5.35 trillion if trade facilitation were not implemented and non-tariff barriers were not removed and the growth rate remained at its current level of 4.7%.

Greater participation by small business in trade would generate additional increased benefits. With access to a larger market, individual firms are able to reap the advantages of economies of scale, and generate additional revenues. Moreover, recent research suggests that small businesses in aggregate can make a significant contribution to national export revenue, particularly if the number of exporting small businesses is growing faster than the number of larger export businesses.

Firms that expose  
themselves to the  
more intense  
competition of  
global markets  
acquire new skills

From an efficiency point of view, firms which expose themselves to the more intense competition of global markets acquire new skills, new technology and new marketing techniques. Exporters tend to apply knowledge and technologies faster and more innovatively than non-exporters, thereby enhancing their efficiency and their productivity.

Having more small business exporters assists such skill and technology applications by spreading the acquisition over many smaller players, and by speeding up a multiplier effect, which extends the gains across the entire economy, not just the firms that export. Ultimately, the national economy will benefit from more flexible and environmentally responsive firms, higher growth rates and long-term improvements in productivity and employment levels.

Exporting also has a positive effect on living standards, as international competition drives firms to invest in staff development, which in turn improves productivity, wages and working conditions. At the individual staff level, exporting firms tend to pay higher wages and offer better conditions than non-exporting firms.<sup>5</sup> Among other social advantages, exporting encourages nations to look outside themselves, develop their cultural diversity and build their relationships and reputations with other countries.

<sup>4</sup> *Global Trade Reform: Maintaining Momentum*, Department of Foreign Affairs and Trade, Australia, 1999

<sup>5</sup> *From Sheep's Back to Cyberspace: Trade and Regional Australia in Changing Times*. Department of Foreign Affairs and Trade, Australia, 2001

# E - COMMERCE – THE NEXT CHALLENGE

Enhancing the role and participation of small business in the global marketplace through e-commerce is of critical importance to APEC. E-commerce represents an opportunity for small businesses to compensate for their traditional weakness in areas such as access to new export markets and in competing with larger regional firms. However, for some small businesses e-commerce remains a hard to understand phenomenon that, in their view, has little significance for their own enterprises and business plans. The challenge for APEC member economies is to promote the potential benefits of e-commerce to small business, particularly in the trade context, and to take active steps to improve the environment for e-commerce to develop and flourish.

## **BENEFITS OF E-COMMERCE**

E-commerce can provide global opportunities for businesses by facilitating the flow of ideas across national boundaries, improving the flow of information and linking increased numbers of buyers and sellers. This provides opportunities for greater numbers of trading partners dealing in goods and increasingly in services. According to studies, small businesses with higher levels of e-commerce capabilities are more likely to identify using e-commerce to reach international markets as an important benefit. This suggests that for many small businesses, the desire to export may have a fundamental influence on promoting the rapid development of more advanced e-commerce capabilities. Many small businesses in the Asia-Pacific have also reported integrating the development of e-commerce into their future strategies for accessing international markets.<sup>6</sup>

Apart from helping small business internationalise, the application of e-commerce technologies can also deliver direct cost and efficiency savings to small business at the operational level. For example, studies have found that the cost to business of border delays and from preparing and handling documentation to move goods across borders, adds several percentage points to the landed price of goods. The application of e-commerce, particularly paperless trading initiatives, has the potential to significantly reduce these costs by streamlining customs, quarantine, health and port services provided by government agencies

---

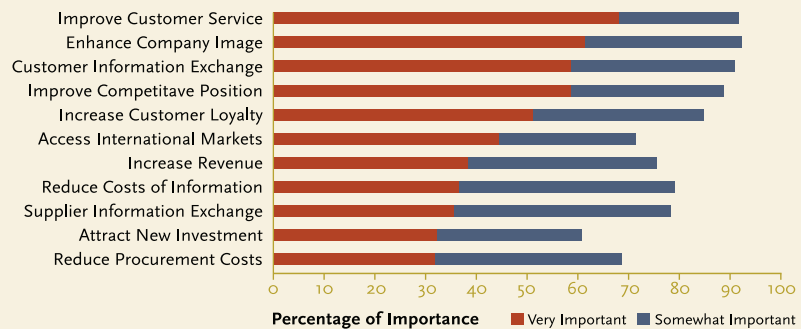
<sup>6</sup> PriceWaterhouseCoopers *SME Electronic Commerce Study*, 1999



to the trading community. Any reduction in paper handling would also deliver matching efficiency savings to resource and time deficient small businesses.<sup>7</sup>

Raising the awareness and understanding of these and other opportunities and benefits is an important means of increasing the uptake and use of e-commerce among small business.<sup>8</sup>

### Perceived Benefits of E-Commerce Use By Small Business



Source: PriceWaterhouseCoopers SME Electronic Commerce Study, 1999

### BARRIERS TO E-COMMERCE

For many parts of the APEC community, access to the basic benefits offered by e-commerce is still denied by poor or non-existent network infrastructure. The possibility of relatively low-cost rollout of networking technologies is becoming a reality, but commercial imperatives may still see vast ‘unprofitable’ regions remain unserved.

For many small businesses in APEC economies that do have network access, the problems of cost related to skilled personnel and information technology can be stifling. Even then small businesses are likely to face other challenges that could hinder their participation in global e-commerce:

<sup>7</sup> *Paperless Trading: Benefits to APEC*, a joint publication of the Australian Department of Foreign Affairs and Trade and Chinese Ministry of Foreign Trade and Economic Cooperation, 2001.

<sup>8</sup> In response to this challenge, Australia recently funded e-commerce awareness seminars for 1,200 small businesses in Vietnam, the Philippines and Indonesia, with a further 3 workshops to be held in China later this year. The seminars are designed to make an important contribution to bridging the digital divide by demonstrating to small businesses in developing economies cost effective methods for the adoption of e-commerce as a business tool.

- the need to comply with formalised business processes and rules for automation in software as dictated by dominant supply-chain partners;
- implementing security practices that must comply with supply-chain requirements;
- complying with national and international law and regulations regarding e-commerce that are often confusing and even contradictory; and
- cultural and language differences that may give rise to communication errors when dealing with important business decisions.<sup>9</sup>

## GOVERNMENT POLICY ACTION

Small business groups have identified several measures to combat perceived barriers and encourage the wider adoption and use of e-commerce to promote and grow their export activities. The majority of measures identified involve concerted government action at the domestic level, as well as at the multilateral level.

At the domestic level, potential areas of policy action highlighted by small businesses include development of the telecommunications infrastructure; addressing legal and liability concerns; ensuring fair taxation practices are applied to e-commerce; addressing security issues; and raising awareness of the business benefits of e-commerce, including the potential for export growth. APEC could also undertake collective measures, either APEC-wide or by groups of APEC member economies, to enhance the environment for e-commerce and support its adoption by small business across the region. These include:

- improving the information infrastructure for e-commerce across the APEC region;
- ensuring that common and beneficial trade policies are enacted for cross-border e-commerce transactions;
- ensuring that fair taxation is applied across jurisdictions;
- developing and maintaining common standards to facilitate e-commerce;
- addressing legal and security concerns involving e-commerce transactions; and
- building e-commerce capabilities among small businesses.

By making e-commerce a policy priority, governments can actively encourage the diffusion of e-commerce as a way to improve small business competitiveness and access to global export markets.<sup>10</sup>

<sup>9</sup> Greenfield, Paul & Colton, John, 2001, 'APEC e-Business: What Do Users Need?' (CSIRO), Australia.

<sup>10</sup> PriceWaterhouseCoopers *SME Electronic Commerce Study*, 1999

# CASE STUDIES - COMMON THEMES

This report presents case studies from six APEC member economies: Japan, Australia, Malaysia, Philippines, the United States, and Mexico. Although the small and micro businesses studied come from vastly divergent social and economic backgrounds, the case studies reveal a number of common themes that have contributed directly, and in some cases hindered, their success – both as viable domestic businesses and, more importantly in the context of this report, as successful regional exporters.

Summaries of the case studies are presented in the appendix.

## SMALL BUSINESSES STRENGTHS

The six case studies highlight the genuine entrepreneurial spirit of small business owner-operators, and how this drive, coupled with their flexibility, resourcefulness and ability to identify opportunities has been crucial to the initial success of their operations. They usually have a vision for their business and want the business to grow in the future.



The business operators are also very conscious of their customers and their needs, and they work hard to deliver a service that creates repeat business. The small firms generally operate in niche markets and their unique products/services are seen as a strength. The cases also indicate that product quality is important, as is the provision of a consistent product that meets the needs of the buyer.

The operators place great importance on the development of the skills of their staff in order to deliver good customer service and quality products. They see the skill base of their workers as important in taking their business to the next level of turnover.

These firms were able to capitalise on the operators' networks of contacts in generating sales opportunities and in accessing valuable information and support from government. Their ability to overcome barriers is largely due to good management, in the broadest sense of the word.

## Competitive Strengths

A prompt and efficient **service culture** is integral to **Australian** fashion exporter **Boots on Line's** success. By focusing limited resources to ensuring that customers' queries and concerns are handled in the shortest possible time, the business is able to grow existing relationships, as well as attract new business.

Taking advantage of **government-sponsored training programs** is providing **Philippine** small business operator **Vjandep Pastel Bakeries** with the necessary capacity to successfully manage and grow its business. Access to such programs is critically important for small businesses with limited managerial and business operation experience.

Time expended in developing an extensive customer **network** in China, and links with large trading houses and government agencies, is one of the drivers behind the export success of small **Japanese** engineering firm **Unirex Kabushiki Gaisha**.

## BARRIERS TO SUCCESS

The barriers to success that were identified tended to be firm-specific and depended both on local issues and more regional concerns, as well as export-related factors. The local issues included the costs of transporting goods to customers and the difficulties in accessing transport infrastructure. While transport costs are an unavoidable part of trade, they do need to be managed in a cost-effective way, to minimise their impact on business results. Others were concerned with gaining quality accreditation. At the regional level there was a need for skill development in dealing with customers in export markets. Some appear to have an intuitive understanding of exporting issues while others lack confidence, skill and knowledge in this area. This involved language and cultural understanding as well as developing knowledge about some of the legal issues involved in trade.

Among the micro businesses studied, the shortage of skills in information technology was seen as a hindrance to business growth. One business requires greater skills among its staff to allow for a sharing of the workload and to reduce

the reliance on the business operator. Another reports that developing IT skills will allow for greater efficiencies in operation, and the opportunity to extend its customer base.

Most of the cases indicated a need to improve their understanding of e-commerce matters.

### Challenges to Face

Costs associated with installing and using **information technology** are issues of concern for Malaysian electrical goods manufacturer, **Electrical Components**, and Mexican fresh produce processor, **SPR Actopan**.

For Electrical Components, the high cost of broadband connection is proving inimical to the development of the company's full e-commerce potential.

While for SPR Actopan, problems associated with network security, shortage of regional internet providers and a lack of staff skills are proving major impediments to the development of any e-commerce facility.

**High freight costs** and associated **transaction costs** related to exporting goods across borders are significant barriers to trade for **Boots on Line**. SPR Actopan is also finding freight costs and a lack of transport infrastructure significant impediments when seeking to deliver goods domestically.



## CAPACITY BUILDING FOR SMALL BUSINESS OPERATORS

The firms under review identified a number of areas in which staff training would be beneficial, including IT expertise and the range of skills required to successfully enter export markets. The business operators indicated that improved IT skills would facilitate more efficient management of the business, a sharing of the workload, and the development of more market opportunities including exports. Other desired exporting skills included language and cultural expertise, as well as legal and logistical knowledge.

Educational activities that encourage entrepreneurship development and an understanding of the entrepreneurial process would also greatly assist new venture creation and development. Small businesses may recognise and take advantage of opportunities as they arise, particularly in the start up stage, but don't always have the necessary ability, experience or knowledge to grow their business or to move into exporting. Targeted educational activities and programs would greatly assist small business operators in this regard.

### Developing the Skill Base

**Unirex Kabushiki Gaisha** and **Boots on Line** both view the development of staff **IT skills** as crucial to the development and growth of their e-commerce exporting efforts. In the case of Boots on Line, only the owner-manager possesses the necessary skills to manage the on-line export side of the business, which accounts for 40% of annual turnover.

The case studies also identify general training in **business management** and in **export knowledge and skills** as important areas where they could benefit from targeted capacity building programs.

---

## GOVERNMENT POLICY MAKERS

Government assistance has played an important and direct role in the success of a number of the case studies. Whether it is through access to finance, the provision of training programs, or the staging of seminars and trade fairs, government action has proved integral to the success of these small businesses. Governments should be encouraged to continue this support at the local level through investment in infrastructure that assists directly the business efficiency of small business. Such examples include transport and information technology infrastructure, both of which are important to export success.

It is seldom  
recognised that  
barriers to trade  
for small  
businesses are not  
just tariff-related

It is seldom recognised that barriers to trade for small businesses are not just tariff-related, but also involve issues of product presentation standards, warehousing and financial transactions. Because small businesses lack the economies of scale and the internal expertise of larger businesses they need more practical external support. Policy makers need to focus on removing barriers affecting trade that specifically affect small, and not just large, businesses.

### Laying the Foundation

**Government-sponsored seminars and trade fairs** are providing ideal opportunities for both **Electrical Components** and **Vjandep Pastels Bakeries** to expand their business networks. Such trade fairs are particularly important for small businesses seeking to establish business partners in potential export markets, and market their product to overseas consumers.

## ACCESS TO FINANCE

The opportunity to access small amounts of finance can be an important catalyst for small businesses to get access to the resources they need to gain a foothold in the market. This is particularly critical for micro-enterprises. Micro-enterprises usually do not require large amounts of start-up capital. However, without a track record it is often difficult to access appropriate capital sources. The case studies indicate that having access to a fund which provides small amounts of capital was most important in the development of the business ventures.

The ability of the operators to network and source non-bank finance was also a strength. Non-bank sources of finance tend to be able to develop a strong relationship with the business and to demonstrate an understanding of the difficulties it faces. Because of their closeness to the business they seem flexible in their responses to the changing circumstances of these business.

### Finding the Finance

Access to **finance** is one of the key factors that can determine a start-up small businesses immediate success or failure. In the case of **The Fisherman's Wife**, the initial success of the business was built on US\$10,000 seed capital from a non-government micro-lending organisation.

For **Vjandep Pastel Bakeries**, a series of **loans from government and non-government sources** provided the vital foundation upon which it established and grew its business. In both case studies, the provision of small amounts of finance (and the will and determination to repay them) provided the small businesses with the crucial liquidity to purchase the necessary equipment and goods to establish their successful businesses.

**SPR Actopan's** struggle to secure additional finance is a barrier to the further expansion of the firm's business operations.





## E-COMMERCE

The case studies varied in the level of e-commerce that they had adopted. The most basic website provided details about the business. The other case studies had websites that included other features, as well as business details. One business used the Internet to facilitate communication with suppliers and customers and another was experimenting with (but had not implemented) online sales. Each business was looking to expand its e-commerce activities in the future. The website was developed internally in one of the case studies, and by a family member in another. In each case, website activities were not specifically linked to the overall business. A separate cost-benefit analysis of Internet activities had not been carried out. Major concerns relate to the security of credit card transactions, Internet-related skills and understanding of the potential benefits of e-commerce.



### Un-locking future export markets

**E-commerce** is critical to the on-going success of **Boots on Line**. With export sales accounting for over 90% of the small business' on-line activity and 40% of its annual turnover, the owner-manager is very much attuned to the potential export opportunities to be exploited through e-commerce. **Unirex Kabushiki Gaisha** is also keen to reap the benefits of the rapidly developing e-commerce world, and is eager to develop an e-commerce capability. As a small business built primarily on export, the potential benefits to the operation in terms of efficiency and cost-savings are significant.

Each of the case studies indicated they are either in the process of developing an e-commerce capability, or had recently considered the idea. Those that had declined to do so cited problems with network security, lack of staff skills or shortage of regional infrastructure as major factors behind their decision.

## CULTURAL ISSUES

Small businesses tend to feel more comfortable in their first export trading activity when it involves dealing with a culture that they know and understand. The opportunity to deal with a similar culture allows the business to concentrate on product and transaction issues. Strong cultural links (usually with countries with similar cultural backgrounds) provided a greater level of understanding of suppliers or of the market resulting in better service to the customer. On the other hand if the firm is trading with a culture that is little known, then there is a greater level of learning required to ensure that the customer is satisfied. Those who have high cultural awareness see it as a competitive strength.

### Being Culturally Aware

The **bilingual and bicultural skills** of the joint business partners behind **The Fisherman's Wife** are proving invaluable to the success of the business. These skills are enabling the owner-operators to forge close, trusting relationships with their suppliers in Latin America. This in turn is helping to ensure minimal disruptions in the steady flow of high-quality merchandise from suppliers to their store.

**Culture** is also playing a role in the export success of **Boots on Line**. As their main export product is a unique, high-quality Australian designed boot, these boots have proven to be particularly popular in countries that share a cultural closeness with Australia, namely the UK, New Zealand, the US and Canada.



---

## GOVERNMENT REGULATIONS

The major concern about government regulations identified in the case studies was the difficulty in knowing what paperwork and regulations were involved in the customer's home country. Businesses referred to issues like customs rules being transparent and easy to follow and not being a barrier to efficient business operation. This uncertainty was seen as one of the barriers to trade at the APEC regional level.

Furthermore it was suggested that as trade via the internet grew and became more frequent there was a need for consolidating international protocols so that there was consistency of treatment of transactions. There is a suggestion that some economies are creating new regulations as new issues occur, rather than looking at the bigger picture and overall trade objectives.

### Transparent Regulations

Difficulties with cross-border **customs** processes are proving to be barriers of major concern to the owner-managers of **The Fisherman's Wife**. As the majority of stock sold by the small business is imported from Latin America, the lack of clear information on import regulations and on certain non-permissible product contents is frustrating their business operations.

## EXPORT ORIENTATION

The case studies indicate that there is no one set track to export success. It is possible for some businesses to be ‘born global’ and focus on their overseas markets from the start of their business operations. Some see export markets as a way of increasing turnover and sometimes providing improved margins. Others only contemplate export when confronted by a customer from another country seeking to access a particular product.

The case studies also demonstrated that being small is not necessarily a barrier to involvement in overseas trade activity, especially if the principal, and/or even a small number of staff, have the requisite skills. The introduction of the internet, together with good communications and transport infrastructure, now makes it possible to sell product to customers around the world. It does require access to IT skills at the seller end to enable the process to commence and a confidence to deal with the paperwork and regulations associated with the trading.

It is important for governments to recognise that there are different tracks to export success and develop a range of initiatives to support the firms as they begin to assess export opportunities.

### Growing Exporters

The case studies show that business size is not the determining factor influencing the success, or otherwise, of small businesses. Although size remains important in relation to export success, other influential factors including access to technology, skill and knowledge-based training, type of product and government assistance are also proving to be key dynamics in growing successful exporters.

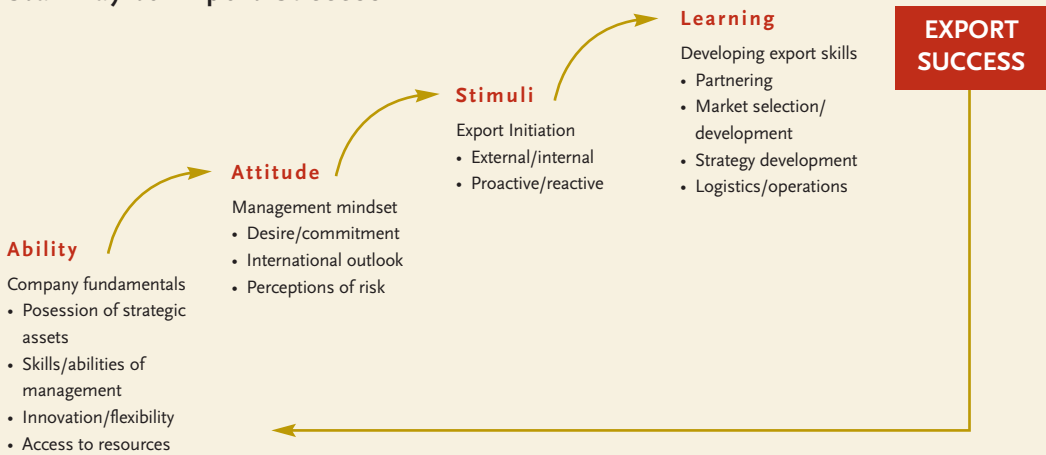
**Boots on Line** is a good example. Although a micro business employing 4 staff, the business is attaining export sales that account for 40% of the firm’s annual turnover. This is being achieved primarily through the efficient use of e-commerce technologies to market and sell their products. It could be argued that without access to information technologies, Boots on Line would not be the successful exporter that it is today.



# STAIRWAY TO EXPORT SUCCESS

The key drivers of export success for small business are described in the model of export development set out below. This model identifies the four key components of export success as ability, attitude, stimuli, and learning.<sup>11</sup>

## Stairway to Export Success



Source: Exporter community, identifying potential exporters, literature review, Dr Chris Styles, 2000

The findings of the case studies provide strong evidence to support this model. Each of the four components is clearly evident for the successful exporters, but the four components of the stairway to export success are not necessarily sequential. Individual firms ventured into exporting at different stages of their development and by different means. For example, some firms identified their export market very early in the development of the business, while others only looked for an export opportunity after they had consolidated their domestic market.

Other firms not yet at the export stage indicated the need for skill development in relation to IT, networking and information gathering. These businesses were observed to have some of the necessary attitudes and characteristics for export success, but still required some skill development in accordance with the learning stage of the model.

11 Austrade, 2002, 'Knowing and Growing the Exporter Community: A Report from the Australian Trade Commission', Australia.

# APEC EFFORTS FOR SMALL BUSINESS

This study finds that while small business faces considerable competitive pressure as a consequence of open markets, its inherent characteristics do not preclude it from greater participation in international trade. Indeed open markets may provide it with increased opportunities.

A primary task for governments in assisting further participation of small business in international trade is to reduce barriers to trade beyond tariffs. While further reducing tariffs, APEC's new agenda now also focuses on a range of issues, such as:

- *Strengthening markets through improving economic and corporate governance, enhancing transparency, and promoting structural and institutional reform* – It is much harder for smaller firms with fewer resources to operate in situations of poor governance. Bigger firms can operate more effectively under difficult business conditions; can afford to insure against, and operate in, risky, opaque systems; have greater ability to cope with less transparent decision making processes; and can afford the costs of adjusting for poor economic infrastructure and institutions.
- *Cutting transaction and conformance costs* – Last year APEC member economies agreed on the goal to achieve a 5% reduction in transactions costs over the next 5 years. Attaining this goal would deliver greater relative benefits to small businesses than larger firms, as small businesses are more likely to be adversely affected by costs associated with meeting importing destination's certification and standards requirements; customs delays; additional testing or labelling requirements; and are less able to put required resources to address paper burdens associated with the mechanics of shipping and trading goods.
- *Increasing business mobility* – Greatly assists smaller operators as their on the ground networks are small or non-existent and travel is important as a marketing tool.
- *Increasing information* – APEC on-line resources, such as BizAPEC, provide valuable trade information to small businesses which, unlike their larger counterparts, do not have their own information networks and sources, and cannot cover the costs of establishing them.
- *Commitment to e-commerce and increasing access to the internet* – This is of great importance for small business, which struggle to keep pace with larger firms already enjoying such access.

Cuts in transaction costs provide greater relative benefit to smaller businesses

# FUTURE POLICY CONSIDERATIONS

*1 APEC needs to continue, and if possible intensify, its core work on trade and investment liberalisation and facilitation.*

The APEC agenda and the goal of open markets are directly relevant to the future prospects of small businesses in the region. Moving forward the APEC agenda will have a direct, positive impact on the long-term growth and development of small businesses and their ability to contribute to jobs, economic growth and trade and investment APEC-wide.

*2 APEC efforts to cooperate on capacity building are particularly important for small business.*

Economic and technical cooperation to prepare economies for further reform and market opening is crucial to empower smaller business to participate in regional trade and investment and to maximize the benefits of globalization.

*3 APEC needs to share experience and expertise to build the policy environment for the creation and promotion of small businesses.*

The right policy environment and economic conditions are keys to fostering growth of small business. Small businesses are less able to deal with poor economic fundamentals, poor governance, poor financial architecture, lack of transparency and regulatory or other impediments to business.

*4 APEC needs to ensure small businesses also have access to key drivers of growth: infrastructure, technology, information, finance and skills and training.*

Promoting entrepreneurship – the basic driver of small business – and other key small business drivers is particularly important in enabling developing economies to contribute more fully to, and enjoy the benefits of, economic growth in the Asia Pacific region by the year 2020.

*5 APEC needs to identify and address trade and non-trade barriers affecting the growth and development of small businesses.*

Evidence suggests that small businesses have not benefited to the extent of larger firms from the trade liberalisation work that has already been undertaken in the GATT and WTO or APEC, which has tended to be more focused on manufacturing tariffs and less focused on non-tariff impediments or services sector issues (where 80% of APEC small businesses operate).

## UNIREX KABUSHIKI GAISHA

When Mr. Ryuichi Hiraiwa was made redundant, the 54-year old native of Hakkodate, Japan, didn't want to retire, and he felt an obligation to provide work for many of his former colleagues. So, in 1996 he founded Unirex Co. Ltd. in his hometown, Sapporo, hoping to capitalise on their accumulated experience by exploiting the opportunities which the management of their previous companies had failed to take up.

From the beginning, the focus of Unirex was export, primarily to China, but also to Germany and Hungary. Unirex now has an annual turnover of US\$2.96m, with overseas sales now accounting for nearly 20% of total revenue. The company offers a range of products that have been developed through the reworking of existing technologies for new clients or industries. Several of these have worldwide patents, and are world best-practice technologies, including:

- Bio Coal technology, which produces clean-burning, high-energy briquettes from low quality brown coal.
- Cadmium Removal technology, used to remove the cadmium deposits which are a byproduct of the scallop industry.
- Electric Cold Food Smoking equipment, which drastically reduces the duration of existing methods.

The company sees a wide and growing customer base (currently nearly 100) as an important feature of its operations, but is also working with the giant Mitsubishi Corporation on Bio Coal technology, an initiative which may well account for 80% of all sales if it is successful.

Most company employees are of a mature age and have limited IT experience. The management is aware of the need to both improve staff computer skills and upgrade the IT facilities. Unirex is keen to develop the IT skills of its staff and adopt an e-commerce capability.





## FACTORS FOR SUCCESS

- The combined experience and skills of the small workforce. This includes both engineering expertise and the sales experience and customer network that Mr. Hiraiwa had developed, particularly in China, over the years. Similar links with large trading houses and government agencies have also helped.
- Access to up-to-date technology. Unirex has established fruitful links with the research departments in several local universities and ploughs most of its profits back into long-term research and product development.
- The company's focus on quality and customer-responsiveness. Unirex relies on unique technologies and a reputation for excellence, and strong customer relations, rather than price-competitiveness.

## BOOTS ON LINE

In 1995, a small Australian footwear retailer ventured into the export market by offering a local product (R M Williams boots) via the Internet. Today, export sales account for 90% of Boots On Line's internet activity and 40% of the firm's annual turnover of US\$0.5m.

The owner-manager, Mr. Barry Michaels, has been running the business for 27 years, and is the only one of his staff with IT skills to manage the export side of the business. He has worked in the IT industry, also runs a small computer business, and despite his lack of experience in exporting, saw the internet as "a shop window to the world."

Prior to its venture into the export market, the firm's inventories were variable, with low stock levels carried over the summer. Now, the demand from overseas customers buffers the local shop from such seasonal variations and allows it to carry the same level of stock year-round, thus benefiting domestic customers. The carrying cost is obviously greater, but more than compensated by the increase in turnover.

It has not all been plain sailing for Mr Michael's export venture, however, and he has had to overcome a number of real and potential barriers to growth. These include:

- the imposition of taxes in some purchasers' home countries;
- high freight costs;
- the use of stolen credit cards; and
- the limited computer skills of his employees, who are only trained in direct customer service.

The business uses 4 computers, with one dedicated to the e-commerce function. The website currently accepts orders and provides customer service, and is partially linked with the overall business system. Payments, however, are still handled manually. A customer file is maintained for internet business, but not for local customers.

Mr. Barry Michaels  
saw the internet as  
"a shop window to  
the world."

## FACTORS FOR SUCCESS

- A unique, high-quality product, with a world-wide reputation and not easily available overseas. The boots are particularly popular in countries which share a cultural closeness with Australia (viz UK, US, Canada.)
- Access to an effective freight infrastructure which virtually guarantees 3-day delivery to customers in the UK or US, and 5 days elsewhere.
- Prompt and efficient customer service. All customer queries are answered within 24 hours, and customers may return boots if they are dissatisfied, provided they pay for the freight. (Less than 2% of sales are returned.)
- Easy internet access, with competitive service providers offering reliable support, and acceptable levels of data security.

## ELECTRICAL COMPONENTS

Electrical Components (EC), in the state of Selangor, Malaysia, is a typical Chinese, family-run small business, manufacturing AC capacitors for use in light fittings and electrical goods. Typical in the sense that its founders ran the business on intuitive management principles and relatively informal arrangements with customers and suppliers, while a second generation of family managers have later introduced information technologies and more professional management techniques. EC, which was established by two engineers in 1978, currently employs a staff of about 30 predominantly skilled and semi-skilled production workers. EC has been exporting for 10 years, and achieved its highest annual turnover (US\$1.3m.) in 1999. The initial impulse to export was triggered by approaches from foreign manufacturers.

One of EC's greatest problems is procuring and retaining skilled staff, which often prefer the better wages and conditions offered by larger organizations. The other major challenge is to build up a distinctive brand reputation for the company's capacitors, reinforced by the internationally recognised quality accreditations which are increasingly demanded by both local and overseas customers. Although declining from 10% to around 2% of company total turnover in recent years, exporting remains a key focus for the management, because of the higher margins it generates and because of a general urge to expand the customer base. Strong and sustained communication with overseas clients, electronically or preferably face-to-face, is seen as a crucial platform for such business.

The company regards itself as a relatively sophisticated user of computer technology and has achieved efficiencies in the areas of accounting and inventory control, production planning and control, and general information management and communication. The establishment of a company website has certainly improved communication with suppliers and customers, but as yet no transaction facility has been incorporated. The high costs of broadband connection represent another hindrance to the development of full e-commerce potential.

## FACTORS FOR SUCCESS

- Internationally recognised quality certification on certain categories of its products has generated competitive advantage over local competition
- Low-interest, long-term government loans for purchase of quality control testing equipment have assisted this drive for quality
- A focus on expertise, planning and networking facilitates the rapid delivery of products to overseas customers
- Installation of business application software and adoption of internet technology has increased productivity and efficiency
- Government-sponsored seminars and trade fairs have provided networking opportunities and information on overseas manufacturers and customers



## VJANDEP PASTEL BAKERIES

Ms Eleanor Popera-Jose admits to a number of failed small-business ventures around the Philippines during the 1980's as she and her young family followed her husband's military postings. Finally, in 1990, inspired by a series of dreams about her grandmother's bun-making, she began baking her first Pastel products and hawking them around her neighborhood in the remote Camiguin Island province; she started with capital of US\$2.35, and her first day's profits amounted to US\$0.68. Today that business, VJANDEP Pastel (VP), is worth an estimated US\$49,000, employs 39 staff, has just opened its third branch and boasts gross daily sales of US\$1,070.

Ms Popera-Jose and her husband Virgilio Jose are proud of their success, and readily pay tribute to the external support which has contributed to its growth:

- A series of loans (from the Philippines Department of Trade and Industry, funded by the Asian Development Bank; a Spanish government development program in Camiguin; and the Land Bank of the Philippines).
- Various government-sponsored training programs (in entrepreneurship, business management and good manufacturing practices)
- Government-sponsored trade fairs and exhibits, which have generated requests for distributorship of VP's Pastel products in other regions.

But such assistance is only beneficial if it is approached with the right attitude. They have doggedly pursued any potential government-sponsored assistance.

VJANDEP Pastel faces several challenges as it contemplates the further growth which clearly beckons. Only recently has it begun to computerise its financial and supplies inventory data, as well as establish a website for the business, which it is still trying to link with an integrated website for Northern Mindanao businesses initiated by the Department of Science and Technology. Expansion, particularly into the export market, is an attractive proposition, but finance, distribution, technology and export knowledge and skills would all need to be improved.

Inspired by a  
series of dreams  
about her  
grandmother's  
bun-making,  
she began baking  
her first Pastel  
products in 1990.

## FACTORS FOR SUCCESS

- Access to secure sources of finance proved crucial in covering initial start-up costs and later expansion plans
- Owner-operators took advantage of government-sponsored training programs to gain the necessary capacity to successfully manage and develop their business
- Government-sponsored trade fairs have proven to be effective networking opportunities
- Future expansion into the export market is viewed to be closely tied to access to finance and technology, as well as additional training opportunities

## THE FISHERMAN'S WIFE

Two sisters, Ms Belinda Cruz and Ms Christina Ramirez, launched The Fisherman's Wife in 2000. Their business imports arts and crafts, goods and clothing from a number of Latin-American countries and sells them at three locations in Texas, close to the Mexican border. The co-owners both have full-time jobs, as an Assistant High School Principal and American Airlines flight attendant respectively, but have seen their "part-time" efforts lift the micro enterprise's revenues to an annual US\$35,000. The sisters employ a half-time salesperson at their primary shopfront, have a percent-of-sales arrangement with 2 other kiosk locations and are keenly pursuing opportunities to on-sell their products to other retailers around the US.

Both partners believe that few barriers have impeded the development of their business activities thus far, but identify a range of procedural and management concerns which will have to be addressed if they are to fulfill their plans to grow further:

- Cash flows with their retail customers require streamlining, a particular problem being the difficulties encountered with customer cheques that did not clear.
- Difficulties with the seemingly arbitrary nature of some customs inspection procedures need to be addressed. The partners feel frustrated with the lack of clear information on import restrictions and on certain non-permissible product contents.
- The partners wish to build their asset base, which could be used as collateral in the negotiation of lines of credit.
- The business urgently needs to computerise its procedures. The inventory is currently being computerised, which should increase their productive capacity by moving stock more quickly. There are also plans to launch a website during 2002, with the aim of marketing more widely and encouraging online product purchases.

Both partners  
have seen their  
"part-time" efforts  
lift the micro-  
enterprises  
revenues to an  
annual US\$ 35,000.



## FACTORS FOR SUCCESS

- Ms Ramirez's ability to liaise closely and often with her suppliers in Latin America, and to cultivate trusting relationships, has facilitated a steady flow of high-quality merchandise. The bilingual and bicultural skills of both partners are a key element of this business orientation.
- Financial support from a non-government micro-lending organisation, ACCION Texas, which provided seed capital of US\$10,000, as well as assistance from the US small business association, which provided financial aid when an unforeseen natural disaster threatened the business future.
- Business location and marketing. South Texas is a popular tourist destination, both for northern US residents (particularly retirees) and Mexican citizens, guaranteeing steady customer demand.
- Trading infrastructure. The Northern American Free Trade Agreement (NAFTA) and strong trading links with Latin America encourage trade flows across the US-Mexican border.

## SPR ACTOPAN

The two owner-operators of SPR Actopan, in the east Mexican state of Vera Cruz are strongly motivated by a desire to improve the general economic status of their native Actopan region, and to provide more jobs for local residents. Five years ago, inspired by what they saw as the market inequities faced by the many small producers in the region, they established the firm to distribute, process and promote fresh mangoes.

SPR Actopan now has 5 staff (4 full-time and 1 part-time) and an annual turnover of US\$210,000. The firm processes some of its fruit to sell to confectionery manufacturers, but the bulk of its activity turns on the sale of fresh mangoes to small Mexico City supermarkets (40% of total sales), to food processors and directly to retail customers.

SPR Actopan's path to its present position has not been an easy one, nor is its future certain. The owner-managers acknowledge a number of considerations which still represent potential barriers to their growth, including access to capital, competition from other retailers, lack of transport infrastructure and expensive freight costs.

Given its reputation for high quality, and the high consumer demand in the US, the firm has certainly not ignored the prospect of exporting its products. However, severe price fluctuations and seasonality in production pose several problems which need to be addressed before such a venture would appear viable. Moreover, the co-owners are cautious about their lack of experience and expertise on such matters as exchange rates, international freight costs and product hygiene standards set by importing nations.

Likewise, the company has no plans for any e-commerce involvement in the foreseeable future, citing network security, shortage of regional internet providers and lack of staff skills as the major impediments to the achievement of full benefits from this technology.

The two owner-operators are strongly motivated by a desire to improve the general economic status of their native Actopan region.



## FACTORS FOR SUCCESS

- The co-owners believe that the links they have established with local communities are the primary determinant of their success so far. The firm is seen by many growers as a preferable alternative to informal product brokers.
- Valuable technical support in marketing has been provided by the firm's liaison with the country's leading agricultural science university.
- Their relative proximity to large markets is a favourable factor. Mexico City is 350 km distant and Puebla 300 km.
- High product quality, enhanced by the strong ties with growers, ensures relatively constant demand.
- The company gained some tax relief when they were exempted from paying local property rates for 3 years.

## REFERENCES

- Austrade, 2002, *Knowing and Growing the Exporter Community: A Report from the Australian Trade Commission*, Australia
- Burgess, Stephen (ed.), 2002, *Managing Information Technology in Small Business: Challenges and Solutions*, Idea Group Publishing, USA.
- Bureau of Industry Economics, 1995, *Potential Gains to Australia from APEC: Open Regionalism and the Bogor Declaration*, Australia.
- D'Amico, Esther, 2001, 'Global E-Commerce', *Chemical Week*, Vol.163, Iss.36, Sept, pp.24-29
- Department of Foreign Affairs and Trade (DFAT), 1999, *Global Trade Reform: Maintaining Momentum*, Australia.
- Department of Foreign Affairs and Trade (DFAT), 2001, *The APEC Region Trade and Investment 2001*, Australia.
- Department of Foreign Affairs and Trade (DFAT), 2001, *From Sheep's Back to Cyberspace: Trade and Regional Australia in Changing Times*, Australia.
- Department of Foreign Affairs and Trade (DFAT), Australia, and Ministry of Foreign Trade and Economic Cooperation (MOFTEC), China, 2001, *Paperless Trading: Benefits to APEC*, Australia.
- Department of Foreign Affairs and Trade (DFAT), 2001, *APEC Progress on Tariffs: Implications for a New Agenda*, Australia.
- Greenfield, Paul & Colton, John, 2001, *APEC e-Business: What Do Users Need?* Commonwealth Scientific Research Organisation (CSIRO), Australia
- Hall, C, 2001, *Profile of SMEs and SME Issues in APEC 1990-2000*, 2nd draft report.
- Iyer, Lakshmi S; Taube, Larry and Raquet, Julia, 2002, *Global E-Commerce: Rationale, Digital Divide, and Strategies to Bridge the Divide*, *Journal of Global Information Technology Management*, Vol.5, No.1, pp.43-68
- Lewis, Jeffrey, 2001, *Weaving Electronic Commerce into Global Business and Financial Management*, AFP Exchange, Bethesda, Vol.21, Iss.6, Nov/Dec, pp.14-17
- Organisation for Economic Co-operation and Development (OECD), 1998, *Open Markets Matter: The Benefits of Trade and Investment Liberalisation*, France.
- PriceWaterhouseCoopers, 1999, *SME Electronic Commerce Study*.