SME Internationalization: Was there an old normal, is there a new normal?

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Outline

▪ Stylized facts
▪ Impact of COVID-19 on SMEs
▪ New normal
SMEs account for >90% of enterprises, but only a small share of good exports

<table>
<thead>
<tr>
<th></th>
<th>Share of Total SMEs (%)</th>
<th>Share of Total Exporters (%)</th>
<th>Change in share of total exporters (% points)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Earlier</td>
<td>Later</td>
<td>Earlier</td>
</tr>
<tr>
<td>Australia</td>
<td>2008</td>
<td>2018</td>
<td>1.9</td>
</tr>
<tr>
<td>Canada</td>
<td>2011</td>
<td>2018</td>
<td>3.0</td>
</tr>
<tr>
<td>Chile</td>
<td>2009</td>
<td>2017</td>
<td>0.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>2014</td>
<td>2017</td>
<td>4.3</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2009</td>
<td>2018</td>
<td>0.9</td>
</tr>
<tr>
<td>Peru</td>
<td>2013</td>
<td>2017</td>
<td>0.4</td>
</tr>
<tr>
<td>Thailand</td>
<td>2010</td>
<td>2018</td>
<td>0.8</td>
</tr>
<tr>
<td>United States</td>
<td>2009</td>
<td>2017</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Note:
- Data available for most economies often cover only goods exports; unfortunately, high share of total SMEs are found in the service sector in most APEC economies

Source: APEC (2020).
MSMEs account for about 20% of export value in Indonesia, Malaysia and Thailand, 2010–2018

INO = Indonesia; MAL = Malaysia; MSME = micro, small, and medium-sized enterprise; THA = Thailand.
Note: Exchange rates of local currency to US dollar refer to end-of-year currency rates from the International Monetary Fund (IMF) International Financial Statistics in designated years.
Source: ADB Asia SME Monitor 2020 database.
India MSME exports stable in 2015-2018 (about 50%)

Share of MSME exports in total exports in India

MSME = Micro, Small & Medium Enterprises.
Source: Reserve Bank of India (2019).
Profile of MSMEs in global supply chains

- MSMEs operate within small domestic markets in relatively stable businesses. Only a small portion of MSMEs are exposed to global markets.

![Graph showing the profile of MSMEs in Thailand and Indonesia.](image)

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Profile of MSMEs in global supply chains

- MSMEs surveyed mainly export their goods within Asia.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
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Business environment during COVID-19 pandemic

- MSMEs involved in GVCs faced sharp drop in demand, supply chain disruptions, and contract cancellations more seriously than non-GVC MSMEs.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Revenue during COVID-19 pandemic

- MSMEs with no revenue increased in the 2nd month after the outbreak caused by temporary business closure, more pronounced in GVC MSMEs in Indonesia.

Note: 1,147 valid samples in Thailand and 525 in Indonesia. Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Employment during COVID-19 pandemic

Around half or more GVC MSMEs had no change of employment after the outbreak. The level of reduced workers in GVC firms was lower than non-GVC firms.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Wage payments during COVID-19 pandemic

• For GVC MSMEs, the level of suspended wage payments to employees after the outbreak was lower than non-GVC MSMEs.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Financial conditions during COVID-19 pandemic

• GVC MSMEs had relatively sufficient cash and savings to survive during the pandemic as compared with non-GVC MSMEs.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Funding during COVID-19 pandemic

• GVC MSMEs had relatively good access to bank credit and had funding support from business partners during the pandemic.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Concerns & obstacles for MSMEs involved in GVCs

- MSMEs reported a lack of working capital as the top ranked concern to retain business. Decline in demand as the 2nd ranked but more serious in GVC MSMEs.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Actions considered by MSMEs involved in GVC

- Most MSMEs desired the deferred loan repayments. Indonesia GVC MSMEs considered contract cancellation more seriously. Near half of Thai GVC MSMEs considered wage cuts of employees.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.
Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Policy measures desired by MSMEs involved in GVC

- Most MSMEs sought financial assistance from the government, followed by subsidies/cash transfers/grants.
- GVC MSMEs desired one stop service windows for exporters & importers.

Note: 1,147 valid samples in Thailand and 525 in Indonesia.

Source: Calculated based on data from the rapid MSME surveys in Thailand and Indonesia, April–May 2020.
Tax waivers/temporary tax relief and financial programs would be most helpful government measures for both small and big businesses.

What are the top 3 government measures that would be most helpful as you cope with the COVID crisis? (% of responses and overall ranking)

<table>
<thead>
<tr>
<th>Measures</th>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to self-employed people</td>
<td>36 [3]</td>
<td>29</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Rent subsidies</td>
<td>31</td>
<td>34 [3]</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Cash transfers</td>
<td>24</td>
<td>33</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Reduction of tariffs on imported inputs</td>
<td>16</td>
<td>15</td>
<td>21</td>
<td>27</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Definitions: Microenterprises, up to 4 employees; small firms, 5-19 employees; medium-sized firms, 20-99 employees; large firms, 100 or more employees.
Note: Data on 2,170 businesses in 121 countries. Response rates vary across countries and regions.
MSEs struggle to access information and benefits from government

How easy is it to access information/benefits from government COVID assistance programs?

<table>
<thead>
<tr>
<th>Share of responses (%)</th>
<th>Very difficult</th>
<th>Difficult</th>
<th>Standard</th>
<th>Easy</th>
<th>Very easy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Micro</td>
<td>19</td>
<td>25</td>
<td>20</td>
<td>32</td>
<td>38</td>
</tr>
<tr>
<td>Small</td>
<td>40</td>
<td>43</td>
<td>42</td>
<td>36</td>
<td>32</td>
</tr>
<tr>
<td>Medium</td>
<td>21</td>
<td>11</td>
<td>20</td>
<td>32</td>
<td>38</td>
</tr>
<tr>
<td>Large</td>
<td>40</td>
<td>43</td>
<td>42</td>
<td>36</td>
<td>32</td>
</tr>
</tbody>
</table>

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SMEs more likely to adopt “agile strategies”

Have you adopted any of the following strategies to cope with the crisis?

<table>
<thead>
<tr>
<th></th>
<th>Retreat</th>
<th>Resilient</th>
<th>Agile</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMEs</td>
<td>19</td>
<td>59</td>
<td>21</td>
</tr>
<tr>
<td>Large</td>
<td>20</td>
<td>64</td>
<td>16</td>
</tr>
</tbody>
</table>

Definitions: Microenterprises, up to 4 employees; small firms, 5-19 employees; medium-sized firms, 20-99 employees; large firms, 100 or more employees.

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Normal?

Old Normal – pre-COVID
  • To January 2020
  • Globalization, value chains, SME participation

Great COVID Disruption
  • February 2020 to July 2021 (?) – trusted vaccine
  • Constrained economic activity
  • Reduced global interaction (especially people, tourism, travel)
  • New ways/deepening of digital interaction (platforms, zoom, Teams, skype)

New Normal – post-COVID
  • Will COVID create a new normal?
  • What shape, implications for SME internationalization?
4 characteristics of a new normal

1. **Shock Prepared**
   - Be better prepared for future shocks. Expect the unexpected. Build financial reserves, within business and economic systems.

2. **Deeper Digital**
   - Ever more of what we do will be digitized. Reduced travel. More remote work. Requires better digital infrastructure and advanced digital literacy.

3. **Defensive Health**

4. **Agility to pivot**
   - Business respond to new trends. Crisis is an opportunity. Positive pivot from traditional markets/processes to latent opportunities. At home and abroad.
## Digitalization programs to boost SMEs internationalization

<table>
<thead>
<tr>
<th>Country</th>
<th>Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>SGD 33 billion ‘Fortitude’ Budget that will encourage businesses to adopt e-invoicing, e-payments and business process or e-commerce solutions</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>D-Biz program to fast-track SME adoption of 12 categories of IT solutions; each eligible applicant may receive up to HKD 300,000 to undertake projects, to be completed within 6 months</td>
</tr>
<tr>
<td>Malaysia</td>
<td>RM 300 million has been allocated by the government for the Automation and Digitalisation Facility (ADF) program to incentivize SMEs in automating processes and digitalize operations to improve productivity and efficiency</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Conduct of virtual business matching events that will spur exports by small and medium enterprises (SME) by connecting them with potential buyers abroad</td>
</tr>
</tbody>
</table>

*Sources: Fitzgerald (2020); Rahman (2020).*