

SMES EMPOWERMENT THROUGH INTERNATIONAL ASPIRATIONS

Abstract: Challenges for SMEs development are multi-dimensional. As trade barriers, transport and communication costs fall, SMEs are required to add more value to their products to stay ahead and compete with lower cost rivals. Consumer demand is changing rapidly as incomes rise and choices increase when imported products become easily available in domestic markets. Competition within the developing world for export markets, foreign investment and resources is also intensifying.

This was motivation to focus in this paper on SMEs, its export competitiveness, business strategies, access for financing and so on. Enhancing SME competitiveness requires creation of enabling legal, regulatory and administrative environments and capable institutional structures, and most importantly human capital and a sustainable environment. Removing supply-side constraint to trade and investment, require firms to build up their competitive advantages. Public and private sectors in transition and developing countries must work together to improve the functioning of markets at home, while intensifying efforts to integrate into the world economy.

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1 Introduction

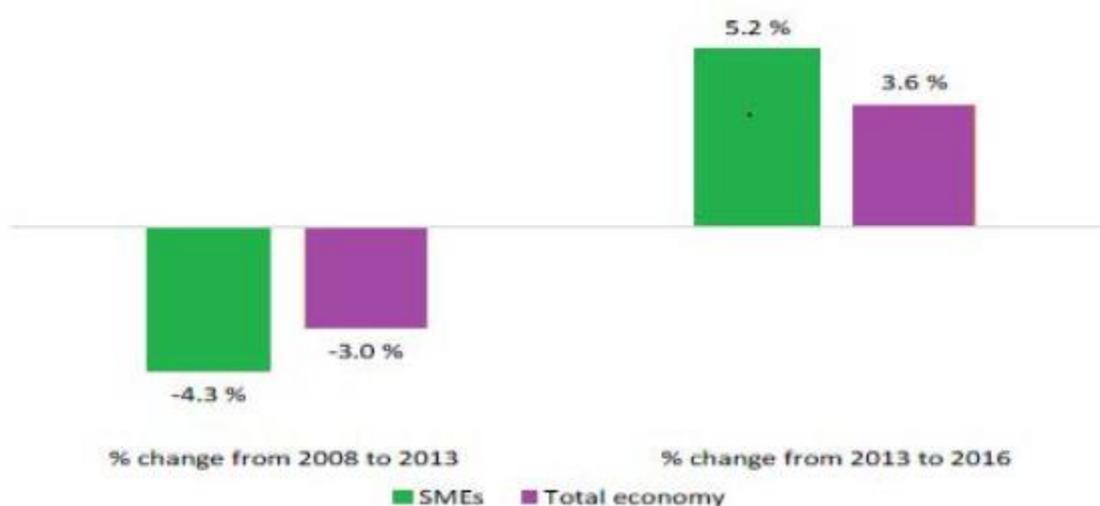
SMEs play an important role in economic growth and development. In this way, globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges. The majority of SMEs in developing and transition countries, has been less able or unable to exploit the benefits of globalization and, to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition. Many transition and developing countries, in particular face a need to promote and strengthen the long term development of the SME sector, which requires access to market opportunities, as well as to new technology and management know-how, often in a situation of considerable resource scarcity.

However, there is growing evidence of changes in patterns of foreign direct investment, involving a wider range of source and destination countries and the increasing involvement of SMEs as foreign investors. There is evidence that a growing number of medium sized firms, in particular, are internationalising their operations as a strategic response to increasing competitive pressure. In this context, internationalisation represents a means of reducing costs, as well as of opening up new market opportunities, thereby enabling them to combine greater flexibility with cost reduction (ACCA, 2012a).

All Member States except Greece and Poland also saw SME value added increase in 2016. It rose by more than 2 % in 22 Member States and by more than 5 % in Bulgaria, Croatia, Ireland, Malta and Romania. EU-28 SME employment expanded in practically all sectors of the economy, reflecting a balanced economy-wide growth of 2016, with some sectors recording growth of 3 % or more. However, these sectors with a higher growth of SME employment account for only a small percentage of total EU-28 SME employment. Consequently, the impact of their strong performance on overall EU-28 SME employment was limited. Annual growth in EU-28 SME employment varied considerably across the main non-financial business sectors in 2016, ranging from 0.9 % in “construction” to 2.8 % in “business services”. The employment recovery in SMEs was most dynamic in services industries. Employment growth in “wholesale and retail trade”, “accommodation and food services” as well as in “business services” expanded by an estimated 1.7 %, 1.8 % and 2.8 %, respectively, while employment in ‘manufacturing’ was estimated to have increased by 1.1 % in 2016. Even with this recent upswing, SME employment in “manufacturing” was still about 11 % below the employment levels at the start of the financial crisis in 2008. Technology intensive sectors played a prominent role in SME’s growth. This refers in particular to the group of knowledge intensive services such as high tech services, which recorded the strongest SME employment growth in the EU-28.

SMEs in the European Union After declining for a number of years following the 2008/2009 economic and financial crisis, EU-28 SME employment has picked up more recently and has outshone the economy as a whole. EU-28 SME employment grew by 5.2 % from 2013 to 2016, almost 50 % faster than overall employment in the EU-28 economy over the same period.

Figure 1: Change (in %) of EU-28 SME, 2008 to 2013 and 2013 to 2016



Source: Eurostat, 2017

In terms of its contribution to sectoral employment and value added, SMEs are the most important enterprise size class in the “construction” sector, and also, to a lesser extent, in ‘business services’, ‘accommodation and food services’, and ‘wholesale and retail trade’. In 2016, the contribution of SMEs in these four sectors ranged from 70 % to 88 % in terms of employment, and 66 % to 80 % in terms of value added (Figure 2). In the EU-28 manufacturing sector, where large enterprises are generally dominant, SMEs still accounted for 58 % of total employment and 42 % of total value added in 2016.

Figure 2: Contribution of SMEs to employment and value added in the key sectors of the EU-28 non-financial business sector in 2016

brokerage events for SMEs to meet with investors and other potential collaborators for fund-raising and commercialisation of output.

While policies to support the internationalisation of SMEs and their growth in hightech manufacturing or knowledge-intensive services are essential for the future economic well-being of Europe, the many SMEs operating outside these sectors should not be forgotten. The crucial role of SMEs export performances for economic development should be taken into greater consideration through regular and effective consultations with SMEs and SME representatives. Moreover, SME tests and regulatory impact assessments should also be applied not on ad hoc basis but rather systematically as an integral part of policy making.

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