



Internationalization of SMEs

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Background

- Current phase of globalization ongoing for some time:
 - 1950's: Trade
 - 1970's: Financial services
 - 1990's: Services
- Distinction between:
 - Outward Internationalization (exports, sales)
 - Inward Internationalization (imports, acquisition of knowledge)

Background

- In the past: Globalization mostly business of large companies and multinationals. High entry barriers:
 - Foreign Direct Investment
 - Costly Export activities (Distribution networks)
- Accelerating drivers of current phase:
 - Availability of modern technology (web)
 - Increased cross-border financial flows (M&A)
 - WTO Framework
 - Relative Market Size

Background

- Nature of Internationalization has changed:
 - Foreign Direct Investment
 - Export
 - But also: Joint Ventures, Lincensing agreements, etc.
- Stronger participation by SMEs than before

SME Internationalization:

- Risks and opportunities - Globalization has greater impact on SMEs than in the past:
 - Non-exporting SMEs face stiffer competition on home markets: Risk of loss of market share
 - Rationale for those who internationalize:
 - Lower production costs
 - Access and servicing of new markets
 - Lower entry barriers: Internet, joint ventures and licensing agreements
 - Internal Market: Relative homogeneity, absence currency risk in Euro-Zone, two-step internationalization

SME Internationalization:

- Obstacles faced by SMEs:
 - Relative cost higher for smaller companies
 - Lack of expertise in dealing with:
 - Different legal frameworks
 - Red tape
 - Complex trade regulations
 - Hedging of currency risks
 - Potential abuse of ownership rights
 - Language and cultural barriers
 - One important obstacle: Access to finance (DIHK, SME Observatory)

SME Internationalization:

- **Obstacles faced by SMEs:**
 - **Access to finance:**
 - **Difficulties due to:**
 - Differing legal frameworks (contractual, insolvency, etc.)
 - In case of default, bank faces similar obstacles in claiming and processing assets: Disproportionate costs, cultural and language barriers, etc.

SME Internationalization:

- Presentations:
 - Key note speaker: Ms. Rute, EC: Financial and other support measures for internationalization
 - First Round Table: Views and support services from the European SME organizations
 - Second Round Table: Contribution of European and Asian Guarantee institutions to help promote internationalization of SMEs (Export guarantees, FDI guarantees, local guarantees for FDI, cross-border guarantee agreements, etc.)

Sources:

- EC, 2003 Observatory of SMEs
- UNECE, Internationalization of SMEs, the UNECE approach
- Commission Communication on Competitiveness of European Enterprises in the Face of Globalization
- DIHK (German Chambers of Commerce) Competitiveness Survey spring 2008