



USING THE INTERNET TO PROMOTE SERVICES EXPORTS BY SMALL- AND MEDIUM-SIZED ENTERPRISES

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EXECUTIVE SUMMARY

- SMEs are the main drivers of U.S. employment, and the majority of the employment is in SME services firms.
- Services are also a growing portion of U.S. exports. U.S. services exports are 34 percent of total exports. Including services used in the production of goods for export increases services exports to 50 percent of total U.S. exports.
- The U.S. runs a services trade surplus and has a competitive advantage in high-skill, high-paying services. The U.S. trade surplus in 2013 was \$213 billion.
- Services exports supported 4.2 million jobs in the U.S. in 2013.
- Services SMEs are under-represented in U.S. exports. Only 5 percent of high-skilled services companies export, compared to 25 percent in the manufacturing sector.
- The global growth in Internet access is providing new opportunities for SMEs to export services to customers globally. The Internet also gives SMEs access to services as inputs, which increases the productivity of all SMEs and their ability to compete in overseas markets.
- Export Promotion Agencies (EPAs) assist SMEs to export. However, EPAs have not developed a comprehensive approach that takes full advantage of the opportunities the Internet provides for growing SME services exports.
- Some countries have developed new ways to use the Internet to assist SME exports. For example, in the U.S., businessusa.gov collects on a single website relevant trade data and provides information on the export assistance provided by various government agencies. In the U.K., opentoexport.com provides trade data, information on exporting and opportunities to blog and interact with experts. Matchesme.com in Denmark goes further and connects local businesses with local service suppliers. Connectamericas.com is also focused on Latin America and uses the Internet to match customers and suppliers.
- These different approaches and their successes provide insights into how to scale up an online program that could have a significant impact on SME services exports. The following are the main elements of such a program:

- **Develop an Internet platform.** Such a platform would connect services SMEs with overseas buyers and facilitate the transaction through to the export and payment.
- **Build public-private partnerships.** The Internet platform should involve the government and the private sector, drawing on their respective expertise.
- **Develop trust in the Internet platform.** This is needed if the platform is to succeed. There are various ways to build trust. This could include developing a rating system that is accepted across borders and incorporates into the platform existing trust-building mechanisms.
- **Give services SMEs access to better information.** The Internet platform should include all relevant information for services SMEs, including trade data, timely and relevant information on markets, barriers and regulations.
- **Develop online networking opportunities.** The Internet platform should allow services SMEs to meet customers and suppliers online. This would also increase the flow of timely information amongst participants on the platform. Such networks can also be used to vet potential business partners, thereby building trust in the Internet platform.
- **Improve access to finance.** A lack of finance is a barrier for services SMEs going global. An Internet platform should include information on financing opportunities and innovative financing approaches such as crowdfunding.
- **Create opportunities for soft landing in export markets.** The ability for services SMEs to have face time with potential customers remains important for achieving export success. An Internet platform could build on the approach of CDMN in Canada and give SMEs opportunities to spend time overseas in start-up incubators or building contacts.

INTRODUCTION

This paper discusses the importance of services exports for the U.S. economy. In this context, the paper analyzes how export promotion agencies (EPAs) can use the Internet to grow services exports by small- and medium-sized enterprises (SMEs).

The first part of this paper discusses how engaging in international trade benefits services SMEs and the U.S. economy. Part 2 provides an overview of the barriers faced by SME service firms in using the Internet to go global and analyzes the different ways that SMEs

use the Internet, from reaching consumers globally, communicating with suppliers, to becoming part of global supply chains. Based on interviews and an on-line survey with export promotion agencies (EPAs) in the U.S. and select other countries, Part 3 describes how EPAs are engaging service SMEs and assisting them in using the Internet to become international traders. Part 4 draws on the experiences of EPA support for SME services exporters and recommends how to scale up some of these approaches in ways that would have a broader impact on SME services exports.¹ The paper concludes with thoughts on future research.

PART 1: INTERNATIONAL TRADE AND THE IMPACT OF THE INTERNET ON SME SERVICES EXPORTS

The Importance of Services and SMEs for the US Economy

Reducing barriers to international trade produces a range of economic benefits. At the macroeconomic level, international trade leads to lower prices for consumers as tariff rates and other barriers are removed. Trade also forces domestic businesses to compete with imports, increasing overall productivity in the economy, supporting higher wages and increasing overall welfare.² In addition, SMEs that export have higher employment, are more productive, pay higher wages, and are more capital and skill-intensive. As more productive firms become exporters, less productive firms exit the industry, leading to a reallocation of resources to productive firms and raising average industry productivity.³ Engaging in international trade also exposes firms to uncertainty and risk, which catalyzes learning and requires adjustments that produce more productive and innovative firms.⁴ For instance, the challenge of being in a foreign market requires innovation to adapt business operations and to tailor services for the market to address cultural, language and regulatory differences.⁵

Data shows that most firms do not export and those that do are larger than average. In the United States, the top 1 percent of firms—large multinationals—account for 90 percent of U.S. trade but only 15 percent of employment.⁶ In contrast, SMEs are the main drivers of jobs growth in the U.S., accounting for 63 percent of net new private sector jobs since 2002, and 60 percent of net job gains since the end of the recession.⁷ In addition, 37 percent of these jobs created by SMEs were in high-tech industries.⁸ SMEs are also more innovative

than larger firms, producing 16 times more patents per employee than large firms.⁹

The majority of the jobs created by SMEs—over 80 percent—are in the services sector. This is significant given the importance of the services sector for U.S. growth and employment. In 2012, private services accounted for 69 percent of U.S. GDP and 68 percent of employment growth.

Services are also an important component of U.S. trade. Thirty-two percent of U.S. GDP is now comprised of international trade and 34 percent of total U.S. exports are services. U.S. services exports supported 4.2 million jobs in 2013. Taking into account the value added of services in the production of goods, such as the use by a manufacturing company of design, research and development, consulting, accounting, and advertising services that are embodied in the exported goods, services are 50 percent of total U.S. exports.

The U.S. also runs a services trade surplus, which in 2013 was worth \$213 billion. This is in contrast to the U.S. trade in goods deficit, which in 2013 was \$689 billion. The U.S. has a competitive advantage in services exports, particularly in high-wage, high-skill services. Services SMEs are more likely to be exporters of knowledge-intensive services like professional, scientific and technical services. Moreover, services SMEs that can overcome barriers to trade have higher survival rates than manufacturing SMEs.¹⁰ SMEs that export also pay higher wages than the manufacturing sector.¹¹

There is significant scope to increase U.S. services exports. For instance, while 25 percent of manufacturing firms export, only 5 percent of services businesses are engaged in international trade.¹²

Services can also be increasingly traded as a result of developments in information technology. The Internet, in particular, is having a profound impact on services trade, enabling services to be purchased and exported online.

As the Internet expands globally it is also giving SMEs access to an increasing number of international customers.¹³ In the developing world, Internet access averages only 32 percent, ranging from 16 percent in India to 46 percent in China.¹⁴ In fact, 4 billion people do not have Internet access, with over 90 percent of these people living in developing countries.¹⁵ For instance, in China over 730 million people do not have Internet access and in India that number is over 1 billion. Internet access is expected to reach 5 billion people by 2020, up from 2.7 billion today, with most of the growth happening in the developing world.¹⁶

As the developing world gets online, access is increasingly on mobile devices. Mobile subscriptions in the developing world are 90 per 100 inhabitants, having grown from only 25 per 100 inhabitants in 2005.¹⁷ These mobile devices are becoming “smart” and can connect to the Internet. By 2018, 93 percent of U.S. mobile devices and 83 percent of Western Europe’s mobile devices (61 percent of Central and Eastern Europe) will be “smart.”¹⁸ In the developing world, 54 percent of mobile devices will be smart by 2018, double the amount today.¹⁹ Combining these trends with a growing middle class in Asia, in particular, and which is expected to double by 2020, highlights the potential growth of online international commerce. For instance, globally, people who have made at least one online purchase increased from 38 percent in 2011 to just over 40 percent in 2013. By 2017, over 45 percent of the world is expected to be engaging in online commerce.²⁰

Using the Internet to Grow Services Exports

The Internet is providing particular opportunities for U.S.-based SMEs to participate in the global economy.²¹ According to one report, exports of modern services such as financial, computer, business and legal services—all of which can now be provided online—are mostly likely in countries that are democratic, open to trade, and close to major financial centers.²² This makes the U.S. well positioned to capitalize on services trade opportunities.

Measuring services trade that happens online is limited by the absence of data on how services are delivered. The U.S. Bureau of Economic Analysis has sought to bridge this gap by calculating the value of so-called digitally deliverable services—services “that may be, but are not necessarily, delivered digitally.”²³ This captures the potential for services to be delivered online and points to where there is the most potential for the Internet to change the way that international trade happens. Digitally deliverable services cover business services, financial services, insurance and telecommunications services, including email and Internet services. Using this data, in 2012 61 percent of total U.S. services exports worth \$383.7 billion were digitally deliverable.²⁴

This data highlights the potential of the Internet to grow services exports. For services SMEs, this can be realized by using the Internet to reach customers globally wherever they have Internet access. This is also increasingly happening using Internet platforms such as eBay and T-Mall. For instance, SMEs on eBay are almost as likely to export as large businesses, have a 54 percent survival rate compared with offline businesses (24 percent), and over 80 percent of businesses export to five or more countries.²⁵

Internet use by SMEs can also increase their productivity and ability to compete in overseas markets. SMEs that use the Internet at high levels have revenue growth up to 22 percent larger than SMEs that use the Internet at lower levels.²⁶ A McKinsey Global Institute report surveyed 4800 SMEs in 12 countries and found that SMEs utilizing the Internet for business functions grew at twice the rate of those that did not.²⁷

Various studies have confirmed that increasing Internet use drives international trade.²⁸ For instance, one study concludes that a 10 percent increase in Internet access leads to a 0.2 percent increase in exports.²⁹ Other studies using more recent data find even stronger impacts of Internet use on trade.³⁰ A key way the Internet can lead to an increase in international trade is through its impact on firm productivity, which in turn increases the competitiveness of these businesses domestically and globally, increasing the opportunities for international trade.³¹ A recent U.S. International Trade Commission (ITC) report estimates that the Internet has improved the productivity of digitally intense industries by 7.8 to 10.9 percent.³² Another study found that broadband access increases firm productivity by 7 to 10 percent.³³

There are a number of ways that Internet use can increase firm-level productivity. For instance, the Internet provides new opportunities for business-to-business transactions, such as when a U.S. business uses the Internet to download online software to reach international consultants and other professional services providers or to access financial services online. Using the Internet to access such cutting-edge business services can increase the productivity and competitiveness of all businesses, strengthening their ability to compete in overseas markets, further stimulating international trade. According to a study by the Organization for Economic Cooperation and Development (OECD), a 1

percent increase in business services imports is associated with a 0.3 percent higher export share.³⁴

The Internet also allows SMEs to overcome many of the costs and barriers to engaging in international trade. The U.S. ITC estimates that the Internet reduces trade costs by 26 percent on average.³⁵ This includes in the following ways:

- Businesses can use the Internet to reach overseas customers and to sell products online. Internet commerce in the U.S. grew from \$13.63 billion in 2011 to \$42.13 billion in 2013 and is expected to reach \$133 billion in sales by 2018.³⁶
- Businesses can use the Internet to participate in global value chains. This includes so-called trade in tasks,³⁷ which refers to the ability of geographically diverse businesses to contribute a task or service as part of global value chains.
- The Internet reduces trade costs where it enables businesses to use services such as Skype to communicate with overseas customers and suppliers at little or no cost.
- Internet access provides businesses and entrepreneurs with otherwise costly and hard to obtain information on international markets.
- The Internet allows for access to international business and social networks which can be sources of information for SMEs on foreign markets.³⁸ Networks are particularly important for helping SMEs to grow.³⁹ Providing SMEs with access to knowledge and resources that are timely and cost effective helps SMEs respond to dynamic environments in overseas markets.⁴⁰ SMEs can use business networks to better understand different business cultures, which are often significant barriers to exporting for SMEs.

- The Internet provides new opportunities for international collaboration and research that can support economic activity and lead to international trade.⁴¹
- The Internet can help SMEs overcome resource constraints to exporting.⁴² The costs and risks of exporting are particularly acute for SMEs due to their limited capacity to absorb losses. For instance, cloud computing limits the need for large IT budgets and gives businesses the flexibility to scale up their IT capacity as market conditions demand. Crowdfunding gives Internet users the chance to fund a business venture and opens up new sources of finance.

Importantly, the Internet is already changing how entrepreneurs, particularly those in SMEs, think about international trade. The ability to reach overseas markets quickly and at lower costs is encouraging entrepreneurs to more readily identify opportunities overseas. The Internet encourages entrepreneurs to think globally and to internationalize quickly instead of following an incremental stepwise approach.⁴³

The advent of the so-called web 2.0 is also ushering in a new wave of business innovation and opportunity that is going to affect international trade. For instance, businesses are now using the Internet to harness the intelligence of users. This can involve interacting with customers, suppliers and other stakeholders in developing new services. Crowdsourcing is another evolving Internet-based opportunity that allows people situated globally to contribute tasks or become co-creators.⁴⁴

Despite these opportunities, there is evidence that SMEs fail to take advantage of the Internet to engage in international trade.⁴⁵ A relatively small number of SMEs use the Internet to transact online. A survey of EU SMEs found that while approximately 85 percent of services SMEs have a website, they mainly use it to provide information on the firm and to showcase their products.⁴⁶ In contrast, only around 28 percent of websites allow for orders to be placed online and around 15 percent allow for orders and payments to be made online. Similar data for Canadian SMEs showed that while 96 percent had a website in 2010, only 27 percent could accept online payments.⁴⁷

PART 2: BARRIERS TO SMES ENGAGING IN INTERNATIONAL TRADE

There are a range of barriers preventing SMEs from engaging in international trade. According to a survey of SMEs conducted by the U.S. ITC, key barriers for services SMEs to exporting include: language and cultural barriers; access to financing; transportation and shipping costs; foreign tax issues; foreign regulations; and insufficient intellectual property protection.⁴⁸ A survey by the EU Commission of European SMEs reached similar conclusions.⁴⁹

The following section analyzes firm constraints that are specific and internal to SMEs. There are also external constraints to trade that all exporters face, but which have an outsized impact on SMEs.

Firm Constraints

A number of the key barriers to SMEs engaging in international trade are firm-specific constraints such as a lack of resources. Exporting also presents transaction costs that are usually higher than operating domestically. These include finding trusted suppliers and distributors, working with customs officials and dealing with corruption. Cultural and language differences are other barriers that create risk and costs for SMEs.

SMEs are often less operationally capable than larger companies, lacking the internal organization and risk mitigation processes to deal with the challenges of exporting. They are also less likely to have the staff with international trade expertise that can steer a firm through these risks and to capitalize on the opportunities exporting provides.

To succeed at exporting also requires information on overseas markets, such as the laws and regulations

that need to be followed, market trends and consumer behavior. Obtaining accurate and timely market information is costly. SMEs also need to make commercial sense of this information and have the capacity to process and act on it in a strategic matter.

External Constraints

There are a range of external trade barriers that SMEs confront and consider as severe.⁵⁰ Many of these are not SME-specific, but SMEs are particularly vulnerable to them as the costs of these barriers often represent larger shares of export value than for high value traders. This includes lack of transparency in the development of regulations affecting trade, inconsistent enforcement and inadequate intellectual property protection. In addition, SMEs often lack the tools to overcome these barriers, such as the advocacy expertise in working with governments to address them.⁵¹

Exporting services also presents a range of specific challenges. As a general matter, developed countries tend to be more open when it comes to services trade than developing countries, but there are exceptions across industries.⁵² For example, barriers to exports of professional services are high globally due to requirements for local education and work experience. Even where these regulations are non-discriminatory they can be more burdensome for foreigners. Additionally, professional services are often subject to visa restrictions which affect the ability of professionals to deliver services in person.

In other services sectors—and this is particularly the case in developing countries—an absence of regulations can be a service export barrier. For instance, a lack of regulation can protect incumbent service providers like monopolist telecom operators, who

without the necessary regulation may be able to refuse to provide network access for the provision of competitive online services.⁵³

In order to effectively export services online, SMEs must also establish international payments systems to process payments from overseas customers and to manage the risks of credit card fraud. Differences

in consumer protection laws among countries can discourage consumers from purchasing services online. An effective dispute-settlement mechanism is also needed to address disagreements that can arise out of international transactions.⁵⁴ For SMEs, in particular, who are less resilient in absorbing costs and waiting out legal processes, such a system needs to be timely and cost effective.

PART 3: HOW ARE EXPORT PROMOTION AGENCIES HELPING SERVICE SMES?

The following section is based on phone interviews and written responses to a questionnaire.

US Export Promotion Agencies

There are a number of federal government agencies that provide services to help SMEs export. These include the Small Business Administration (SBA), the Department of Commerce, and the Export-Import Bank. The services these agencies provide are now accessible via a single web portal called businessusa.gov, which aggregates information across 24 federal government agencies. This website will eventually incorporate and replace export.gov, which is also a single portal for businesses looking to export. Businessusa.gov is supply-driven in terms of getting information out to SMEs. Firms accessing BusinessUSA.gov are asked to complete an online questionnaire that leads to tailored information on exporting.

There are also U.S. Export Assistance Centers (USEACs) located across the country that assist firms wanting to export. USEACs help SMEs use the range of government resources for exporting. This can vary from leveraging contacts at the Export-Import bank or the SBA for financing issues, or working with Small Business Development Centers (SBDCs) and the SBA for consulting and trading services. When it comes to finding overseas contacts, such as distributors and buyers, USEACs help SMEs contact commercial service staff at U.S. embassies and consulates who put U.S. exporters in touch with reliable partners in foreign markets.

There are also a range of other state and local-level points of contact for SMEs looking to export. The

SBDCs have 68 offices located across the United States. Each SBDC partners with local organizations such as local chambers of commerce and universities to provide entrepreneurs with assistance in starting a business. The relationships that SMEs develop with their local SBDC can be used to assist SMEs when they want to export.

The State Trade and Export Promotion (STEP) programs are located at the regional level across the United States. Managed by SBA, STEP matches federal and state funds to provide a service to assist SMEs with exporting. STEP programs achieve this in different ways depending on the state and the mix of industries needing help. Common assistance includes participating in foreign trade missions, designing international marketing campaigns and funding exhibits at trade shows. STEP also helps SMEs use existing support provided by other government agencies, such as the U.S. Commercial Service. Some STEP programs are more active in promoting the Internet as an opportunity for exporting. For example, the California STEP held a one-off seminar with representatives on how to use T-Mall (a Chinese e-commerce platform) to access the Chinese market. Whether STEP will continue is currently unclear as its funding expired in the 2013 fiscal year.

Following the National Export Initiative (NEI) announced by President Obama in 2009, the key U.S. government agencies with responsibility for promoting U.S. trade have focused their activities on increasing U.S. exports. For example, USEACs now work more intensely with existing exporters to increase the number of countries they export to rather than focusing on getting new exporters to market. The SBA has increased its loan program and education outreach, working with SBDCs to focus SMEs on exporting.

The following summarizes the key support that U.S. EPAs provide services SMEs:

- **Financing:** This could be through SBA financing options such as the Export Working Capital Loan and International Trade Loan Program. The Export-Import Bank is another source of finance.
- **Training and consulting services:** This is through USEACS or SBDCs and could include advice on issues such as developing business plans, conducting market research and how to find overseas buyers. The U.S. Commercial Service also provides consulting services to SMEs. The U.S. Trade and Development Agency has a database of consultants that provide free and fee-based consulting.
- **Market research:** Businessusa.gov provides information on specific markets. USEACs and SBDC will also help SMEs with market research.
- **Making overseas connections:** Connecting businesses with customers and suppliers in other countries is a core service of USEACs and the U.S. Commercial Service. This includes domestic and international trade shows that bring U.S. exporters and potential buyers together. The U.S. Foreign and Commercial Services also assist in locating distributors in potential export markets.

SME Services Exports

There is a strong U.S. government focus on helping SMEs to export. U.S. export agencies are aware of the importance of services for the U.S. economy and the potential for growing U.S. service exports. However, these agencies do not specifically target services SMEs or have a strategy to do so. In fact, most of the support these agencies provide is focused on goods exporters. For instance, the SBA Export Business Planner helps SMEs prepare and

determine their readiness for exporting but focuses its advice on goods exports. Most of the information in the Business Planner is on tariffs as a key trade barrier, the channels for exporting are for goods and the type of market research it advises SMEs to undertake is also goods-orientated.

The Internet and SME Services Exports

There is no focus or specific expertise among U.S. export promotion agencies on how to use the Internet as a tool for exporting. As outlined above, through businessusa.gov the government has developed a sophisticated online approach that consolidates and provides targeted information for exporters. However, this has not translated into a view of the Internet as a way to grow services exports specifically. Instead, U.S. government agencies provide ad hoc and limited advice to SMEs on how to use the Internet. The main EPA assistance on Internet use includes:

- The U.S. export portal includes useful information on how to use the Internet to export, though the focus is on selling goods online. There is also a list of FAQs for selling online into a range of overseas markets.
- The U.S. Commercial Service has published a guide called “Preparing Your Business for Global E-Commerce.” This guide provides useful and detailed advice about how to export online. However, the focus—including all the cases studies—is entirely on goods.
- There is some advice and training for SMEs on how to use the Internet to export. For instance, the SBA has provided online seminars such as “Taking American SME’s Global with Google” and another called “Using eCommerce and Social Media to Expand Sales Overseas.” However, this assistance is ad hoc and not part of a coherent strategy for using the Internet to export.

- Under STEP, some state programs such as California, Ohio and Arizona have provided funding for SMEs to develop and optimize their websites as a tool for exporting. The California STEP program sees the Internet as a key way of exporting but limits its support to encouraging companies to use the Internet and to developing their own internal firm capacity by hiring appropriately trained people and training existing staff. In all cases, funding for Internet-based exporting is limited and is not part of a comprehensive program to use the Internet to sell overseas. And as outlined above, the focus is primarily on helping companies sell goods online.

Measuring Success

No U.S. agency systematically collects data on the extent to which the services provided by U.S. export promotion agencies lead to export sales. The data collection that exists is limited in terms of its follow-up and data collected does not distinguish between whether the export was of goods or services.

EPAs rely on two main forms of feedback on their impact on exports. The first is a survey of firms who use EPA services. For example, USEACs collect data on export success from firms for two years after they have provided them with services. This is also true of most STEP programs. This data collection is, however, limited by two factors. One is the low response rate to these surveys, which is approximately 30 percent. The other is that it can take years—the SBA estimates up to 5 years—from when the services are provided by the EPA and an export sale is made. This suggests that there may be a lot of export success not captured in the two-year time frame for follow-up.

The second type of feedback is anecdotal. All SMEs spoken with confirmed that they had positive anecdotal feedback on where EPA services had produced ex-

ports. However, the self-selecting nature of such feedback likely overstates the impact on exports. Another issue is the challenge of separating out the impact of the EPA services from other factors leading to export.

The Australian Trade Commission

The Australian Trade Commission (Austrade) is Australia's federal export promotion agency with staff based in Australia and in Australia's embassies and consulates. Austrade works with Australian companies that can demonstrate export readiness. This requires a firm to have a business plan and actual export sales before they are eligible for assistance. This is a shift in emphasis for Austrade from focusing on growing the absolute number of exporters to focusing on helping exporters that can sustain themselves over time.

A core focus for Austrade is helping SMEs export. Australia defines SMEs as having less than 200 employees.⁵⁵ SMEs account for 99.5 percent of Australian firms by number and 70 percent of Australian employment.⁵⁶

SME Services Exports

Austrade does not collect data on whether the services they provide are for goods or services exports. Austrade sees the distinction between goods and services firms becoming less relevant as manufacturing firms increasingly generate significant revenue from services such as sales and training.

Austrade provides services on a sectoral basis. This includes a services sector that covers professional businesses, financial, ICT, major sporting events, and creative services. Each sector is supported by a team that works directly with companies to build their offshore presence. Typical work includes advice on overseas markets, information on applicable laws and

regulations in the foreign market and identifying the key barriers to exporting, helping businesses develop a business plan for exporting, identifying contacts and customers. Austrade also works to identify business opportunities in overseas markets that are not being realized by Australian businesses.

While Austrade realizes the potential for growing services exports from Australia, most of its work tends to be with goods exporters. One of the key challenges identified to growing its work with services SMEs is a lack of comprehensive services data that would allow a more strategic approach to working with Australia's services sector.

The Internet and SME Services Exports

In terms of how Austrade sees the Internet as a tool for growing SME services exports, Austrade does not have any particular resources dedicated to this. This is a change from 2002–2008 when Austrade was focused on helping SMEs use the Internet to promote their business and transact online, albeit more for SME goods exporters. Budget cuts in 2011 forced Austrade to refocus its work which led to a loss of this Internet expertise and capacity.

During the period in which Austrade helped companies use the Internet it had dedicated in-house experts—so-called e-business specialists—who would guide SMEs through the stages of getting ready to export online. Where outside expertise was needed, Austrade would work with consultants. Austrade would also help companies apply for government grants when possible and develop the business models for online exporting.

Austrade also conducted workshops for SMEs to take them through all the steps to exporting online. The emphasis on coaching was in response to the Australian

government's policy at the time to double the number of Australian exporters. These seminars were a tool to get SMEs to start thinking about exporting.

Today, Austrade would rely on private consulting if an SME wanted to develop a strategy for online exporting.

Measuring Success

When Austrade was helping firms use the Internet for exporting, it did not have in place a formal mechanism to assess the impact of this work. Austrade did collect some anecdotal feedback on success stories. Austrade also saw itself as trying to equip companies with knowledge about how to use the Internet for export, which would require SMEs to take the next step and engage private web developers if they wanted to proceed. Separating out the impact of these Austrade services on export sales was seen as very difficult.

Austrade still sees appetite among Australian SMEs to use the Internet to export. This is particularly the case as the opportunities presented by new platforms such as social networking are being incorporated into business models.

The Canadian Digital Media Network

The Canadian Digital Media Network (CDMN) is focused on helping SME technology start-ups export. However, the limited size of the funding—up to \$4,000 for a business—means that only micro-SMEs use the service. For instance, most companies using CDMN have revenues under \$5 million per annum. Larger companies are directed to other government export services, such as those provided by Canada's Department of Foreign Affairs and International Trade (DFAIT).

CDMN works with DFAIT and its trade commissioners to identify opportunities in new markets. CDMN has 29 partners who are also mostly nonprofit that connect technology companies with CDMN.

CDMN funding is for “landing” in a specific market, which ranges from co-working spaces within firms in the export market, attending overseas meetings in a country and making new contacts. The funding is mainly for helping companies network and connect.

There is no specific focus by CDMN on services exports. There is also no strategy for using the Internet as a tool to export. The Internet is only used by CDMN to promote the existence of the service it offers.

Measuring Success

Companies that use CDMN are asked to complete letters of support 12 months after landing that outline investment and support secured and how many new hires have been made. CDMN began in 2012 and so far has completed 100 landings. To date, 45 percent of companies have provided feedback, which claim to have generated a total of \$20 million in new revenue, \$15 million in new investment and 10 new hires. Firms have also found the low administrative costs in completing applications for funds a plus. That the program is small and nimble and is able to help companies quickly is also considered important.

CDM is thinking about how to scale the program as there is greater demand than they can cater to with current staffing levels.

Matchsme.com, Copenhagen

Matchsme.com is a Danish Internet platform that connects freelancers with skills in IT, sales and mar-

keting, with Danish SMEs. The platform was formed through a public-private partnership and includes major universities in Copenhagen and the city government of Copenhagen. The platform has a very local focus. It requires freelancers to have a permanent address in Denmark and at this stage is not focused on export markets.

Opentoexport.com, UK

Opentoexport.com is a U.K.-based interactive Internet platform that provides an online community for U.K. SMEs that are looking to grow internationally. The content of the platform is produced by users and experts across the private sector and multiple government agencies. The information on the website spans key international trade topics including e-commerce, legislation and regulation, market research and finance. The website allows businesses to ask experts questions about exporting.

The program is a nonprofit Community Interest Company (CIC) supported by a mixture of private and public organizations: the Federation of Small Business; hibu, a digital services provider; the Institute of Export; and the U.K. Trade and Investment government department. Opentoexport.com has also collaborated with private sector partners, the main one being HSBC bank.

In the first year of its operation in 2013, Opentoexport.com received over 20,000 unique visits per month and grew to host around 4,000 articles, events and opportunities posted by 170 contributing organizations.⁵⁷

Connectamericas.com

Connectamericas.com is an Internet platform in Latin America and the Caribbean that helps SMEs

become international traders. The program was created by the Inter-American Development Bank (IDB) with the support of Google, DHL, Visa and Alibaba.

The platform seeks to provide three key functions. One is to help businesses find customers and suppliers in other countries in Latin America. For instance, a buyer can search by business category or by product type. The site also includes the ability to rate buyers and sellers in order to help these businesses understand better who they are dealing with.

The second function is the provision of information to businesses looking to export. This includes topics such as import/export regulations, trade data and government programs that can support exporting.

The third function is information on financing opportunities, including financial institutions as well as government trade finance programs.

To enable Connectamericas.com to work requires businesses to create a profile on the site. At the back-end, the site relies on the participating governments in the region to provide the data, such as on trade regulations in their countries and to keep it up to date. So far, ensuring this data is comprehensive and timely remains a challenge.

Connectamericas.com was launched in 2014 and so far does not have data on its successes. As of November 2014 there were 30,000 registered buyers and it has had 110,000 unique visitors.

PART 4: DEVELOPING A PROGRAM TO SUPPORT SME SERVICES EXPORTS

The Current Approach of SMEs to Online Services Exports

Based on the data collected from EPAs, this section provides recommendations on what programs could be scaled up to support exporting by services SMEs.

As a general matter, EPAs are not specifically focused on service SMEs or services exports, though some EPAs such as Austrade have services-specific expertise. The experience of EPAs in the U.S. with services exports often reflects the types of exporters they are exposed to. For example, in California, where services are a relatively more significant share of GDP and exports, EPAs have more experience supporting services exports. In other states, such as Illinois, the experience is more goods focused.

The EPAs interviewed in this paper do not systematically collect data on whether they are helping a business export a good or a service.

In terms of how SMEs are currently using the Internet, survey data finds that while most SMEs have websites only a minority use the Internet effectively to engage in international trade. As a general observation, a successful e-commerce site needs to be “convenient, cost-effective and safe.”⁵⁸ This would include communication and transaction functions, which have been found to increase exports.⁵⁹ Exports also increase when websites provide more information on the services being offered and provide a seamless transaction function.⁶⁰ Where possible, information should be customized for local conditions, including being provided in the local language, with an FAQ page and opportunities for online help. With service

exports in particular, information on the background of the key people who work at the firm will help potential customers evaluate the service.

The advent of web 2.0 provides new ways to use the Internet to engage in international trade. This includes using the Internet to engage customers and stakeholders for the co-creation of services by including online functions that allow customers to provide input on the service and its development.⁶¹ The ability to collect and analyze consumer and user data also provides new opportunities to better understand what consumers want from the service.⁶²

EPAs are aware of the Internet as an opportunity for international trade and are providing some support for SMEs that want to use the Internet to sell overseas. This support is, however, limited. It usually involves making SMEs aware of the Internet as an opportunity for export. And even here, EPA’s understanding of how the Internet can be utilized is limited to reaching overseas customers and does not include the new and more interactive ways of using the Internet for international trade that web 2.0 allows.

Some EPAs help SMEs optimize their website, which usually means basic translation services. This support tends to be demand-driven and one-off and is not part of a more comprehensive strategy. In sum, EPAs surveyed are not helping SMEs understand and incorporate into their businesses the full range of opportunities that the Internet provides for going global.

In addition, even where an EPA does have a focused and comprehensive approach for assisting SME use of the Internet for export—as was the case with Austrade—there are limits to what this can achieve in terms of export success. One reason is that it requires each SME to have its own full service website. This

includes functions such as quoting services in a foreign currency, the capacity to receive payments from overseas and translation where necessary. Building these sites and maintaining them is costly. Moreover, having such a website does not guarantee additional exports. One reason is that overseas customers need to be aware of the website and have trust that the service that they purchase will be delivered and the quality ensured.

The following draws on the insights of how U.S. and other countries' EPAs have sought to support services SMES to highlight the most promising programs that could be scaled up to assist services SMEs in becoming international traders.

Develop an Internet Platform

While the Internet presents opportunities to grow SME services exports, a program that seeks to build e-commerce sites for each SME will be costly and unlikely to deliver significant export growth. Such an approach would also fail to realize economies of scale as each website would need to be individually tailored with its own functions, such as the ability to process international payments.

Internet platforms are increasingly successful at helping SMEs export. These platforms, however, do not address the specific needs of services SMEs. This likely is due to the preponderance of exports that are goods and the specific challenges of exporting services online.

EPAs in various countries have moved toward developing Internet platforms for international trade, but none of these platforms offer the full range of functions that SME services firms require. For example, [matchsme.com](#), while not orientated to providing services globally, is es-

entially a market-maker that connects the skills and entrepreneurial expertise in Copenhagen with the needs of local businesses. [Connectamericas.com](#) provides a lot of the functionality that an Internet platform would need. However, the platform is only regional in scope and is not focused on services SMEs but all businesses looking to export. As a result, the information is not tailored for services sector exports.

Developing an Internet platform for SME services exporters would be the most promising approach to growing U.S. SME services exports. Such a platform would have the functions that existing Internet platforms provide, such as processing payments and dispute settlement mechanisms, and would also address the specific needs of services SMEs. These are outlined in more detail below.

Build Public-Private Partnerships

Internet platforms are increasingly being developed and run as public-private partnerships. This is true of [matchsme.com](#), [connectamericas.com](#) and [opentoexport.com](#).

For instance, [opentoexport.com](#) partners with HSBC bank and [connectamericas.com](#) works with Google, Visa and DHL. These companies provide a lot of the expertise to optimize and run the platform. For example, for [connectamericas.com](#) Google provides search capabilities, Visa provides a payments service and DHL facilitates delivery.

Developing a platform that is both globally focused and orientated towards assisting services SMEs to export should be done with private sector partners with the skills to optimize such a platform. For example, in addition to a search engine such as Google, social media opportunities such as Twitter, Facebook, and Pinterest

should be explored and incorporating online payments systems such as PayPal could also be included.

The underlying point is that scaling up an effective Internet platform should tap into the deep expertise in the private sector and develop partnerships with these businesses.

Develop Trust in the Internet Platform

The absence of trust in purchasing services is a significant barrier to online services exports. The broader challenge is that consumers lack reliable information about the seller. This lack of trust is an issue for all online transactions but is particularly acute for services exports. In part, this is due to the nature of services exports, where the production and consumption of the service often takes place simultaneously. This is unlike a good which a consumer inspects before consumption and returns if defective. The trust issue is magnified for services exports because the buyer often does not visit the seller or rely on other sources to verify the quality of the service, such as local recommendations. In addition, services SMEs often do not have a recognized brand name that can build trust in the service.

One way that Internet platforms can help consumers identify suppliers that can be trusted is through online ratings or reviews. Such a function would need to be part of an Internet platform for services SMEs. The Internet platforms discussed above do allow buyers to rate sellers. For example, *matchsme.com* allows for the sellers to have their service rated by previous buyers. *Connectamericas.com* provides a similar function.

In terms of scaling, the minimum would be a mechanism for ranking sellers and buyers. To be effective, such a mechanism will need to be understood globally

and generate enough ratings for prospective customers to overcome their concerns.

A scaled-up Internet platform with enough users could provide a useful trust metric. Opportunities for using existing rating mechanisms such as Yelp should also be explored. An Internet platform could also draw on existing trust ratings such as Europe's "Trusted Shops" scheme that awards an online label to businesses that demonstrate they meet specific criteria such as providing consumer protection and security for online data.⁶³

There are a range of other issues that an Internet platform can address that would increase the propensity of consumers using it to purchase services. This includes access to reliable, timely and cost effective dispute settlement and mediation services. For international transactions, recourse to courts in most cases will not be an option for either consumers or SMEs due to the cost involved and the time taken to settle such a dispute.

There are already some efforts to address this issue. For instance, the 2007 OECD Recommendations on Consumer Dispute Resolution and Redress look at the need to provide consumers with access to dispute resolution for cross-border disputes. In the case of cross-border consumer disputes, the OECD recommendations emphasize the need for states to encourage businesses to establish voluntary, effective and timely mechanisms for handling complaints from consumers and settling disputes, including "private third party alternative dispute resolution services, by which businesses establish, finance, or run out-of-court consensual processes or adjudicative processes to resolve disputes between that business and consumers."⁶⁴ Additionally, UNCITRAL has established a working group to develop model rules on alternative dispute resolutions which "are intended for use in the context of cross-border, low value, high volume transactions conducted by means

of electronic communication.” All of these efforts should guide the development of mechanisms for resolving disputes on an Internet platform for SME services exports

Provide SMEs with Online Access to Services Imports

As discussed, access to low cost services inputs is both an export opportunity for SMEs as well as an opportunity to improve their productivity and competitiveness. For instance, business can access online business services such as software providers to develop innovative e-commerce strategies.

The Internet solutions developed so far do not maximize this opportunity. Some platforms such as matchsme.com facilitate business-to-business (B2B) commerce. This highlights the point that an Internet platform should be focused on promoting services exports and imports. An Internet platform that brings businesses together would achieve this.

Give Services SMEs Access to Better Information

In discussions with USEACs about their experience at the local level in the U.S., a common observation was that SMEs are often unaware of the support the government provides for exporting. This anecdotal experience has been confirmed by other survey-based research. One of the challenges for an online platform will be making SMEs aware of the platform and, more generally, the services that are provided.

Access to information that is relevant and timely for services SMEs looking to export is another challenge. According to the U.S. ITC, the cost of access to market information is one of the most significant barriers to exporting.

Internet platforms such as businessusa.gov and opentoexport.com provide information to potential exporters. Businessusa.gov is the most comprehensive and user-friendly in terms of aggregating information across government agencies and in providing targeted information for its users. Opentoexport.com has the added feature of allowing users to post comments and get online advice.

A scaled-up Internet platform should use these sites as a model, being as user-friendly as businessusa.gov with an interactive dimension like opentoexport.com. Including access to private sector advice on exporting should also be considered—even on a pay-for basis—as another way of developing public-private partnerships.

Develop Online Networking Opportunities

A key role of EPAs in helping SMEs export is to develop contacts with potential customers and suppliers. Indeed, one study conceived of the key function of EPAs as “information intermediation between local firms and international customers.”⁶⁵ It is also clear from the survey data that networking remains a core function for all EPAs.

EPAs rely on similar networking opportunities, the main ones being trade shows held domestically and overseas. These allow SMEs to display their products and to meet prospective buyers. EPAs assist in arranging, promoting and getting access to trade shows, ensuring the right people attend and in making introductions.

EPAs also help SMEs identify trustworthy customers. EPAs are able to make these character references largely through personal contacts with businesses in

the target market. Here, the role of the commercial and foreign services is important as their presence on the ground is relied upon to find and recommend contacts.

There are, however, limits to this approach to networking. One is that services exports are less conducive to being promoted at traditional trade shows. Such EPA networking is also often ad hoc as it relies on people in the commercial service being proactive and meeting people as well as making the right judgment on the reliability of these business contacts. It is also limited by the capacity to meet people, and this limitation grows in larger markets where a lot of potential opportunities likely go unrealized. A further limitation is that it relies on the personal network of the commercial service, which can be lost as these people move to other countries.

An Internet platform can be used for networking and to build on the role of EPAs in networking.⁶⁶ An Internet platform that enabled networking could be modeled after commonly known business networking sites, such as LinkedIn, but provide added services that would build on the networking provided by EPAs. This could include a focus on connecting buyers and sellers in specific industries, opportunities for information exchange and a forum for blogs and live discussions. A number of the Internet platforms described above include some form of networking capacity. A networking capacity would also establish relationships that can be precursors to matching buyers and sellers and, ultimately, making sales.

Another important and related function of networking is the opportunity for SMEs to exchange information and to learn about overseas market conditions. With online networks, current information can be posted online immediately instead of waiting to be discussed using more formal networking events. These networks can

also more easily be global, which is key to supporting exporting activities. It will also make the information on such platforms global.

A networking function should also be interactive, following the approach taken by opentoexport.com in particular. This would allow for real-time exchanges of information. It would also engage SMEs in the platform as a dynamic experience.

Giving SMEs an opportunity to provide information on their experience with other buyers and sellers can help exporters learn about the reliability of prospective buyers and sellers, complimenting other mechanisms on the platform for building trust in prospective business partners.

Improve Access to Finance

Survey data confirms that access to finance is a common limitation for SMEs wanting to engage in international trade. Access to finance is a more significant issue for goods SMEs than services SMEs. This is likely because services SMEs can go global with relatively less financing, in some cases just a computer and Internet access are the main initial costs. This compares with goods SMEs that might need machinery and tools.

The Internet is being embraced by traditional financial providers such as banks and providing access to new and innovative financial opportunities, such as on crowdfunding websites. EPAs have only begun to think through this in very limited ways. Even connectamericas.com, which includes a finance service, is largely limited to providing information on financial providers.

A scaled-up Internet platform should include information and assist with access to financing. The first step should be an interactive site that provides in-

formation on financing and which could respond to questions about finance and provide a preliminary assessment of what is available and SME eligibility. This would give services SMEs an initial sense of how serious a barrier financing is to them going global. Further work here is needed but next steps could include information on existing crowdsourcing sites. Incorporating cutting edge Internet 2.0 approaches to financing for services SMEs looking to export should also be explored.

Create Opportunities to “Land Softly” in Export Markets

As described above, CDMN provides opportunities for SMEs to “land” in export markets, to make contacts and networks by embedding themselves in incubators and start-up labs. So far, this program has

been successful in terms of export sales and by the level of demand for the program. Such a program is well suited for services SMEs where opportunities for face-to-face meetings, and having the time to build relationships, remains important.

A similar soft-landing program could be expanded and scaled up as part of an Internet platform. For instance, it could extend beyond the focus of CDMN on high tech SMEs and include other services sectors where opportunities for face time and on-the-ground networking would assist with exports.

SMEs could use an Internet platform with a networking and matching capacity to learn about and to create new opportunities for soft landings, expanding the current reach of CDMN.

PART 5: FUTURE AREAS OF RESEARCH

The following are some initial thoughts for a research agenda that builds on the findings in this paper:

- What should be the elements of an Internet Platform? This would build on the analysis in Part 4 on the role of an Internet platform for growing exports by services SMEs.
- What are the key challenges to making an Internet platform successful and how can these challenges be addressed? This includes issues such as developing trust in using a platform for commercial transactions, building awareness of the platform and ensuring a seamless e-commerce experience in terms of information and payments.
- What services could be delivered online? Different services sectors might provide more promise than others in terms of the opportunity to maximize an Internet platform for export. Further research is needed on which services sectors an Internet platform should initially target.
- Who are the consumers that an Internet platform is looking to reach? In which countries and markets are they concentrated?
- In addition to business-to-consumer commerce, how can an Internet platform support B2B services exports? This would include using such a platform for SMEs to export services as part of global supply chains.
- What is the role for the private sector in building and running an Internet platform?
- Does U.S. trade policy respond to the challenges and barriers for service SMEs to export online? If not, what is needed to support an Internet platform aimed at increasing SME services exports?
- Regulatory requirements, such as licensing requirements or that the service provider establishes a commercial presence in order to provide a service, are often important barriers to exporting services. Addressing these barriers is going to be key to facilitating the provisions of online services exports.

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