Item 6 c) of the agenda.

This document is for discussion and comments from WPTGS delegates.

Synopsis: The aim of this presentation is to explain what is known about the role of SMEs in both U.S. and EU exports. To do so, we shall examine published data on U.S. SME exports using U.S. Census data, and describe major trends and data limitations. In the second portion of this presentation, we shall modify our definition of SMEs to use one that is harmonized with EU definitions, using a pre-release version of the OECD’s Trade By Enterprise Characteristics database. In so doing, we can compare the roles of SMEs in both the U.S. and EU exports.

It has been prepared by Mr. Alexander Hammer, USITC and Mr. James Stamps, USITC.

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THE ROLE OF SMALL & MEDIUM SIZED ENTERPRISES IN U.S. AND EU EXPORTS

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(For OECD's WPTGS, Oct 2010)

Introduction

[SLIDE 2] The underlying research that was generated for this presentation was motivated by a statutory request that the U.S. Trade Representative (USTR) made to the U.S. International Trade Commission in November 2009 under article 332 of the U.S. Trade Act of 1930. The U.S. President (through the USTR), the U.S. Senate (through the Senate Finance Committee), and the U.S. House of Representatives (through the Ways and Means Committee) often solicit the U.S. International Trade Commission (USITC) to undertake research on contemporary issues in trade. While the USITC does not make or recommend policy, the independent and objective analysis undertaken by the institution can be used, in conjunction with analysis from other U.S. government agencies, to inform policy makers on matters of trade. [SLIDE 3] The following slide provides a brief overview of how the USITC helps inform trade policy makers.

[SLIDE 4] In November of 2009, Ambassador Kirk of the USTR requested that the USITC initiate 3 simultaneous investigations on the role of SMEs on U.S. exports. For the 1st of these studies, the USITC was tasked to quickly identify what is known and unknown about U.S. SME exports.1 Two other related studies were initiated through the same mechanism. Specifically, Study 2 was tasked to explore differences between the roles of SMEs in the U.S. and EU (as well as other things), 2 while Study 3 was asked to identify barriers that disproportionately affect U.S. SME exports, and to estimate the role of SME exports in services.

[SLIDE 5] My colleague James Stamps and I will limit our discussion to the identified themes in the first 2 studies. While we are not allowed to discuss the findings of our 3rd report because it is not complete, the good news is that the suspense should not be too taxing, as it is due to be delivered to our client on Wednesday of this week, and is likely to be publicly available shortly thereafter.

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1 USITC, Small and Medium-Sized Enterprise: Overview of Participation in U.S. Exports, January 2010.
2 USITC, Small and Medium-Sized Enterprise: U.S. and EU Export Activities, and Barriers and Opportunities Experienced by U.S. Firms, July 2010.
PART 1: SMES IN THE U.S. ECONOMY

SME Definition

[SLIDE 6] To begin with, we must first state that the U.S. government possesses no universally accepted definition of what is an SME. The Small Business Association, U.S. Census (part of Commerce), and the U.S. Department of Agriculture do provide much of the guidance for defining these entities. For this study, we will focus on manufacturing SMEs, which are commonly defined as possessing less than 500 employees. The important take-away from this figure is that it is different from how EU institutions have broadly defined SMEs, and is also a little different from how we defined the size of SMEs in the agriculture and service sectors. There, an additional revenue parameter was implemented to differentiate them among different kinds of firms.

Stylized Facts on SMEs Role in the U.S. Economy

[SLIDE 7] Before addressing SME exports, let’s explore some stylized facts on SMEs in the broader U.S. economy, to serve as a point of reference. First, we understand from U.S. Census data that SMEs account for approximately half of non-agricultural GDP, and the vast majority of number of firms. We also know that wholesalers and retailers assume the largest share of SMEs in the U.S. economy, a point of differentiation with larger firms that were mostly concentrated in manufacturing activities.

[SLIDE 8] We also know that SMEs account for approximately half of non-farm private employment in the U.S., and that the category of SMEs that are large (meaning that they employ between 100–499 employees) has been the segment of the labor force that has grown the fastest since 1996.

Stylized Facts on SME’s Role in U.S. Exports

Data Problems:

[SLIDE 9] It is important to realize that there are some limitations to the data that inhibit a more comprehensive assessment of SME’s role in U.S. exports. First, U.S. Census, at least as of the time this report was published, did not officially post service sector trade data.

Second, for public merchandise trade data that is decomposed by enterprise size, the data is published in components, meaning that to arrive at a total U.S. SME export value, we need to aggregate its associated components, which include exports by “manufacturers”, “wholesalers”, and “others”. The provided diagram shows why this may lead be somewhat distortive conclusions once aggregated. Specifically, manufacturers both large and small, and from the U.S. and not the U.S., may be supplying wholesalers with input. Without estimating “value added” in each of these stages, we cannot accurately identify how much is originating from each source. Nonetheless, that is the best information we have, and proceed with that important caveat in mind. In sum, we know that this is not perfect but it’s the best information we have.

SME’s Role in U.S. Exports

[SLIDE 10] For about a decade, U.S. SMEs have accounted for approximately 30% of U.S. exports. This is only an approximate value, however, since when comparing U.S. Census and official U.S. export data published by Commerce, it is discovered that there are differences in the aggregates. These differences are attributable to a small share of firms that are not characterized by firm size. For simplicity then, we take
the ratio of SME exports to SME + large firm exports, and assume we can impute those ratios to overall export values.

**Decomposing SME Export by Destination**

*SLIDE 11* Like larger U.S. firms, U.S. SMEs export mostly to their NAFTA partners in Canada and Mexico. However, relative to large firms, the share of U.S. SME exports is largest in such markets as Hong Kong, Switzerland, and Israel.

**Decomposing SME Exports By Type**

*SLIDE 12* Like larger U.S. firms, U.S. SMEs mostly export transportation, computers, and chemicals. Interestingly and perhaps non-surprisingly, these products are mostly exported to the 2 NAFTA partners identified in the last slide. Relative to larger firms’ exports, however, the largest share of U.S. SME exports are in labor-intensive sectors, such as wood products and apparel & accessories.

**The Role of Market Entrants**

*SLIDE 13* U.S. SMEs exports has been relatively more dependent on net new market entrants relative to larger firms. On the graph, we plot how 4 different size categories of U.S. firms have grown in both number of firms and export value. The large firms, with more than 500 employees per firm, have contributed the most to export growth relative to all size categories, but this has not been because they included new large firms. This was almost exclusively based on the fact that large firms did not become more numerous, but perhaps more efficient at exporting. Smaller firms, and most notable the smallest of the small, grew much more than large firms between 1997 and 2007, but their corresponding growth in exports has been smaller. This suggests that their export growth has been more dependent upon net new market entrants.

**SUMMARY**

*SLIDE 14* In conclusion:

- **Definition:** There exists no universal U.S. government SME definition, but we will basically employ the “less than 500 employees per firm” definition as it is the most common one focused on manufacturing firms.
- **Data Limitations:** There exist problems with aggregating our data to come to conclusions about overall U.S. export data given that the data is reported as either manufacturer or wholesale data. The lack of services data is also a problem.
- **Role in U.S. Exports:** We know that despite the fact that SMEs account for approximately 50% of U.S. GDP and employment, and virtually all of the U.S. firms, they constitute only approximately 30% of overall U.S. exports.
- **Where and What U.S. SMEs Export:** We have shown that SME merchandise exports mostly go to the U.S. NAFTA partners, and mostly sell electronic products, machinery, and chemicals.
- **The Role of Net New Market Entrants:** We have also shown that SME merchandise export growth has also been comparable to larger firms, but has more reliant on new entrants.
- **Service Sector Data:** Finally, while we have not had time to describe this data, firm-level data based on affiliate trade information suggests that professional services are the largest service category exports for U.S. SMEs, which are predominantly exported to the U.K. and Canada.
PART 2: COMPARISON OF SME EXPORTING ACTIVITIES IN

THE UNITED STATES AND THE EUROPEAN UNION

Introduction

[SLIDE 15] The USITC’s July 2010 report on SMEs had three objectives. They were to:

- Compare exporting activities of U.S. and EU SMEs;
- Report U.S. SMEs’ views on barriers to exporting, and strategies to overcome them; and
- Identify the benefits to U.S. SMEs of improved export opportunities from FTAs and other trading arrangements.

This presentation discusses only the component of the report that quantitatively compares U.S. and EU SME exporting activities. This part of the analysis used an April 2010 pre-release version of the OECD Trade by Enterprise Characteristics (TEC) Database.

SME Definitions

There is no single globally accepted definition of SME. Countries use different definitions for a variety of reasons, including the need to scale the terms “small” and “medium” to meaningful levels, given the typical size of firms and level of economic activity in the country. Moreover, some countries’ legal definitions of SME differ from the statistical definitions they use. Definitions typically categorize SMEs based on firm size limits according to the number of full-time employees. In addition, definitions of SMEs also may include thresholds of firm financial performance, such as the value of annual sales, annual revenue, or turnover.

[SLIDE 16] As my colleague Alexander Hammer stated, the U.S. government possesses no formal definition of what constitutes an SME, although U.S. manufacturing SMEs are commonly defined as possessing less than 500 workers. The EC common definition for SMEs defines SMEs as firms with fewer than 250 workers. To facilitate a comparison of U.S. and EU SMEs, the USITC analysis for this second report on SMEs took into account the SME employment thresholds. To harmonize U.S. and EC data, the first step was to obtain data that disaggregate U.S. data by firm size into categories of fewer than 250 workers. The OECD TEC database was particularly useful because it provided data for both the United States and the European Union for firms with fewer than 250 workers.

OECD Trade by Enterprise Characteristics (TEC) Database

[SLIDE 17] There were five datasets in the OECD pre-release TEC database. For this second report on SMEs, the USITC used dataset 1—trade by activity sector and enterprise size.

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3 UN, Department of Economic and Social Affairs Statistics Division, SME Statistics, 2004, 8.
Data Comparability and Data Limitations

Before looking at the findings from the USITC comparison of U.S. and EU SME exporting activity, I will review a few issues related to data comparability and data limitations with respect to comparisons of U.S. and EU data on SMEs.

- Data in this analysis using the OECD pre-release TEC database are for U.S. and EU firms with fewer than 250 workers. While this firm size class generally meets the EU definition of SME, it is not comparable with other U.S. studies (including the USITC January 2010 report on SMEs) that define SMEs as firms with fewer than 500 workers.

- U.S. SME (< 250 workers) exports are compared to EU SME exports outside of the EU. As discussed elsewhere in the USITC July 2010 report, a number of EC studies on SMEs looked at both intra- and extra-EU exports.\(^4\)

- Data are for 2005, the most recent year for which data are available for all countries.

- The OECD TEC database provided export data for 17 EU countries (EU-17).\(^5\) Notably, Germany and the United Kingdom were not included. Because there were 25 EU member countries in our 2005 base year, USITC used two linear regressions to estimate export data for the EU countries outside of the reported EU-17.\(^6\) One regression related SME exports to SME sales by country, and a second related large company exports to large company sales by country.\(^7\) In our report, USITC reports data for the United States, the EU-17 countries in the OEC TEC database (based on actual data), and the EU-24 countries (based on estimated data from our regressions).

The Role of SMEs in Manufacturing and Exports

It is likely that historical and structural features of the U.S. economy have favored the development of large firms over time. For example, the U.S. market historically has been more integrated relative to the EU market, given the common language, common currency, common regulatory regime, and lack of internal frontiers, favoring the development of larger firms to serve the large internal domestic market. In comparison with the United States, the historically more fragmented European market may be seen as having favored the development of smaller firms.

Table 2.2 on the slide shows estimated exports and sales for manufacturing firms in the United States and the European Union (including both the EU-17 and the EU-24 countries). SMEs (firms with fewer than 250 workers) play a less prominent role in both manufacturing and exports in the United States than in the European Union. From the table (see figures circled) we see:

- SMEs accounted for almost 12.7 percent of exports by U.S. manufacturers ($65 billion), compared to 34.1 percent ($127 billion) for the EU-17 and 31.2 percent ($253 billion) for the EU-24.

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5 Those 17 countries are: Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Hungary, Italy, Latvia, Lithuania, Luxembourg, Poland, Portugal, Slovak Republic, Slovenia, and Sweden.
6 There were 25 EU member countries as of 2005. EU turnover (sales) data for SMEs were obtained from Eurostat. Data were available by country and firm size class for all countries in the EU except Malta (i.e., the EU-24 countries).
7 Both regressions had high correlation coefficients. See appendix C of the USITC July 2010 report for more details on data and methodology.
• SMEs accounted for 19.3 percent of sales by U.S. manufacturers, compared to 45.4 percent for the EU-17 and 39.6 percent for the EU-24.

• Despite the much greater role of SMEs in the European Union than in the United States, the export/sales ratios for U.S. and EU manufacturing firms are similar. In particular, we observe that:
  • The export/sales ratio for U.S. SMEs (7.1 percent) is much closer to the ratios of EU-17 (8.0 percent) and EU-24 (8.2 percent).
  • The export/sales ratios for large U.S. large firms and for large EU firms are all about 11.5 percent.
  • The export/sales ratios for all U.S. firms and for all EU firms are all about 10.5 percent.

The Role of Wholesalers/Intermediaries

[SLIDE 20] The role of SMEs (firms with fewer than 250 workers) wholesalers or other intermediaries is greater for the United States than for the European Union. Table 2.3 in the slide shows that 41 percent of U.S. exports by SMEs are by wholesalers, compared to about 24 percent of EU SME exports. Thus, the data suggest that SME exporters in the European Union are more likely to be manufacturers than SME exporters in the United States. In addition, although the United States has a much larger share of SME exporters that are wholesalers, the share of SME exporters that are wholesalers is nevertheless significant in the European Union.

The table also reveals some interesting trends among large exporters. Large-firm exports in both the United States and the European Union are dominated by manufacturers. However, the share of large EU exporters that are wholesalers is significantly smaller than that of the United States.

Exports by Firm Size and Major Industry

[SLIDE 21] SME manufacturers in the European Union had larger exports than SMEs in the United States (fewer than 250 workers). Table 2.4 shows that about 54 percent ($79 billion) of U.S. exports of wholesalers were by large firms (at least 250 workers). In the EU, just 9.9 percent ($7 billion) of exports of wholesalers were by large firms. This suggests that SME manufacturing firms in the United States may benefit from the export services of large wholesalers to a greater extent than do SMEs in the European Union.

SME Exports by Sector

[SLIDE 22] Finally, the USITC used the OECD TEC database to investigate SME exports by sector. We found the export share of U.S. SMEs (fewer than 250 workers) to be lower than that of the EU in nearly every sector. The greater export-intensity of EU SMEs could be related to a difference in U.S. and EU industry composition.

Table 2.6 in the USITC July 2010 report shows that SMEs in the EU accounted for more than 50 percent of exports in 7 manufacturing sectors: furniture manufacturing; metal products; publishing, printing, and reproduction of recorded media; leather; textiles; wearing apparel; and wood products. SMEs

8 Exports by EU-17 manufacturing firms were calculated as described for table 2.2. Exports by wholesalers were calculated using the same method, but limited to the exports of firms with NACE industrial activity 51 (“wholesale trade and commission trade”). Ratios of manufactured goods exports to all goods exports were calculated from the Global Trade Atlas database for 2005.
in the United States accounted for more than 50 percent of exports in only one sector: coke and refined petroleum products.

One shared characteristic was noted in the sectoral data. Some of the more capital-intensive sectors had the lowest SME shares in both the United States and the European Union, including motor vehicles, tobacco products, and paper and paper products.

SUMMARY

[SLIDE 23] In conclusion:

- SMEs (firms with fewer than 250 workers) play a less prominent role in both manufacturing and exports in the United States than in the European Union. However, despite the much greater role of SMEs in the European Union than in the United States, the export/sales ratios for U.S. and EU manufacturing firms are similar.

- U.S. SME exporters (firms with fewer than 250 workers) are relatively more likely to be wholesalers or other intermediaries than EU SME exporters.

- U.S. export-oriented wholesale firms are larger than EU wholesale firms. The data suggest that U.S. SME manufacturing firms (fewer than 250 workers) may benefit from the export services of large wholesalers to a greater extent than do SMEs in the European Union.

- The export share of U.S. SMEs (fewer than 250 workers) was found to be lower than that of the EU in nearly every sector.
SELECTED BIBLIOGRAPHY


