

# Using SMEs for Improving Asia–Europe Connectivity

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**T**he economies of Asia and Europe have become increasingly integrated. This process of economic integration has been driven by the mutually reinforcing market forces and production networks. The extent to which small and medium-sized enterprises (SMEs) are participating and benefiting from economic integration will determine the integration of Asia and Europe in an inclusive manner. SMEs are more likely to be resource constrained (compared to large firms) to take advantage of the benefits from trade and investment liberalisation. The Asia–Europe Meeting (ASEM) can work as a model platform for promoting the role of SMEs in Asia–Europe connectivity in the next decade. This paper maps out the participation of SMEs in Asia–Europe trade, production networks, and investment with a view towards facilitation provided by ASEM in the coming years.

## Asia–Europe Trade and Investment Linkages

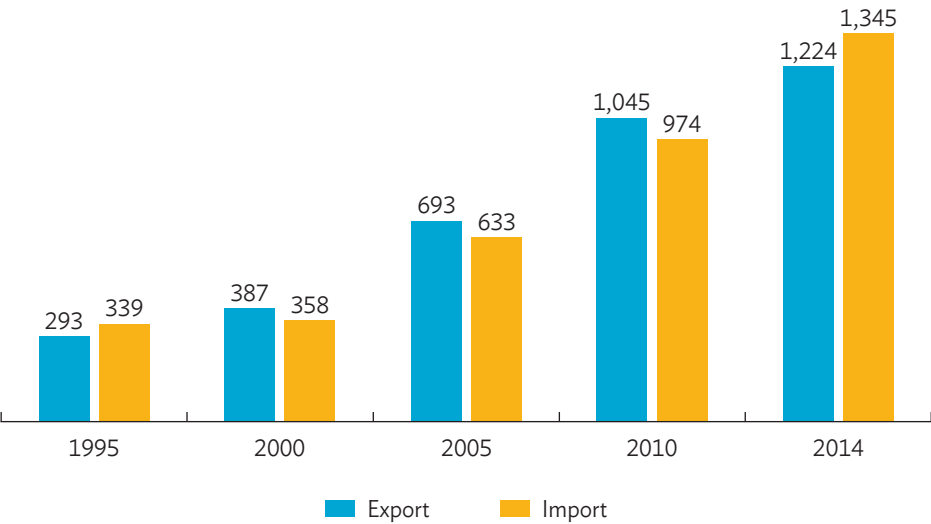
Europe is one of the most important trading partners for Asian countries (including Australia and New Zealand), with an annual average growth rate of trade of 10 percent from 2000 to 2014. In 2014, Asian partners accounted for 20 percent of Europe’s exports and 18 percent of imports. In 2014, five Asian countries were among Europe’s top 10 trading partners. China shared 11 percent of total European trade, taking the top spot, followed by Japan (3.7 percent), Hong Kong (3.5 percent), South Korea (3.2 percent), and Singapore (2.56 percent).

The European Union (EU) is also a major investor in Asia. In 2014, 18 percent of Europe’s outward investment went to Asia, whereas 8 percent of Europe’s inward investment originated from Asia.

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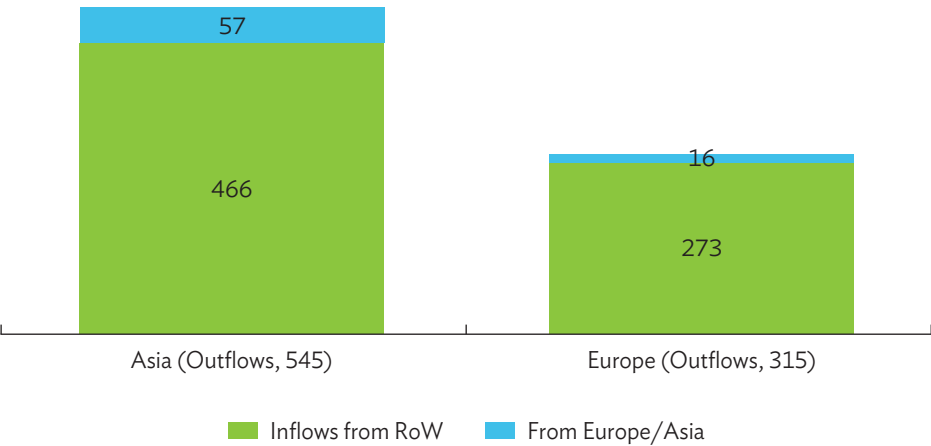
Generally, small and medium-sized enterprises (SMEs) face special problems relating to their size; in the context of rapid trade liberalisation, they need to develop capacities to take advantage of opportunities arising from a more open regional trading system and production network developments.

**Figure 1: Asia’s Trade with Europe (US\$ billion)**



Source: Calculated from UNCTAD (2016).

**Figure 2: FDI Inflows to Asia and Europe in 2014 (US\$ billion)**



RoW = Rest of the World.

Source: Calculated from UNCTAD (2016).

Despite cuts in average tariffs, small businesses still have difficulties in fully exploiting opportunities arising from globalisation and regional trading agreements. SMEs' contribution to direct exports has remained static or has even declined. Reductions in tariffs have not benefited SMEs; more emphasis by regional governments needs to be put on tackling non-tariff barriers (customs procedures, mobility of business people, standards of labelling requirements, access to finance, recognition of professional qualifications, consumer protection particularly regarding online transactions, and intellectual property rights) if SMEs are to benefit from trade expansion and enhance their exporting capacity.

SMEs also lack skills in dealing with customers in both domestic and overseas markets. They have limited knowledge about language and culture as well as the legal and bureaucratic issues involved in participating in export markets and production networks (Table). They may experience a lack of business infrastructure support and in some countries may be discriminated against relative to large firms.

**Table: Common Challenges for SMEs' Development and Internalisation**

Challenges	Capabilities and Limitations
<b>Competition</b>	<ul style="list-style-type: none"> <li>• Small size resulting in a relatively high cost of production</li> <li>• Lack of market intelligence (e.g. business opportunities, prospective customers, competition status, channels and distribution, local regulations and practices, and taxation)</li> <li>• Weak network</li> <li>• Difficult to meet large demands</li> <li>• Uncompetitive quality and/or delivery</li> <li>• Inadequate institutional support and assistance</li> <li>• Lack of necessary manpower and financial resources</li> </ul>
<b>Internationalisation</b>	<ul style="list-style-type: none"> <li>• Limited abilities to internationalise operations due to limited capacity to analyse, penetrate, and segment foreign markets</li> <li>• Technical limitations to act as suppliers to foreign buyers/investors</li> </ul>
<b>Trade liberalisation</b>	<ul style="list-style-type: none"> <li>• Lack of knowledge and skills to react to free trade agreements</li> <li>• Less awareness of opportunities and challenges derived from various trade agreements</li> </ul>
<b>Managerial skills</b>	<ul style="list-style-type: none"> <li>• Lack of knowledge about new strategies and techniques; inability to orient new design and production</li> <li>• Inability to allow staff to acquire new skills</li> <li>• Lack of knowledge to use e-commerce</li> <li>• Inability to hire appropriately qualified and talented labour</li> </ul>

Source: Abe (2015).

There is a wide range of ‘best policy practices’ to support firms overcome barriers in connecting SMEs in Europe and Asia, and vice versa, that can guide the region’s decision-makers. The following may be considered for regional cooperation to support SME internationalisation.

- *Expand cross-border SME financing mechanisms:* as financing, particularly trade and supply chain finance, is a key constraint to SME internationalisation. Therefore, facilitating the cross-border flows of financing and financial instruments—e.g. credit, credit guarantees, and particularly trade and supply chain finance—is especially important to expand SME internationalisation. This could include a focus on regional cooperation related to trade and supply chain finance and cooperation. An important potential regional initiative is an agency/mechanism for providing SME credit information to reduce credit risks and lower the barriers for SME access to financing, given the information gap between lenders and SMEs.
- *Establish comprehensive Asia–Europe SME user-friendly online information portal:* To respond to the information barrier and allow greater sharing of market and business-related information, a region-wide online SME-oriented portal could play an important role. It could include information on market and industry trends and key issues; business opportunities and related leads; business matching on a region-wide basis; comprehensive listing of the region’s enterprises in key value chains to facilitate identification of potential partners/suppliers/buyers; comprehensive information on rules, regulations, and procedures in the region’s markets; and list of internationalisation-related advisory services and associated organisations and individuals in the region. The EU’s SME Internationalisation Portal provides a useful example. It is a database that lists (semi) public providers of specialised services (e.g. local chambers of commerce) for companies planning to enter international markets, and links to other EU-backed sources of support and advice, such as the European Commission’s Market Access Database that provides market access information for individual non-EU growth markets.
- *Establish Asia–Europe SME business centres to support SMEs exporting (directly and indirectly) and investing in the region:* These centres, established in selected locations in Asia and Europe, would provide support and assistance to SMEs for doing business in Asia–Europe markets. This can include business development services (e.g. focused market information, business and marketing advice, matchmaking support, physical facilities such as desk/secretarial support and meeting rooms); legal services support (e.g. access to practical legal information, referral to service providers such as lawyers and tax advisors); standards and technical issues (e.g. information on required certification, quality, and labelling); and human resources-related support (e.g. access to specialised skills including languages, and referral to training sessions and expertise). The EU business centres, particularly the EU SME Centre in China, could provide useful experience and guidance.

- *Establish ‘Asia–Europe SME Internationalisation Best Practices Centre’*: There have been many SME internationalisation best practices studies, and even more on general SME best practices. An Asia–Europe best practices centre with easy access and use by firms could serve an important role in supporting SME internationalisation. It could provide extensive and practical information to the region’s SMEs on best (and worst) practices, including case studies focusing on specific firms, in particular, value chains and markets; a practical and supported framework for self-assessment of existing operations; and strategies for firms on adapting and implementing best practices. Ideally, or over time, this could be linked to regional advisory services, such as the suggested Asia–Europe SME Business Centre.
- *Expand regional workshops and training*: Internationalisation workshops, particularly targeted at particular value chains of regional importance, and market immersion programmes, could play an important role in providing practical information and knowledge to regional SMEs, given multi-country participation. For example, this could focus on delivering accredited management and technological training leading to regional certification. This can also help support the building of cross-border alliances and partnerships among the participants.

Showcasing and implementing SME policy best practices will send a strong policy signal and commitment of the two regions towards further successes of trade and investment cooperation. Successfully linking SMEs in Asia and Europe would also ensure an inclusive and sustainable agenda, as SMEs are the majority business stakeholders in both regions.

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