France, Germany, Italy, Spain and the United Kingdom

››› Internationalisation of European SMEs – Taking Stock and Moving Ahead

bpifrance Le LAB · BRITISH BUSINESS BANK · cdp cassa depositi e prestiti · ICO Instituto de Crédito Oficial · KFW

Imprint

Published by
Bpifrance
27–31, avenue du Général Leclerc
94710 Maisons-Alfort Cedex, France
www.bpifrance.fr

British Business Bank
Steel City House
West Street
Sheffield S1 2GQ, United Kingdom
www.british-business-bank.co.uk

Cassa Depositi e Prestiti SpA (CDP)
Via Goito 4
00185 Rome, Italy
www.cdp.it

Instituto de Crédito Oficial (ICO)
Paseo del Prado 4
28014 Madrid, Spain
www.ico.es

KfW Bankengruppe (KfW)
Palmengartenstraße 5-9
60325 Frankfurt am Main, Germany
www.kfw.de

Authors
Dr Jennifer Abel-Koch (KfW)
Miguel Fernández Acevedo (ICO)
Claudio Bruno (CDP)
Gino del Bufalo (CDP)
Dr Philipp Ehmer (KfW)
Alexandre Gazaniol, Bpifrance
Jake Horwood, British Business Bank
Sabrina El Kasmi, Bpifrance
Alessandro Melini (CDP)
Blanca Navarro Pérez (ICO)
Baptiste Thornary, Bpifrance

Editor
Dr Jennifer Abel-Koch (KfW)

Layout and Design
Charlotte Abraham (KfW)
Bettina Apfelbach (KfW)
Iris Brandt (KfW)

Picture Credits
Getty Images / Photograf akinbostanci

March 2018

Table of Contents

List of Figures

France, Germany, Italy, Spain and the United Kingdom

Internationalisation of European SMEs – Taking Stock and Moving Ahead

Greetings

International trade is a key engine for growth and welfare. This is particularly true for France, Germany, Italy, Spain and the United Kingdom, which are not only the largest economies in Europe but also among the largest traders on the continent. Together they account for more than half of all intra- and extra-EU trade flows.

An important part of these exports and imports is driven by large firms and multinational corporations. Small and medium-sized enterprises (SMEs), in contrast, are underrepresented in international trade. In fact, SMEs represent the vast majority of firms in Europe and provide two out of three jobs – but account for far less than half of all exports and imports. When it comes to other forms of internationalisation, such as foreign direct investments, participation of SMEs is even more limited.

This means that many SMEs are missing out on the benefits often associated with internationalisation - higher productivity, faster growth, greater innovation and better chances of survival. The obstacles SMEs face when expanding abroad are diverse and they differ across countries. However, there is a common issue that emerges in all countries: access to finance. Although financing conditions have improved in most European countries in recent years, SMEs continue to be at a disadvantage when it comes to getting external capital.

National promotional banks (NPBs) have a long history in providing long-term finance to SMEs. Drawing on a variety of instruments, they mitigate market failures and foster investment and innovation in SMEs. NPBs thereby contribute to the SMEs' international competitiveness. In France, Germany, Italy and Spain, NPBs also play a key role in providing export finance to SMEs.

This study by Bpifrance, CDP, ICO, KfW and the British Business Bank brings together the knowledge and experience of our institutions. In a joint effort, we have taken stock of the internationalisation of SMEs in the five largest European economies and developed policy recommendations that could boost their role in international trade. With this, we hope to contribute to a strong and competitive SME sector, which will be essential for the economic future of Europe in a globalising world – and hence key to sustaining jobs and incomes at home.

.

Nicolas Dufourcq
Directeur Général of Bpifrance
Paris, France

Dr Fabio Gallia
Chief Executive Officer of
Cassa Depositi e Prestiti SpA
Rome, Italy

Pablo Zalba Bidegain
Chief Executive Officer of
Instituto de Crédito Oficial
Madrid, Spain

Dr Günther Bräunig
Chief Executive Officer of
KfW Bankengruppe
Frankfurt am Main, Germany

Keith Morgan
Chief Executive Officer of
British Business Bank
Sheffield, United Kingdom

Foreword

The world is becoming a smaller place, with ever-developing technology, communications and transport networks leading to new opportunities and new markets abroad for even the smallest of companies. For SMEs, crossing national borders in procurement, investment, production or sales not only opens up new opportunities but creates further incentives to become more innovative and productive and is hence a chance to grow and prosper.

Despite the opportunities, only a relatively small number of our SMEs currently engage in cross-border activities and an even smaller number report they are considering it. Surveys suggest this is due to a consistent set of obstacles and the seemingly high costs, both in terms of money and time, to overcome them. Even for those countries within the European Single Market, which has removed many of the barriers associated with internationalisation, very real obstacles remain.

Public interventions significantly contribute to the functioning of European SME finance markets and help SMEs overcome some of these barriers, increasing the positive effects on the wider economy. Internationalisation is certainly not for every SME but given the significant role they play in our economies, if just a few more were to successfully transition to become international companies, either via trade or investment, the benefits would be significant.

This report on the internationalisation of European SMEs is the third cooperative research project by the promotional banks of the four largest euro area economies – Bpifrance, CDP, ICO and KfW. It is also the second year the British Business Bank, the UK's national development bank, has joined the group. The Business Development Bank of Canada (BDC) also contributed its insights into North American SMEs and the challenges they face when looking to broaden their horizons.

As promotional banks for our respective countries, improving finance for innovation and growth is a common key priority and, as our report finds, these are important factors for the successful internationalisation of SMEs. The report also highlights unique challenges for each individual country but for each unique challenge our countries face there are many more shared. We have compiled this report in order to learn from each other's knowledge and identify ways of tackling our common challenges.

Philippe Mutricy
Chief Economist of Bpifrance
Paris, France

Prof. Edoardo Reviglio
Head of European and
International Projects
Cassa Depositi e Prestiti SpA
Rome, Italy

Blanca Navarro
Chief Economist of
Instituto de Crédito Oficial
Madrid, Spain

Dr Jörg Zeuner
Chief Economist of
KfW Bankengruppe
Frankfurt am Main, Germany

Matt Adey
Director of Economics of
British Business Bank
Sheffield, United Kingdom

General Part

1.1 International economic relations of Europe and its SMEs

- The European Union (EU) is key player on world markets, with its member countries being responsible for about a third of world trade and FDI. France, Germany, Italy, Spain and the United Kingdom (UK), which are the largest EU economies, drive more than half of the EU's international activities.

- SMEs account for up to 40 % of exports and 50 % of imports in these five countries. Yet, their role in international trade falls short of their role for domestic markets, where they generate far more than 50 % of value added and provide two out of three jobs.

- The majority of SMEs in France, Germany, Italy, Spain and the UK are not engaged internationally. Less than 30 % of all SMEs export, mostly to other EU countries, and less than 3 % invest abroad.

- Despite the positive impact internationalisation can have on their productivity, growth and chances of survival, only a limited fraction of those SMEs currently inactive on global markets are considering exporting or importing in the future. If they realised their plans, this could nevertheless have a substantial effect on aggregate trade flows.

- Key barriers to internationalisation include a lack of information about foreign markets, difficulties in finding business partners abroad, burdensome administrative procedures and limited human resources. The different obstacles are of varying importance to SMEs in France, Germany, Italy, Spain and the UK.

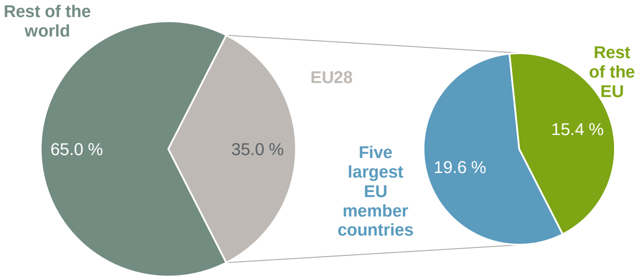
- However, in all five countries, financing remains a key issue for SMEs – with respect to investment and innovation in general and exports or foreign direct investments in particular.

- National promotional institutions such as Bpifrance, KfW, CDP, ICO and the British Business Bank already play a key role in fostering SMEs' access to finance in supporting their internationalisation. In sharing their knowledge about national markets and learning from best practices, they could enhance their promotional activities further and give additional impulses for the internationalisation of European SMEs.

EU countries play a key role in world trade

The EU is an important player in world trade. In 2016, its member countries exported about EUR 6.8 trillion and imported about EUR 6.4 trillion of goods and services.[1] Thus, they account for around one third of world's exports and imports (Figures 1 and 2). By comparison, the members of the North American Free Trade Agreement (NAFTA) – Canada, the United States (US) and Mexico – account for only 15 % of world exports and 18 % of world imports.[2]

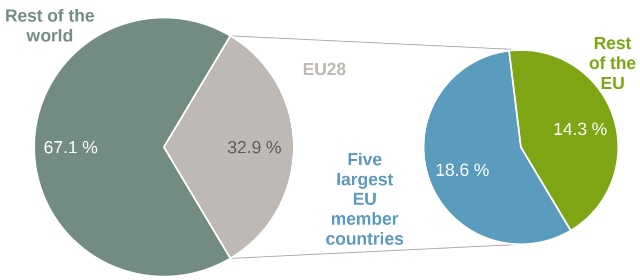
Figure 1: EU member countries account for one third of world exports



Note: Regional shares in world exports of goods and services at current prices in 2016.

Source: UNCTAD

Figure 2: France, Germany, Italy, Spain and the UK account for nearly a fifth of world imports



Note: Regional shares in world imports of goods and services at current prices in 2016.

Source: UNCTAD

The five largest EU member countries as measured by GDP, that is France, Germany, Italy, Spain and the UK, account for more than half of EU exports and imports of goods and services and therefore for almost 20 % of total world trade.

[1] Including both intra- and extra-EU trade in goods and services, according to Eurostat data (see also Figure 3).

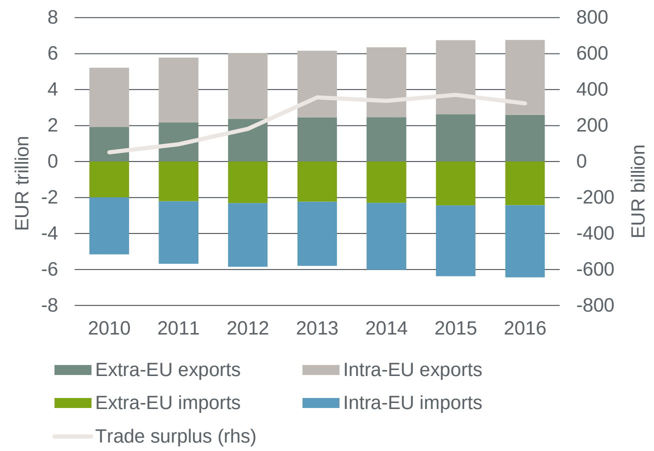
[2] Including trade between NAFTA countries, based on UNCTAD data.

Exports and imports of EU member countries do not only shape world trade but are in fact a key factor for EU economies. Taking into account both goods and services, EU member countries' exports amounted to 44 % and imports to 41 % of EU GDP in 2016.[3]

Largest share of EU trade takes place between member countries

Free trade among its members is one of the EU's founding principles.[4] Thus, unsurprisingly, there is a high degree of trade integration within the EU. In 2016, intra-EU exports and imports represented more than three fifths of total EU trade in goods and services (Figure 3).

Figure 3: Intra- versus extra-EU trade



Note: Value of exports and imports of goods and services of the EU28, broken down by intra- and extra-EU trade.

Source: Eurostat

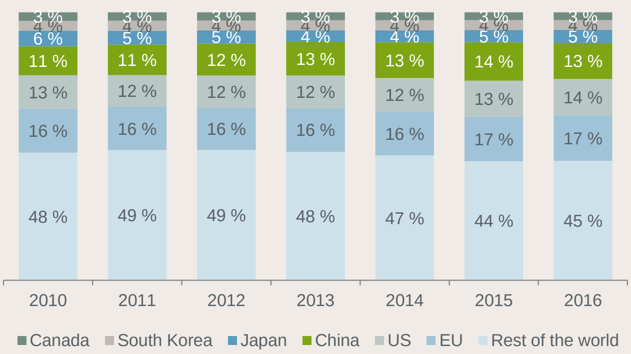
While extra-EU exports kept pace with intra-EU exports in the past years, they have increased more strongly than extra-EU-imports, reflecting in part the greater competitiveness of European firms on international markets, as well as the depreciation of the euro. Increased extra-EU exports permitted the EU to achieve a growing trade surplus, which settled in 2015.

Very recent estimates indicate that in 2017 extra-EU exports of goods rose by 7.7 % to EUR 1,879 billion, while imports rose by 8.2 % to EUR 1,854 billion. As a result, the EU recorded a surplus of EUR 25 billion, compared to EUR 32 billion in 2016. Intra-EU trade rose by 7.3 % year-on-year to EUR 3,343 billion.

Box 1: Considering the EU as a single entity: impact on the regional composition of world exports

Traditionally, EU exports are computed as the sum of the exports of the single member states (as in Figure 1), without deducting intra-EU trade. If instead the EU were considered as a single entity and the exchange of goods and services between its member states as internal demand rather than external trade, its actual commercial performance vis-à-vis the rest of the world would look different (Figure 4). In fact, the EU share in world exports of goods and services is only half as large when intra-EU trade is excluded, amounting to 17 % in 2016. The EU's dominant role in international markets is geared down significantly and the EU commercial performance appears more in line with comparable economic areas, such as China and the US, which were responsible for 14 and 13 % of world exports in 2016 respectively.

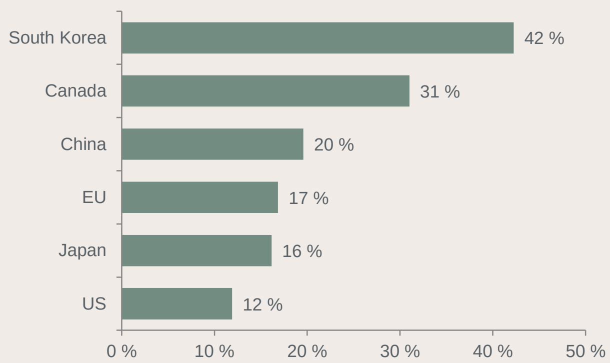
Figure 4: Regional composition of world exports



Note: Share of leading world exporters in world exports of goods and services, excluding intra-EU exports.

Source: World Bank

Figure 5: Export orientation of leading world exporters



Note: Exports of goods and services in % of GDP of leading world exporters. In case of the EU, intra-EU exports are excluded.

Source: World Bank

[3] According to Eurostat data.

[4] See Box 3 on the European Single Market in section 1.3 of this report.

Extra-EU exports of goods and services amount to only 17 % of EU GDP (Figure 5). Other leading exporters display much higher export orientation. In South Korea, for instance, exports of goods and services are equal to 42 % of GDP, and in Canada, exports of goods and services amount to 31 % of GDP.

To conclude, the EU internal market is of utmost importance for the economic performance of each single EU member state.

EU exports grew faster than world exports
The EU as a whole suffered from the financial crisis and the subsequent recession, which led to a dramatic fall in exports in 2009. EU export growth has resumed since and in 2014 outpaced world export growth for the first time since 2001. Yet, EU export growth rates are still below pre-crisis levels (Figure 6).

Figure 6: Trends in export growth rates

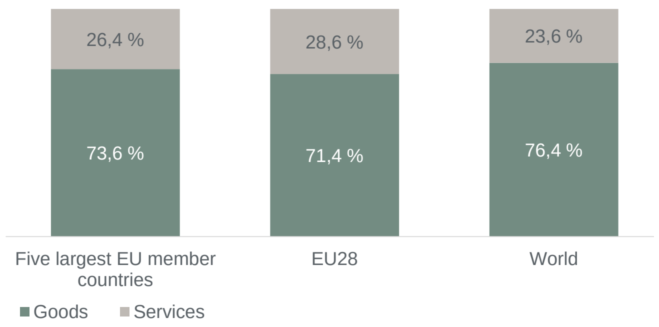
Note: Year-on-year growth of the export volume of goods and services, in per cent.

Sources: IMF, European Commission (AMECO database)

More than a quarter of EU exports are services
In comparison to world exports, EU exports are relatively more focused on services, probably mirroring the fact that the weight of services increases with economic development (Figure 7). In the five largest EU member countries, services make up for about 26 % of all exports. However, looking at each country separately reveals important disparities, with shares of services in exports ranging from 17 % in Germany to 45 % in the UK.[5]

Machinery and vehicles are the EU's key export goods
Regarding EU goods exports, machinery and transport equipment play a dominant role. In 2016, they accounted for nearly 40 % of EU goods exports.[6] Other manufactured goods made up for about 25 % and chemicals represented about 17 % or EUR 808 billion of EU goods exports.

Figure 7: Disparities in the composition of exports



Note: Composition of exports in the five largest EU member countries (France, Germany, Italy, Spain and the UK), the EU28 and the world in total in 2016.

Source: UNCTAD

European firms do not only trade but also invest abroad
Clearly, trade flows provide only a partial picture of firms' cross-border activities. Another important form of internationalisation is foreign direct investment (FDI). Firms may invest abroad to get better access to their foreign markets, to be closer to customers or suppliers or to fragment their production process to make use of country specific comparative advantages. In fact, firms in the EU make an important contribution to world FDI flows (Box 2).

Harmonised data on the role of SMEs in FDI are, however, not available for the EU member countries. Generally, only a very small share of SMEs engages in FDI and their contribution to the total volume of FDI is presumably rather limited. Therefore, in this report, we focus on trade as the most important form of internationalisation for SMEs and give other cross-border activities, such as FDI, only marginal consideration.

Box 2: EU at first place in world FDI statistics
A foreign direct investment (FDI) corresponds to the investment of a resident company in a foreign company in which the investor owns an equity stake of at least ten per cent.[7] Contrary to portfolio investments, FDI implies a significant degree of influence from the investor on the management of

[5] See country chapters for more details.

[6] According to Eurostat data, based on the Standard International Trade Classification (SITC) system.

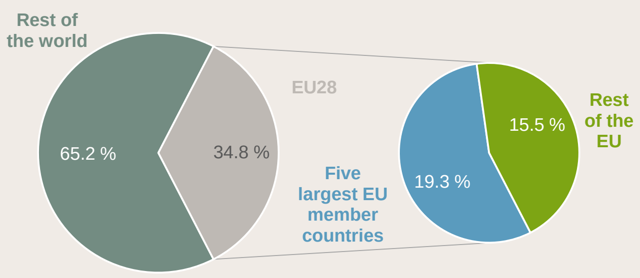
[7] See UNCTAD (2017).

the invested company. Importantly, FDI flows have three components: (i) equity capital (purchase of shares of a foreign company), (ii) reinvested earnings of the foreign company and (iii) intra-company loans between the invested company and the investor.

Available statistics[8] suggest that in 2016, the EU was in first place for both outward FDI (USD 9,111 billion or 35 % of world FDI stock, Figure 8) and inward FDI (USD 7,663 billion or 29 % of world FDI stock, Figure 9), including investments between EU members states. By comparison, the US and China represented only 24 and 5 % respectively of world outward as well as inward FDI stock in 2016.

In total, the five largest EU member countries accounted for 19 % of world outward FDI stock and 13 % of world inward FDI stock in 2016.

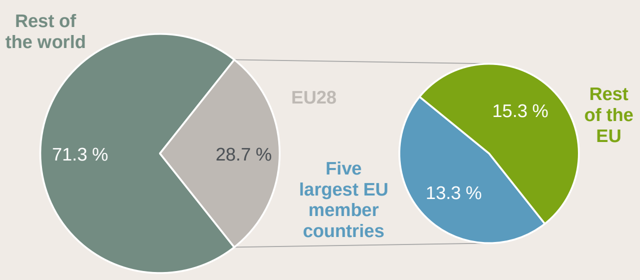
Figure 8: The EU is the world's biggest investor



Note: Shares in world outward FDI stock in 2016.

Source: UNCTAD

Figure 9: The EU is an attractive place for FDI



Note: Shares in world inward FDI stock in 2016.

Source: UNCTAD

[8] FDI data suffer from several weaknesses. First, aggregate measures of FDI flows rely on a few large multinational companies, which makes this data very volatile. Second, FDI activity is partly driven by intra-group loans, i.e. financial operations, which have potentially little to do with international development. Third, data on FDI stocks are presented at book value/historical cost, neglecting the effect of price evolution.

SMEs make an important contribution to EU trade

Statistics on international trade flows by firm size only became available in recent years. The trade by enterprise characteristics (TEC) database is the outcome of a joint effort of Eurostat and the OECD to match customs data and official trade statistics with information from business registers. The data suffer from several caveats. Unfortunately, statistics on services are not included and the data exclusively apply to manufacturing goods. The most recent figures refer to the year 2015. An additional constraint of the database is that a non-negligible share of trade as well as traders is classified as "unknown", which means that it cannot be assigned to any of the firm size classes. The share of "unknown" trade varies across countries. For many countries, there are good reasons to believe that it mostly originates from SMEs. Nevertheless, we conservatively keep the "unknown" trade separately from the trade of SMEs in Table 1.

Based on these figures, in the five largest EU member countries SMEs[9] make up for nearly 32 % of intra-EU exports and about 25 % of extra-EU exports. Further, they make up for 37 % of intra-EU imports and 32 % of extra-EU imports in France, Germany, Italy, Spain and the UK. If SMEs were also responsible for the "unknown" trade, these shares could be about 10 to 15 percentage points higher.

SMEs thus account for a substantial share of trade in the five largest EU economies. Yet, taking into account that SMEs provide at least two out of three jobs in these countries and are responsible for far more than 50 % of value added in the EU, their share in trading volumes seems to be relatively small. This is also true for their share in the number of traders. While SMEs represent at least 99.6 % of the total number of firms in France, Germany, Italy, Spain and the UK,[10] they represent only 83.2 % of the total number of traders (98 % if all traders classified as "unknown" were SMEs).

SMEs have a strong focus on intra-EU trade

Interestingly, almost two thirds of SMEs' exports are intra-EU exports. Large firms, in contrast, export nearly as much to extra-EU as to intra-EU destinations. The picture is similar for imports. This highlights the relative importance of the internal EU market for internationally active SMEs in France, Germany, Italy, Spain and the UK.

[9] Throughout the report, SMEs are defined as enterprises with less than 250 employees, if not otherwise noted.

[10] See European Commission (2017).

Table 1: Trade of the five largest EU member countries by firm size

Total of five largest EU member countries	Trading volumes		Number of trading firms		Average trading volume
	EUR billion	Per cent of total	In thousands	Per cent of total	EUR million
Total exports of goods	2734.3	100.0 %	947.7		2.9
Of which **intra**-EU	1,538.4	56.3 %	703.3	100.0 %	2.2
SMEs	485.4	31.6 %	579.8	82.4 %	0.8
Between 1 and 9	100.7	20.7 %	364.4	62.9 %	0.3
Between 10 and 49	133.8	27.6 %	164.9	28.4 %	0.8
Between 50 and 249	250.9	51.7 %	50.5	8.7 %	5.0
Large enterprises	864.4	56.2 %	14.1	2.0 %	61.2
Unknown	188.7	12.3 %	109.4	15.6 %	1.7
Of which **extra**-EU	1,195.9	43.7 %	527.2	100.0 %	2.3
SMEs	297.9	24.9 %	421.5	80.0 %	0.7
Between 1 and 9	59.0	19.8 %	250.0	59.3 %	0.2
Between 10 and 49	87.8	29.5 %	125.7	29.8 %	0.7
Between 50 and 249	151.1	50.7 %	45.8	10.9 %	3.3
Large enterprises	785.2	65.7 %	14.8	2.8 %	53.1
Unknown	112.7	9.4 %	90.9	17.2 %	1.2
Total imports of goods	2,678.3	100.0 %	1,701.5		1.6
Of which **intra**-EU	1,664.0	62.1 %	1,398.2	100.0 %	1.2
SMEs	616.3	37.0 %	1,114.2	79.7 %	0.6
Between 1 and 9	155.3	25.2 %	798.5	71.7 %	0.2
Between 10 and 49	184.4	29.9 %	247.5	22.2 %	0.7
Between 50 and 249	276.6	44.9 %	68.3	6.1 %	4.1
Large enterprises	846.8	50.9 %	20.2	1.4 %	42.0
Unknown	201.0	12.1 %	263.9	18.9 %	0.8
Of which **extra**-EU	1,014.3	37.9 %	606.8	100.0 %	1.7
SMEs	321.6	31.7 %	437.3	72.1 %	0.7
Between 1 and 9	80.1	24.9 %	276.0	63.1 %	0.3
Between 10 and 49	107.3	33.4 %	114.1	26.1 %	0.9
Between 50 and 249	134.2	41.7 %	47.2	10.8 %	2.8
Large enterprises	548.7	54.1 %	16.7	2.7 %	32.9
Unknown	144.0	14.2 %	152.7	25.2 %	0.9

Note: Data refers to the year 2015. Manufacturing goods only. Firm size measured by the number of employees.

Source: Eurostat (TEC database)

Do SMEs really import more than they export?
The data suggest that SMEs in France, Germany, Italy, Spain and the UK import roughly 15 % more than they export (EUR 938 billion as opposed to EUR 783 billion). Moreover, the number of importing SMEs in these five countries is higher than the number of exporting SMEs. The difference is particularly pronounced with respect to intra-EU trade.

Arguably one explanation of the statistical difference between SMEs' imports and exports is that SMEs frequently sell semi–finished goods within national borders to large enterprises which use them in their production process and then ship the finished goods abroad. Also, SMEs often sell their goods to wholesalers, which then export these goods. In traditional trade statistics, the semi–finished goods produced by the SMEs are not taken into consideration when calculating SMEs' exports but are entirely assigned to the finished goods exports of the large enterprises. As a result, large enterprises' export volumes tend to be inflated, while SMEs' export volumes are rather underestimated.

In the EU, indirect exporting activities of SMEs are extremely relevant. For instance, a representative survey reveals that among German manufacturing SMEs, 70 % export indirectly and indirect exports make up for 18 % of their total turnover.[11] Thus, SMEs may participate in export activities more than what official trade statistics imply.

Most trading SMEs are micro enterprises

Among SMEs, micro enterprises (between 1 and 9 employees) make up for almost two thirds of the total number of exporting firms and for roughly one quarter of the total export and import volumes. Despite the fact that medium-sized enterprises (between 50 and 249 employees) make up for the largest share of SMEs' export and import volumes, they do not account for more than 50 %. Thus, micro enterprises and small firms together take the lead in SMEs' export and import volumes.

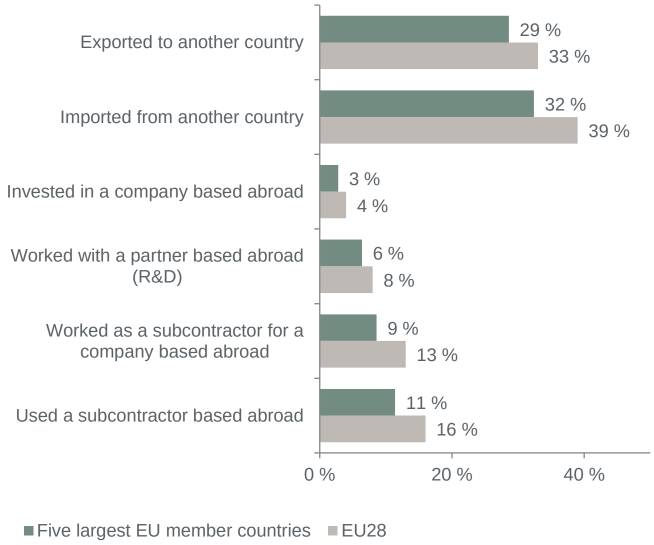
The majority of SMEs are not engaged internationally

Although SMEs in total make a substantial contribution to exports and imports in France, Germany, Italy, Spain and the UK, there is still a huge share of SMEs which are not involved in international activities at all. This becomes clear when analysing representative survey data on European SMEs from the Eurobarometer Survey conducted in June 2015.[12]

[11] See IW Consult (2016), which is based on a survey of enterprises with 20–499 employees.

[12] This section is based on data from the Eurobarometer Survey on the Internationalisation of Small and Medium-Sized Entreprises (European Commission, 2015). The survey investigates SMEs experience with international business activities. It was requested by the European Commission and conducted by TNS Political & Social. Fieldwork was carried out in June 2015. In total 14,513 SMEs were interviewed in 28 EU countries and six non-EU countries (Albania, Former Yugoslav Republic of Macedonia, Iceland, Moldova, Montenegro and Turkey). See http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/FLASH/surveyKy/2090 for more information.

Figure 10: Internationalisation levels are slightly lower for SMEs in the five largest EU countries



Note: Share of SMEs which have engaged in the respective activity in the three years previous to the survey. The share for the group of the five largest EU member countries is calculated as if France, Germany, Italy, Spain and the UK were a single entity, i.e. all survey responses in the respective countries enter with equal weight.

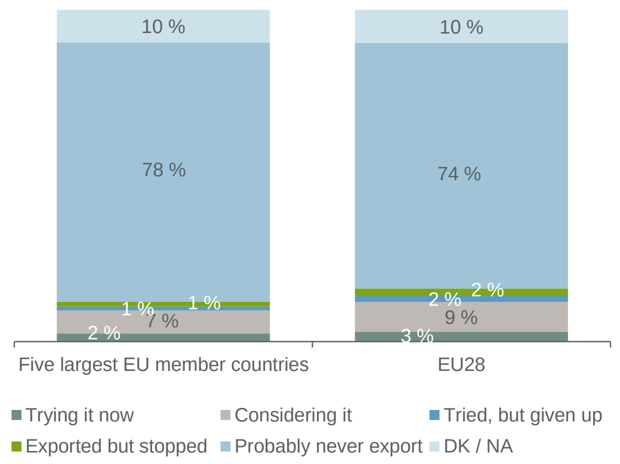
Source: European Commission (2015)

Exporting and importing activities are much more frequent than investing or performing other operations abroad (Figure 10). Nevertheless, only a third of all SMEs in the EU28 exported to another country in the three year period previous to the survey. Importing is slightly more prevalent than exporting but the share of SMEs importing does not exceed 40 % either. In the five largest EU member countries, the percentage of SMEs engaged in importing, exporting or investing abroad is even slightly lower than in the EU28, possibly due to their greater domestic markets.

One in ten non-exporting SMEs considers exporting

Most SMEs currently not exporting believe that they will probably never export (Figure 11). The share of non-exporting SMEs which are either already trying to export or consider it as an option for the future is around 10 %. The position of non-importing SMEs towards importing is quite similar. Most of them believe that they will never import, while around 10 % are trying to import or considering it.

Figure 11: One in ten non-exporting SMEs is keen to export



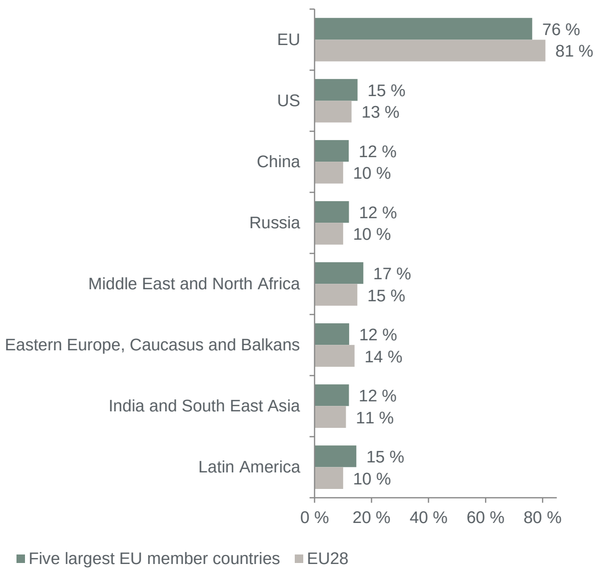
Note: Share of those SMEs which have not exported to another country in the three years previous to the survey that take the respective position towards exporting.

Source: European Commission (2015)

EU countries are a key market for SMEs in France, Germany, Italy, Spain and the UK

The Eurobarometer Survey also provides information about the export destinations and import markets of SMEs, which confirms our insights from aggregate trade statistics, namely that other EU countries are the most important foreign markets for trading SMEs (Figures 12 and 13). However, SMEs' import markets are much more diversified than export markets, with China being the most prominent source country outside the EU.

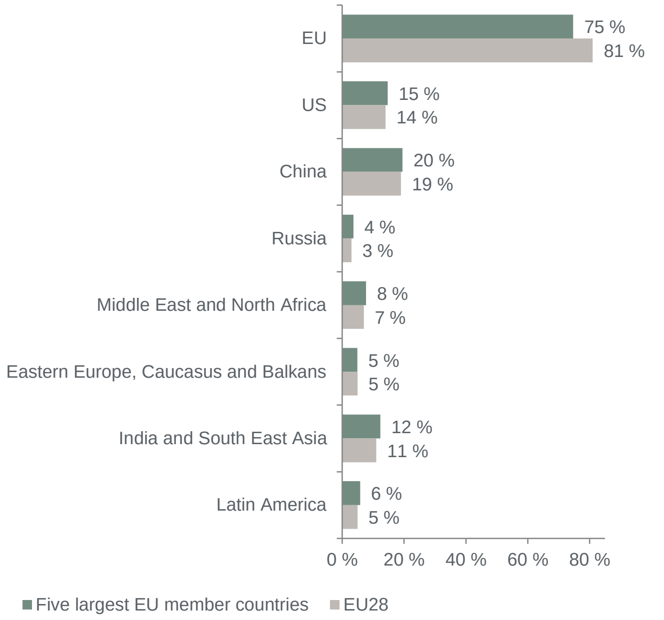
Figure 12: Other EU countries are main export destination of European SMEs



Note: Share of those SMEs which have exported in the three years previous to the survey that have exported to the respective country or region in the year 2014. Multiple answers possible.

Source: European Commission (2015)

Figure 13: Import markets of European SMEs are more diversified



Note: Share of those SMEs which have imported in the three years previous to the survey that have imported from the respective country or region in the year 2014. Multiple answers possible.

Source: European Commission (2015)

The Eurobarometer Survey also offers insights about the origin of revenues for exporting SMEs in the EU28, attesting that 66 % of their total revenues are generated in their respective home country. Only 21 % originate from other EU countries and no more than 13 % come from countries outside the EU.

1.2 What are the benefits of internationalisation for SMEs?

For SMEs, crossing national borders in procurement, production or sales opens up new opportunities and creates further incentives to become more innovative and productive and is therefore a chance to grow and prosper.

- In particular, sourcing globally broadens the choice of intermediate inputs. A foreign supplier may offer a highly specialised intermediate input that is particularly suited to an SMEs' final product, or a standardised intermediate input that is relatively low-priced.

- Establishing a production facility or a sales branch abroad allows SMEs to be closer to foreign customers or to save on production and distribution costs.

- Expanding sales to foreign markets allows SMEs to better exploit economies of scale.

- A stronger regional diversification of their sources of revenues can also make them more resilient against shocks.

- Serving a larger market and being more exposed to international competition encourages technological development and continuous product and process innovation.

- In their innovation process, internationalised SMEs can often benefit from the technological know-how of their foreign business partners or competitors.

Internationally active SMEs are more productive, introduce more innovations and grow faster
Empirical analyses tend to find a strong and robust correlation between internationalisation and productivity, innovation or growth.[13] For instance, based on a sample of 110,000 SMEs from 19 European countries, Falk and Hagsten (2015) estimate that exporters are 13 % more productive than non-exporters in a given industry and country. According to survey evidence from the European Commission (2010), European SMEs which are internationally active are three times more likely to introduce new products or services than their purely domestic counterparts and they grow more than twice as fast.

A good portion of the positive relationship between international activities, such as exporting and firm performance, can be explained by self-selection. Only very productive and highly competitive firms can expect to be successful abroad and are therefore willing to incur the high costs of foreign market entry up front. Exporting is hence the result of high productivity.

Yet, a number of empirical studies show that causality also works in the other direction. Firms which are active abroad benefit from the contact with new competitors, suppliers and customers. Exchanging information with their foreign business partners, getting new ideas and learning about new production technologies or management practices, they grow more innovative and productive over time. However, the size of the benefits depends on firm, industry and country characteristics.

To mention a few studies with particular relevance for European countries,[14] Delgado et al. (2002) analyse Spanish manufacturing firms and find that learning by exporting takes place especially in younger enterprises. Castellani (2002) shows that exports as a fraction of sales need to exceed a certain threshold to have positive effects on productivity for a sample of Italian manufacturing firms. He concludes that high export intensity signals a strong commitment to internationalisation and thus a larger willingness and capacity of the firm to learn from foreign operations.[15] Also analysing Italian manufacturing firms, Serti and Tomasi (2008) observe productivity improvements only for exporters that increase their skill intensity as well as their capital endowment after entry into foreign markets. The effects of exports on productivity also differ by sector and geographical location, and they are somewhat more pronounced for medium-sized as opposed to small enterprises.

Innovation is a key channel for productivity improvements in exporting SMEs
Productivity improvements after entry into foreign markets often materialise through innovation. Using data on UK firms from the Community Innovation Survey (CIS), Crespi et al. (2008) show that firms with prior exporting experience report more learning from customers in their innovation process and experience higher subsequent productivity growth. Studying Spanish manufacturing firms, Golovko and Valentini (2011) argue that exporting and innovation are in fact complementary for the growth of SMEs. Participating in international trade promotes learning and thus enhances innovation performance. At the same time, with new or better products, firms can export more successfully and increase their sales on both the domestic and the foreign market.

Other international activities can also foster innovation in SMEs …
Although exporting activities have gained most attention in the empirical literature, other forms of internationalisation have been analysed as well. For instance, Bas and Strauss-Kahn (2014) demonstrate for a sample of French firms that access to new imported product varieties raises productivity. Damijan and Kostevc (2015) provide evidence for Spanish enterprises that importing helps firms to learn and to innovate.

[13] A comprehensive overview of the empirical literature on the relationship between international trade and firm performance is given in Wagner (2012), for example.

[14] For a more extensive review of the existing empirical studies, see e.g. Silva et al. (2012), Love and Roper (2015) or WTO (2016a).

[15] Andersson and Lööf (2009) confirm the importance of both export intensity and export persistence for productivity improvements after foreign market entry for Swedish firms.

Studies of the effects of FDI on SMEs are rather limited, not least because FDI is a rare activity within this size class. Nevertheless, there is reason to believe that FDI has a positive effect on the firm that invests abroad. Criscuolo et al. (2010), for example, provide evidence that globally engaged firms in the UK are more innovative as they can draw on a larger pool of information. Castellani and Zanfei (2007) make a similar argument for Italian firms, pointing out that Italian manufacturers that also produce abroad are more innovative than manufacturers that only export.

… and make them more resilient

In the end, there is considerable evidence that internationally active firms are more likely to survive, even after controlling for size, age, productivity and other firm characteristics. Commonly, it is argued that importers benefit from cheaper or technologically more advanced inputs which make them more competitive and that exporters benefit from a better diversification of risk as they spread their sales across more markets.[16] Good financial health and an established reputation of continuous exporters may be other reasons, as the analysis of French and British firm level data by Görg and Spaliara (2014) suggests.

In a nutshell, crossing national borders can help SMEs to become more innovative and productive. It can enhance their growth and eventually increase their chances of survival. The benefits from international activities do not come automatically, however. They require at least a certain degree of commitment and they are likely to differ across firms.

A broader participation of SMEs in international trade is important to spur aggregate export growth

The internationalisation of SMEs is an important issue, not only from the perspective of the individual firm but also from an aggregate economic perspective. Several studies suggest that SMEs are more strongly affected by barriers to trade than larger firms and therefore participate less in international trade. However, they also react more strongly if these barriers are reduced. The adjustment of imports and exports of SMEs takes place mostly along the extensive margin, which is driven by firms that source intermediates or ship their products abroad for the first time.[17] Thus, SMEs, and among them especially those which become new exporters or importers, play a key role in the creation of new trade.

[16] For a discussion of the respective empirical studies and the underlying arguments, see e.g. Wagner (2013).

1.3 What are the challenges for SMEs going global?

Despite the substantial benefits trade and FDI can have for SMEs, their participation in international activities is still relatively weak, especially if compared to larger enterprises. Before thinking about possible measures and policies to help unlock the trading potential of SMEs, it is important to understand the key obstacles and challenges they face in their internationalisation process.

The challenges SMEs face depend on how they internationalise

When addressing the challenges to the internationalisation of European SMEs, it is crucial to take into account the broad nature of the internationalisation of SMEs. It is not only exporting, it can also be importing, cross-border cooperation, FDI, or subcontracting, for instance.

As well as different forms of internationalisation, there are also different ways an SME can become internationalised. Some SMEs are set up to take advantage of cross-border opportunities from the very start. Others may have been domestically focused before starting to source or sell abroad. Becoming internationalised can be the result of actively seeking an opportunity or it can be a passive decision driven by a customer or partner getting in touch. Depending on how and why an SME approaches internationalisation, different obstacles may be more or less difficult to overcome.

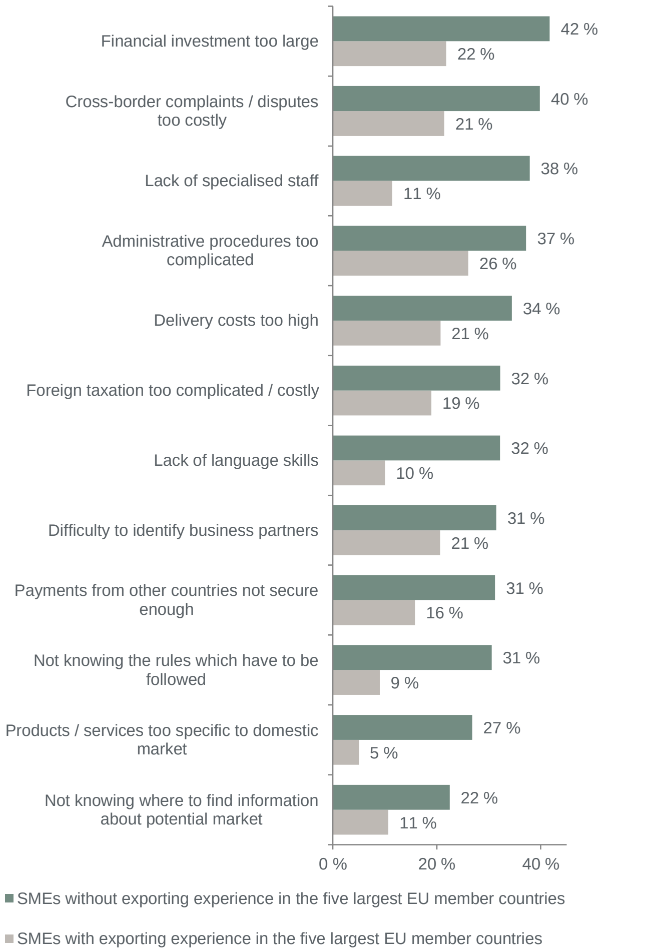
Ambition – you can't force an SME to become internationalised

Not every SME can or should import, export or invest abroad. Many SMEs offer goods or services that are specific to location, unsuitable for export or do not

[17] For instance, Gopinath and Neiman (2014) demonstrate that SMEs experienced a relatively larger decline in imports than larger firms during the Argentinian crisis in the early 2000s, and that they adjusted more often than larger firms by stopping imports altogether. Spearot (2013) shows that goods which generated lower export revenues, hence mostly goods which were exported by less productive and smaller firms, disproportionately benefited from tariff reductions during the Uruguay Round. Onkelinx and Sleuwaegen (2010) demonstrate for Belgium that between 1998 and 2005, SMEs accounted for 70 % of the export growth caused by firms that newly started to export, i.e. export growth at the extensive margin. Moreover, SMEs were responsible for 33 % of the export growth caused by firms that continued to export, i.e. export growth at the intensive margin.

require sourcing imports directly, such as a local café or convenience store. In fact, 27 % of non-exporting SMEs perceive their products or services being too specific to the domestic market as a major obstacle to exporting, according to the Eurobarometer Survey (Figure 14).

Figure 14: Major obstacles to exporting for SMEs in the five largest EU member countries



Note: SMEs with exporting experience include SMEs which have exported in the past three years, as well as SMEs which have not exported in the past three years but used to export and stopped or tried to export and gave up. SMEs without export experience are SMEs which have not exported in the past three years. They might consider export or currently try to export or they believe that they will never export.

Source: European Commission (2015)

Those who can and should look overseas must have the ambition to do so to make it a reality. Studies tracking the performance of a firm over several years, subsequent to capturing their growth ambition, have shown that there is a positive relationship between growth ambition and exporting.[18]

Once an SME has decided to explore cross-border opportunities, there are a significant number of potentially costly hurdles, both in terms of time and money. These can be broadly summarised as:

- Understanding the potential market
- Identifying and contracting with potential new partners or networks
- Taxes, tariffs and laws
- Staff bandwidth and skills

Understanding the potential market – customer needs, culture, politics, dynamics and 'how to do business'

History offers many examples of successful brands and products entering new markets and failing to achieve their aims. For larger companies, with greater resources, a failure in one market can be offset with success in others but for SMEs, with their more modest resources, it is much more of a risk.

Every market, every region and every country is different. An SME needs to understand the dynamics and how its product or investment fits into it. This requires looking at the preferences and the behaviour of customers, partners and competitors. An SME can carry out its own market research through visiting the target country or region or hire an external company to carry it out.

It may also be important to look at the larger picture for the region, such as fluctuations in currency rates, the strength of the economy and political or societal stability. A further consideration is the creditworthiness of local banks or national institutions – indeed many SMEs highlight a fear of not receiving payment as a barrier to internationalisation.[19]

Underlying much of the above can be cultural differences between countries and regions including morals or traditions of the local populace, the influence of local or national politics or industry bodies, and the strength of the rule of law.

Identifying and contracting with new partners or networks – suppliers, retailers and everything in between

Studies have highlighted the difficulties SMEs face when attempting to identify foreign partners or

[18] See British Business Bank et al. (2015).

[19] See Ellingsen and Vlachos (2011).

networks.[20] In the Eurobarometer Survey, about a third of non-exporting SMEs reported identifying foreign business partners as a key barrier to internationalisation (Figure 14).

Even once an SME has identified a foreign partner a poor choice can lead to negative impacts. Choosing the wrong supplier can lead to delays, reputational damage, lost revenue and customers or regulatory sanction. The wrong retailer may mean the SME fails to maximise its sales or positively promote its product in the new region which could negatively influence its long-term international potential.

Much like with market research, an SME can choose to look for partners itself, which can require a lot of resources. Alternatively, an SME will need to find an introducer, usually either a company specialising in such activity or an industry or government body. In many countries, export promotion agencies organise trade missions or international fairs to help domestic firms connect to foreign business partners.[21]

Tariffs, taxes and laws – both domestic and foreign

The European Single Market ensures free movement of goods and, to a lesser degree, services, as well as capital between its member countries (Box 3). Nevertheless, taxes and regulations in part still differ between EU members and in particular between EU members and third countries. For many SMEs, the rules can be extremely difficult to comprehend and act on and the impact of getting it wrong can be substantial.

Gaining the required certifications and tests to prove compliance with foreign technical or safety standards can impact the affordability of exporting. This is particularly the case for SMEs which cannot spread the fixed costs of testing and certification over large export volumes.

Furthermore, the added costs from taxes or, in case of trade with countries outside the EU, tariffs can make the potential opportunity economically unattractive and can mean the exporting SME is not on a level playing field with foreign companies or investors.

The burden of taxes and regulations is also reflected by the Eurobarometer Survey. About 37 % of non-exporting SMEs in France, Germany, Italy, Spain and the UK perceive complicated administrative procedures as a key obstacle to exporting. Even for SMEs already exporting, this seems to be a major challenge (Figure 14). The complexity and costs of foreign taxation are seen as an important barrier to internationalisation by about 32 % of non-exporting SMEs in the five largest EU member countries.

[20] See e.g. Kneller and Pisu (2011).

[21] See the sections on national policies to support the internationalisation of SMEs in the respective country chapters.

Box 3: The European Single Market

A key element of the EU with its 28 member states and 500 million people is the European Single Market, which is more than just a free trade agreement. It aims at ensuring the free movement of goods, services, capital and persons – the "four freedoms" – within the EU and thus makes an important contribution to reducing barriers to internationalisation:

- Regarding goods, there are no customs barriers between member states and a common customs policy towards other countries is applied;
- The Single Market provides the freedom to establish and provide services in other member states;
- EU citizens can move freely between member states, including for working;
- All restrictions on the movement of capital, as well as on payments, between member states and between member states and third countries shall be prohibited.

Although the implementation of the Single Market has led to a closer economic integration between EU member states, particularly regarding trade in goods, some barriers remain.[22] For example:

- Legislations and regulations are different from one EU member to another and firms must make additional efforts to market their products or services in other EU countries;
- Regarding services, the network industries – transport, energy and telecoms – remain largely fragmented (existence of administrative barriers and monopolies);
- The Single Market for capital remains fragmented and can be an obstacle for business financing;
- Regarding workers mobility, the complexity and frequent changes of labour legislation in some

[22] See European Commission (2016).

countries make it difficult for firms, especially SMEs, to handle them in practice.

- Within the EU there are many different languages and distinct social and political cultures. In addition, distances between markets can be great and the variability in the quality of infrastructure between member states can cause logistics and management oversight to be difficult, time consuming and expensive.

Staff bandwidth and skills – time, energy and adaptability

Internationalising can take up significant amounts of senior staff's time, both in the exploration and set up phases and once the venture is up and running.
As well as the time needed for market research, there may well be a period of adapting the SME's proposition to best exploit the opportunities or to comply with foreign regulations. For SMEs, who are by definition constrained in terms of manpower, often relying on a small group of senior staff, this can be all-consuming. As such, an SME must decide whether it is the best use of its resources.

Once a venture is live, extra time and resources are still required to monitor the business. For example, a second production site, an overseas subsidiary or a new third party supplier adds complexity to budgeting, monitoring and reporting. For a business that relies on reputation or company culture, these could become much more difficult and expensive to maintain within a much more dispersed company and could require the resettlement of key staff to new locations.

An SME also needs the requisite knowledge or skillsets, such as languages, foreign diplomacy or currency hedging. This may require identifying and hiring additional staff, such as bilingual sales people, a finance director, appointing advisers or outsourcing. Hiring is risky and can take up a significant amount of an SME's resources and often has to be paid for well before the benefits are realised.

Highlighting this, 38 % of non-exporting SMEs in France, Germany, Italy, Spain and the UK assess the lack of specialised staff to be a key obstacle to exporting (Figure 14). It is thus among the top barriers for the internationalisation of European SMEs.

Have these challenges changed over time?

The discussed barriers to internationalisation closely match the top barriers identified by the OECD for the period from 2007 to 2008, thus before the financial and economic crisis.[23] This suggests that despite the major upheaval, the barriers that are seen as impacting the internationalisation of SMEs have remained constant over time.

In addition, country specific studies have identified the same barriers, suggesting that the barriers are not only consistent over time but also across nations, both within the EU and beyond.

Financing issues – large investments and difficult access to external capital

Exporting usually involves additional costs, for doing market research, adapting products to foreign standards, setting up a distribution network and ramping up capacity, for instance. About 42 % of the non-exporting SMEs surveyed in the five largest EU countries indicated that the sheer size of the required investment is a key obstacle to internationalisation (Figure 14). Moreover, fulfilling orders and collecting payments abroad typically takes longer than at home, thus exporting increases working capital requirements. A shortage of working capital has been identified as a major barrier in countries as diverse as Canada, as well as several EU countries.[24]

A secondary role of certain types of finance can be to insure importers or exporters against some of the inherent risks of international activity, such as the previously mentioned fear of not receiving payment. Without access to products such as export credit guarantees, SMEs may be unable to protect themselves from this real or perceived threat. Several papers have found access to such finance products, whether supplied by the private or the public sector, fosters international trade.[25]

According to the WTO (2016b), up to 80 % of global trade is supported by some sort of financing or credit insurance, whilst Auboin (2007) suggests upwards of 90 % of international trade involves trade finance. Without adequate trade finance, opportunities for growth and development are missed; businesses are deprived of the fuel they need to trade and expand.

Trade financing is often taken for granted in developed countries because importers and exporters are backed

[23] See OECD (2009).

[24] See Riding et al. (2007), Zhang et al. (2008), European Commission (2014) and Wagner (2014), who provides a comprehensive survey of empirical studies on the role of credit constraints for exports.

[25] See Van der Veer (2015), Felbermayr and Yalcin (2013), or Egger and Url (2006), for example.

by mature financial industries. Still, even in these countries, SMEs face hurdles in obtaining financing because they typically have less collateral and a shorter credit history than larger companies.

More specific to export finance, SMEs export volumes are usually small, implying that earning possibilities for external capital providers are rather limited. In addition, assessing the risks of international projects is often difficult for external capital providers, especially if these are themselves not present in the respective target markets.

Furthermore, it is not just a supply issue. The British Business Bank's 2017 Business Finance Survey revealed that only 21 % of SMEs were aware of whom to approach for trade finance (defined as export or import finance), and only 1 % reported they were currently using trade finance.[26] This suggests that, even where finance is available for internationalisation, many SMEs are simply unware and more needs to be done to get the message out.

Box 4: Challenges to the internationalisation of SMEs in Canada

(Pierre Cléroux, Vice President, Research and Chief Economist, Business Development Bank of Canada)

In 2014, 11.8 % of Canadian SMEs[27] exported goods or services to foreign markets, while 25.8 % imported goods or services from outside of Canada. Less than one per cent of firms said they were engaged in FDI and 3.2 % outsourced business activities to other countries in 2011.

Altogether, SMEs represented 97 % of all exporters and contributed to 41 % of total Canadian merchandise exports by value in 2016.

Canadian SMEs are largely dependent on the US market. The US accounted for 75 % of total export by value in 2016 and 81.1 % of Canadian SMEs exported south of the border. This illustrates the strong integration of Canadian business in the North American value chain. After the US, Europe is the second most important destination for exports (6 % of total exports by value), closely followed by China, representing 5 % of total exports.

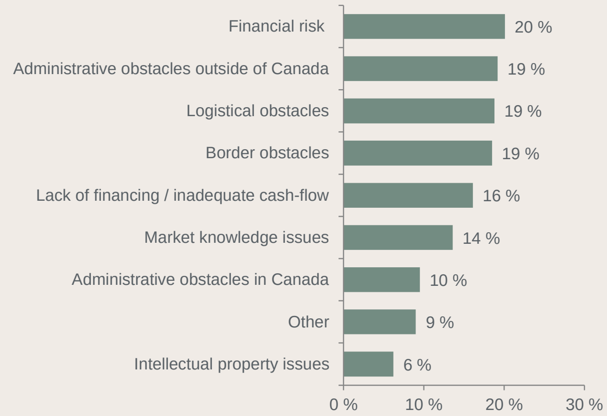
While Canadian trade is concentrated in the US, Canadian exporters have been diversifying in the last few years. Between 2010 and 2016, exports to Mexico and China grew at a compound annual growth rate of 12 and 11 % respectively while exports to the US increased by 6 % annually. For the same period, Canadian exports to Europe have dropped 8 % annually.

Challenges to internationalisation

The most important obstacle Canadian SMEs encounter when they want to export is very similar to the one European firms face, which relates to the inherent financial risk of exporting to a foreign country, followed by administrative and logistical obstacles outside of Canada, including border issues (Figure 15).

Other studies point to Canada's relatively small domestic market as a challenge to overcome. Canadian SMEs tend to be smaller than in other countries and smaller companies have fewer resources – both financial and human – to overcome policy barriers, gain knowledge about local markets and find trusted local partners.[28]

Figure 15: Financial risk is the top obstacle to export of Canadian SMEs



Note: Share of exporting SMEs which perceive the respective issue as a moderate or major obstacle. Data refer to the year 2014.

Source: Statistics Canada

[26] See British Business Bank (2018).

[27] In Canada, SMEs are defined as enterprises with less than 500 employees. The definition is thus different from the one currently used in the EU, which defines SMEs as enterprises with less than 250 employees and less than EUR 50 million annual turnover or EUR 43 million balance sheet total.

[28] See Sui and Goldfarb (2014).

Key exporting strategies

A study by the Business Development Bank of Canada (BDC)[29] revealed that the most successful Canadian exporters share three attributes:

1. They view exports as vital to the business's overall successes.

2. They assess foreign competition before exporting.

3. They hire at least one employee to work exclusively in international sales.

Firms that apply these three strategies have tended to record higher export and profit growth than those that do not.

1.4 Fostering the internationalisation of SMEs – the role of national promotional institutions

Fostering innovation, increasing productivity and promoting resilience – internationalisation can have substantial benefits for SMEs. Nevertheless, only a relatively limited fraction of them engages in international trade and an almost negligible share of SMEs invest abroad. Not all SMEs have the ambition to internationalise but those willing to sell or invest abroad feel put off by various obstacles. Even SMEs which already export or import face a number of challenges, which prevent them from expanding their foreign business. The immediate consequence is that aggregate export growth is hampered.

The hurdles SMEs face upon expansion abroad are diverse, as the previous section has shown. Lacking information about foreign markets, difficulties in finding business partners abroad, burdensome administrative procedures and limited human and financial resources – while SMEs in the five largest EU countries attach different importance to specific issues, they all report a common set of challenges.[30]

SMEs can already draw on a variety of support measures when going abroad

In fact, all countries considered in this report have established institutions and implemented policies with the aim of reducing obstacles to trade and FDI for SMEs. For instance, the French government agency Business France provides advisory services to French SMEs and organises meetings with potential foreign buyers. The German Federal Ministry of Economic Affairs and Technology has established a market development programme for SMEs, which among other things supports company trips to explore foreign markets. A key trade promoting institution in Italy is the ICE, which organises international roadshows for Italian SMEs, for example. In Spain, the government has recently established a new internationalisation strategy for the next ten years which considers a full set of measures to support the internationalisation of Spanish companies. In the UK, internationally active SMEs can seek operational support and finance from the Department for International Trade.[31] And on a European level, the COSME programme is one approach to open markets for SMEs in the EU and beyond.

Existing measures must become more visible and accessible to SMEs

A first step to foster further internationalisation of European SMEs would be to make existing support measures more visible and accessible. Just a few years ago, only 17 % of European SMEs with plans to internationalise were aware of public support programmes for internationalisation.[32]

Ideally, European SMEs should be able to find all the information they need for their internationalisation process on a single digital platform. This platform would motivate SMEs to go abroad by showing real world success stories, help SMEs to identify their foreign market potential, provide SMEs with comprehensive information on rules and regulations specific to their internationalisation project and arrange contacts with professional advisors. It would cover all forms of internationalisation, from exports to imports to FDI. Such platforms can exist at the national level but they lack the expertise and knowledge of other European agencies regarding their specific markets.

Similar initiatives have also been launched at the European level, like the website “access2finance”, which centralises information on available financing programs at the European level for innovation, internationalisation and competitiveness. Given the lack of awareness of SMEs regarding these platforms, additional efforts are still needed to centralise all the

[29] See Corner (2017).

[30] See sections on challenges to the internationalisation of SMEs in the respective country chapters.

[31] For more details, see sections on national policies to support the internationalisation of SMEs in the respective country chapters.

[32] See European Commission (2010).

available information, improve the visibility of these platforms, for example through dedicated communication campaigns, and enrich their content with useful information for SMEs.

Besides information and advice tailored to their specific needs, concrete opportunities to meet potential partners abroad are among the measures that would help SMEs most to engage in foreign business. About one in four SMEs in the five largest EU countries would wish for more support in this regard (Figure 16). One idea is the organisation of joint learning expeditions, where a group of European exporters is taken to a foreign country to discover its ecosystem and find local partners. Foreign branches of national chambers of commerce can also make a valuable contribution by helping SMEs to match with local business partners and establish a network abroad.

To enhance the management skills necessary to internationalise, many countries have already established training or coaching programmes for SMEs. Work shadowing in SMEs which have successfully internationalised could be another opportunity for managers or employees of SMEs who want to engage abroad.

Figure 16: SMEs consider financial incentives as most helpful to engage in foreign business

Note: Share of SMEs which consider a given measure to be helpful for their company to engage in business abroad. Up to three answers were possible.

Source: European Commission (2015)

Generally, operational support for European SMEs with international ambitions could benefit from more cooperation between national agencies, government institutions and industry bodies. Sharing expertise about best practices but also bringing together specific knowledge about national markets and business actors could help to make the existing portfolio of promotional policies more effective. After all, such networks help to increase cross-border trust and understanding, a key condition for international business.

Financing remains a key issue to be tackled

While the provision of information and opportunities to connect with foreign business partners can support SMEs upon expansion abroad, financing remains a key issue in the internationalisation process of SMEs. Limited access to trade finance instruments, such as export credits or guarantees, is still a major issue especially for SMEs.[33] Consequently, financial incentives such as low interest loans are among the measures many SMEs consider as most helpful when engaging in foreign business (Figure 16).

But also more generally, access to finance for investment and innovation is often difficult for young and small firms with no track record and only few assets that could be used as collateral. Information asymmetries are particularly severe in this case, and lead to the underprovision of credit to those firms which are most reliant on external capital. It is crucial to address this market failure in the first place and correct credit market imperfections by providing credit facilities to SMEs, for instance. Eventually, only SMEs which continuously invest and innovate will be productive and internationally competitive, which is a key condition for being successful on foreign markets. Financially constrained SMEs, on the other hand, are hampered in their ambitions to grow and are less likely to export or invest abroad.[34]

Financial instruments and promotional policies which aim to foster investment and innovation in SMEs must not neglect enterprises with a purely domestic focus and no ambitions to internationalise, however, as their productivity will feed back into the competitiveness of exporting SMEs through domestic supply chains and competitors. After all, SMEs still represent the backbone of European economies, and making them strong and resilient will help to sustain the growth and well-being of our countries.

[33] See section 1.3 of this report.

[34] See e.g. European Commission (2014).

National promotional institutions already play a key role in fostering SMEs access to finance
Financing SMEs belongs to the core business of national promotional institutions such as Bpifrance, KfW, CDP, ICO and the British Business Bank. In their respective countries, these institutions have developed a wide range of instruments to stimulate investment and foster productivity growth in SMEs more generally and for some to support their foreign business in particular.

For instance, Bpifrance offers an “International Growth Loan” directed at French firms to cover the intangible investments they have to make when going abroad. Among other things, KfW offers the “Entrepreneur Loan”, which finances long term investments of German SMEs both at home and abroad. In Italy, CDP, together with its subsidiaries SACE and Simest, offers various financial services to SMEs through the “Italian Export and Internationalisation Hub”. ICO has placed the promotion of internationalisation at the core of its activities, channeling specific credit facilities to finance exports and investments for both SMEs based in Spain and in other countries (with Spanish interest), also in local currencies. At the same time, ICO offers direct loans, international guarantees and private equity schemes to provide financing for Spanish SMEs when internationalising. The British Business Bank is the only exception in this regard. While it offers financial funds and guarantees to support SME growth in the UK, export finance falls within the responsibility of another designated body called UK Export Finance.[35]

Box 5: BDC’s support for Canadian exporters
(Pierre Cléroux, Vice President, Research and Chief Economist, Business Development Bank of Canada)

The mission of the Business Development Bank of Canada (BDC) is to help Canadian entrepreneurs build strong, profitable, growing companies. Businesses that export tend to be more productive, more profitable and pay higher wages than companies solely focused on the domestic economy, according to BDC research. Therefore, one of the Bank’s key focuses is to support the efforts of small and mid-sized businesses to open export markets by providing them with financing and expert advice.

Developing and executing a successful export strategy requires time, commitment and resources. On the financing side, BDC offers businesses highly flexible loans to finance their exporting efforts. This money can be used for a wide range of export-related projects, including conducting market research, attending trade shows, visiting target markets, hiring consultants and expanding production to meet foreign demand.

At the same time, BDC Advisory Services offers a three-step program to help entrepreneurs achieve their international objectives while minimising the risk. In the first step, BDC advisors conduct a detailed assessment of how ready a business is to export. This encompasses an analysis of its organisational structure, financial health, leadership and commitment to the plan. It allows companies to prepare themselves by addressing weaknesses and gaps in their management and operations. The second step is to select the best market to attack using a structured approach based on careful analysis and market research. Finally, BDC advisors help the business develop its market entry strategy by identifying the best partners in its target market, understanding the competition and developing a comprehensive strategic plan for the exporting effort.

BDC also offers entrepreneurs a wealth of free content and tools to help them with their exporting project. These resources include video, numerous articles and an eBook entitled “How to Succeed in Foreign Markets: A Guide for Entrepreneurs”. BDC has also developed, in cooperation with Export Development Canada and the Canadian Trade Commissioner Service, the Canada Tariff Finder. It’s a free online tool that allows Canadian exporters to check the tariffs applicable to a specific good in a given foreign market with a focus on countries with which Canada has a free trade agreement.

Sharing knowledge and experience can enhance existing promotional activities
The different programmes offered by national promotional institutions in different countries to support SME internationalisation encourage mutual learning and an exchange of best practices. However, sharing knowledge and experience must by no means be limited to the national promotional institutes of the five largest EU members. An exchange of best practices would clearly benefit from participation of national promotional institutions in other countries within or outside the EU, such as Canada (Box 5).

Moreover, national promotional institutions such as Bpifrance, CDP, ICO, KfW and the British Business Bank possess a deep understanding of their respective domestic markets, which can be of immense value for

[35] See section on national policies to support the internationalisation of SMEs in the respective country chapters.

its European peers in designing policies to support their own SMEs internationalisation.

A joint effort of the national promotional institutions in the five largest EU member countries could also help to feed a single platform for European SMEs, not only with information and advice but also with direct links to suitable financing partners and programmes. This would help to also make financial support programmes for internationally active SMEs more visible and accessible.

Advancing digitalisation can help to foster the internationalisation of SMEs

Advancing digitalisation in SMEs is also a promising approach – not only to make SMEs viable for the future but also to foster their internationalisation. As survey evidence for Germany has shown, two out of three SMEs believe that digitalisation will make it easier for them to access European value chains.[36] Generally, access to information and communication technologies reduces search and distribution costs and e-commerce in particular helps firms to connect with distant customers. KfW has recently made a first step in this direction by establishing the Digitalisation and Innovation Credit Programme. Bpifrance, besides financing the digitalisation of SMEs within its regular programmes, has also established different learning modules dedicated to SMEs digital transformation. These modules help SMEs to make an autodiagnosis regarding their use of digital in various business aspects, such as production, sales or organisation.

Promoting the EU internal market will particularly benefit SMEs

Finally, to foster the internationalisation of European SMEs, it will be essential to further strengthen the EU internal market. Exporting to geographically and culturally close countries which share common rules and procedures is often a first step in the internationalisation process of SMEs. In 2016, SMEs accounted for roughly 40 % of intra-EU exports, or about EUR 1.7 trillion. For many SMEs, the EU internal market, international in itself, can produce the right platform for SMEs to achieve a global footprint.

Strengthening the EU internal market may not only require lowering administrative burdens for cross-border activities or harmonising regulation across member states but also fostering investments – in infrastructure, digitalisation or energy efficiency projects, for instance. These are not only increasingly needed in Europe but will also result in business opportunities for European SMEs and have the potential to produce positive spillovers on technology and innovation in the manufacturing and services sector, thus ultimately enhancing the global competitiveness of European firms.

[36] See IW Consult (2016).

Country Reports

2.1 France

Sabrina El Kasmi, Alexandre Gazaniol and Baptiste Thornary (Bpifrance)

- Compared to their European counterparts, French SMEs are less likely to export and seem to experience more difficulties when engaging in exports. These difficulties cover a wide range of aspects of the internationalisation process.

- Over the last fifteen years, French exporters have suffered from a lack of competitiveness, both in terms of costs and in terms of non-price factors (innovation, quality). This trend seems to have ended recently but the need to improve on the non-price factors still persists for French SMEs.

- Moreover, evidence suggests French SMEs might also have suffered from a lack of preparation / ambition on foreign markets and from a difficult access to French public support, though the role of these factors is harder to quantify. Addressing competitiveness issues requires taking into account psychological barriers, as well as designing the proper tools to help SMEs invest and increase productivity, innovation and quality.

- Bpifrance offers several dedicated loans and guarantees for exporters in order to overcome the specific risks and costs they face on this matter.

2.1.1 International trade relations of the French economy

The third largest contributor to EU trade

In 2016, French exports of goods and services amounted to EUR 656 billion (representing 10.1 % of total EU exports and 29 % of French GDP), while French imports reached EUR 694 billion (11.6 % of EU total imports and 31 % of French GDP). France is the third largest contributor to EU exports and to EU imports, which is consistent with its rank in terms of GDP (Figure 17).

Services account for about a third of French exports (compared to 28 % for the EU and 26 % for the five largest EU member countries), reflecting the greater specialisation of France in the service industry (Figure 18).

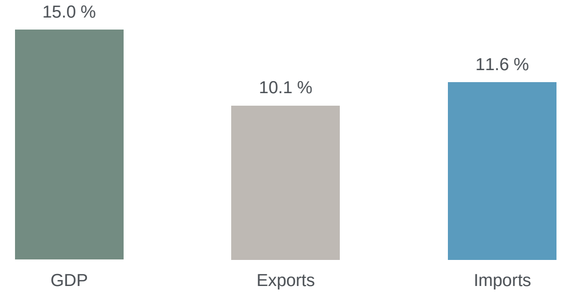
Looking at French export destinations, one can see that the weight of intra-EU flows in French trade is significant: They account for 59 % of exports and 69 % of imports.[37] While the share of intra-EU exports is close to the average of the five largest EU member countries (58 %), the share of intra-EU imports is higher than the average (which only reaches 62 %).

According to French Customs, exports of goods in 2016 were concentrated on spatial and aircraft products (about EUR 58 billion), the food industry (EUR 44 billion), the automobile industry (EUR 44 billions) and pharmaceuticals (EUR 29 billions). First destinations for exports were mainly the closest countries within the EU – Germany (EUR 71 billion), Spain (EUR 33 billion), Italy (EUR 32 billions), the UK (EUR 31 billion) – and the US (EUR 33 billion).

A more positive trend in recent years

From 2000 to 2007, French exports were less dynamic than exports at the EU and world level. They were also hit harder by the financial crisis of 2008–2009. However, since 2010, the trend for French exports is more positive: exports are following world export trends (average annual growth of 3.7 %) and according to French Customs, the number of exporters of goods has increased by +7 % (reaching about 124,000 operators in 2016).

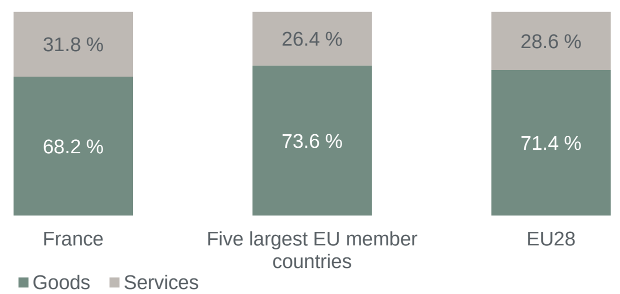
Figure 17: Weight of France in the EU



Note: Share of France in EU GDP, exports and imports of goods and services in 2016.

Source: Eurostat, national accounts

Figure 18: Composition of French exports



Note: Composition of exports in France, the five largest EU member countries and the EU28 in 2016.

Source: UNCTAD

[37] Figures for 2016, looking at trade in goods only.

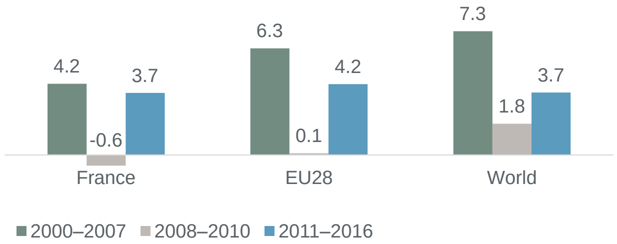
Table 2: French trade by firm size

France	Trading volumes		Number of trading firms		Average trading volume
	EUR billion	Per cent of total	In thousands	Per cent of total	EUR million
Total exports of goods	457.2	100.0 %	109.4		4.2
Of which **intra**-EU	269.9	59.0 %	59.4	100.0 %	4.5
SMEs	48.3	17.9 %	44.8	75.5 %	1.1
Between 1 and 9	8.3	17.3 %	24.8	55.4 %	0.3
Between 10 and 49	14.3	29.5 %	14.2	31.6 %	1.0
Between 50 and 249	25.7	53.2 %	5.8	13.0 %	4.4
Large enterprises	177.1	65.6 %	2.3	3.9 %	77.0
Unknown	44.5	16.5 %	12.3	20.6 %	3.6
Of which **extra**-EU	187.3	41.0 %	83.8	100.0 %	2.2
SMEs	28.9	15.4 %	66.9	79.8 %	0.4
Between 1 and 9	6.5	22.7 %	43.4	65.0 %	0.2
Between 10 and 49	7.8	27.2 %	16.8	25.1 %	0.5
Between 50 and 249	14.5	50.2 %	6.6	9.9 %	2.2
Large enterprises	134.3	71.7 %	2.7	3.2 %	49.7
Unknown	24.2	12.9 %	14.3	17.0 %	1.7
Total imports of goods	518.1	100.0 %	114.5		4.5
Of which **intra**-EU	352.6	68.1 %	72.3	100.0 %	4.9
SMEs	93.7	26.6 %	58.4	80.8 %	1.6
Between 1 and 9	19.3	20.6 %	37.0	63.3 %	0.5
Between 10 and 49	32.1	34.2 %	14.7	25.2 %	2.2
Between 50 and 249	42.3	45.1 %	6.7	11.5 %	6.3
Large enterprises	205.2	58.2 %	2.8	3.9 %	72.8
Unknown	53.7	15.2 %	11.1	15.3 %	4.9
Of which **extra**-EU	165.5	31.9 %	98.5	100.0 %	1.7
SMEs	33.9	20.5 %	79.8	81.1 %	0.4
Between 1 and 9	8.3	24.5 %	57.2	71.6 %	0.1
Between 10 and 49	11.5	33.9 %	16.0	20.0 %	0.7
Between 50 and 249	14.1	41.6 %	6.7	8.4 %	2.1
Large enterprises	110.5	66.7 %	2.8	2.9 %	39.4
Unknown	21.2	12.8 %	15.8	16.1 %	1.3

Note: Data refer to the year 2015. Manufacturing goods only. Firm size measured by the number of employees.

Source: Eurostat (TEC database)

Figure 19: Trends in French export growth



Note: Average annual growth rate of export volumes of goods and services in per cent.

Source: IMF (WEO database), European Commission (AMECO database)

2.1.2 International activities of French SMEs

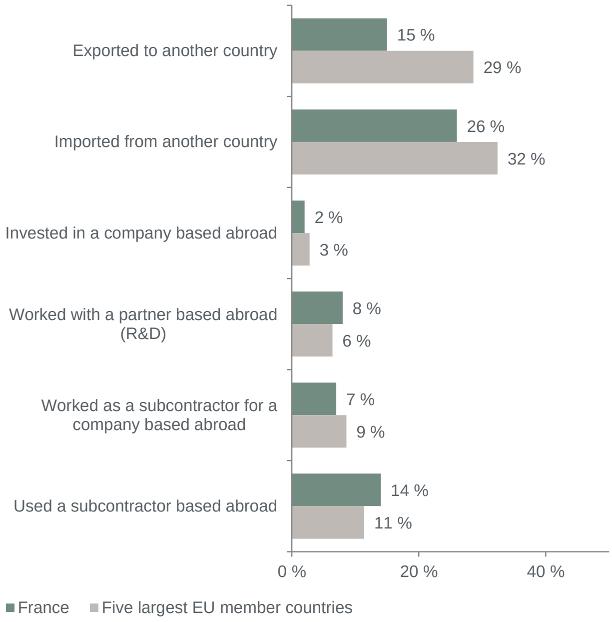
According to Eurostat, about 109,000 French firms exported goods in 2015,[38] with a total of EUR 457 billion. Among these exporters, SMEs represented 77 % of the total number of firms (about 84,000) and 17 % of export value (about EUR 77 billion).[39] As expected, French SMEs export smaller average amounts than large companies (EUR 1.1 million compared with EUR 77 million) and their exports are even more concentrated on the EU (63 % of SMEs' exports go to other EU countries, compared with 57 % for large companies).

French SMEs appear less export-oriented than other European SMEs

A recent Eurobarometer Survey[40] provides some insights into the degree of internationalisation of French SMEs, considering several forms of internationalisation. According to this survey, about 15 % of French SMEs have had export experience over the past three years. Nearly as many SMEs have used a subcontractor abroad (14 %) and many more SMEs have import experience (26 %). Other forms of international experience, such as working with a partner abroad for R&D (8 %), working as a subcontractor for a foreign company (7 %) or investing abroad (2 %), are less frequent (Figure 20).

Importantly, French SMEs seem less present on foreign markets than SMEs from other European economies. Looking at the most common forms of internationalisation, the share of French SMEs with international experience is lower than the average of the five largest EU countries. In particular, only 15 % of French SMEs report export experience, against an average of 29 % of SMEs in the five largest EU member countries. Moreover, foreign markets represent a relatively low share of total turnover of French exporting SMEs, reaching 27 % compared with 32 % in the five largest EU economies. Therefore, French SMEs appear relatively less export-oriented, both on the extensive margin (share of exporters) and on the intensive margin (share of exports in total sales).

Figure 20: International activities of French SMEs



Note: Share of SMEs which have engaged in the respective activity in the three years previous to the survey.

Source: European Commission (2015)

The Eurobarometer Survey also analyses the attitude of non-exporting SMEs towards exporting. It shows that French non-exporting SMEs are more likely to indicate that they will probably never export, compared to other European SMEs (86 %, compared with 74 % of SMEs in the EU and 78 % of SMEs in the largest five EU member countries).[41] This could partly reflect differences of economic specialisation (if French SMEs are more positioned in sectors which are structurally

[38] As the breakdown of trade by firm size is only available for exporters of goods, the following section concentrates on this type of exports. Last available figures from Eurostat are for the year 2015. In this data, the number of exporters corresponds to the number of independent economic entities. Companies which regroup several legal entities (for example a holding company and several affiliates) are counted as a single entity.

[39] According to French Customs, exporters with an "unknown" size essentially correspond to public administrations, agricultural exploitations or foreign companies which do not produce goods or services in France.

[40] See European Commission (2015).

[41] Excluding non-respondents from the computation. If those are included, the gap between France and other countries increases (86 vs 74 % for the EU and 78 % for the largest five EU member countries).

less export-oriented) but it could also indicate that French SMEs are less conscious about the benefits of export and / or face more barriers in their internationalisation process.

French exporters more active on non-EU markets
However, an interesting finding is that compared to their European counterparts, French exporting SMEs seem more likely to export outside the EU. According to the Eurobarometer Survey, 26 % of exporting French SMEs export to the US (compared with an average of 15 % of SMEs in the five largest EU economies), 19 % export to China (compared with 12 %) and 19 % export to India and South East Asia (compared with 12 %). Eurostat data provide a more contrasted picture: The share of SMEs exporting outside the EU is indeed higher in France than in the five largest EU countries on average (reaching 79 % compared with 53 %). However, the share of exports to non-EU countries in SMEs' total exports is a bit lower (37 % compared with 41 %).

2.1.3 Challenges to the internationalisation of French SMEs

French SMEs experience more difficulties when exporting
According to the Eurobarometer Survey, French SMEs experience more difficulties when engaging in international activities than SMEs in other European countries. The survey lists 12 barriers SMEs might face in their internationalisation process. When asked how many barriers represent a "major problem", 24 % of French exporting SMEs indicate between 4 and 8 (compared with 18 % for SMEs in the largest five EU economies) and 9 % indicate between 9 and 12 (compared with 3 %).

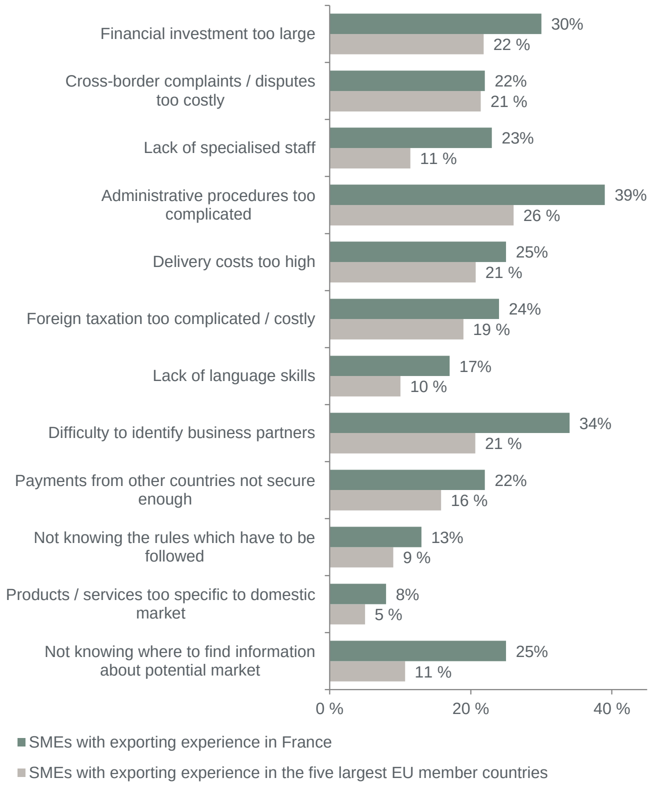
The gap between France and other countries is even more important when looking at non-exporters: In France, 50 % of non-exporters identify between 4 and 8 major difficulties for exporting (compared with 35 % in the largest five EU member countries) and 24 % identify between 9 and 12 difficulties (compared with 14 %).

Another worrying finding is that the share of French SMEs perceiving a barrier as a "major problem" is higher than the average in the five largest EU member countries for all the 12 barriers considered in the survey (Figure 21):

- Considering exporters, the gap between French and other European SMEs is particularly high for four types of barriers: having specialised staff for export activities (23 % of French SMEs considering it as a major problem), identifying business partners abroad (34 %), dealing with administrative procedures (39 %) and finding information about the potential market (25 %). The gap is less important but still significant for three other barriers: affording the necessary financial investments (30 %), securing foreign payments (22 %) and having the required language skills (17 %). For other barriers, the gap between French SMEs and their European counterparts is not necessarily significant (a difference of about 2–4 percentage points).

- Considering non-exporters, the gap between French and other European SMEs is important (at least 10 percentage points) regardless of the considered barrier.

Figure 21: Major obstacles to exporting for French SMEs with exporting experience



Note: SMEs with exporting experience include SMEs which have exported in the past three years, as well as SMEs which have not exported in the past three years but used to export and stopped or tried to export and gave up.

Source: European Commission (2015)

The fact that French exporters systematically express more problems, combined with the fact that non-exporters are more likely to think that they will never export,[42] suggests that there could be a cultural

[42] And are less likely to consider it for the future.

bias affecting French SMEs' behaviour,[43] leading to a potential lack of preparation regarding the question of internationalisation. Even among exporting SMEs, there seems to be a lot of churning, as only 8 % of first-time exporters still export after 10 years, according to a study of French Customs.[44]

A lack of competitiveness of French SMES
These behavioural issues should be taken into account, alongside the findings of several reports pointing to a lack of competitiveness of French companies.[45] Indeed, France has suffered from relatively important export share losses over the last fifteen years, which is not the result of a poor geographic or product specialisation.[46] Instead, these losses come from:

- A lack of cost efficiency, not only in the manufacturing sector but also in non-tradable industries which are important inputs for exporters (e.g. business services, construction);

- A lack of non-price competitiveness (e.g. innovativeness, product quality, organisational efficiency), which prevents French exporters from compensating for higher costs with higher export prices.

In connection with this competitiveness issue, some reports have pointed at the fact that French SMEs, and especially young and innovative ones, have difficulty growing.[47] This is likely to hamper their ability to overcome the sunk costs associated with exporting and could partly explain why French SMEs experience more difficulties for most aspects of the internationalisation process.

2.1.4 National policies to support the internationalisation of French SMEs

The Eurobarometer Survey can help to analyse what French SMEs prioritise in terms of useful measures to help them develop abroad. Given the greater difficulties met by French SMEs in their internationalisation process, it is no wonder that these companies are also more likely to express the need for specific measures for that matter: 87 % of French SMEs (exporting or non-exporting) require at least one measure, compared with 74 % of SMEs in the five largest EU member countries. The Eurobarometer Survey lists seven different measures that could help SMEs to engage on foreign markets: French SMEs are more likely to request each of these seven measures.[48]

Figure 22: Measures requested by French SMEs to foster internationalisation

Note: Share of SMEs which consider a given measure to be helpful for their company to engage in business abroad. Up to three answers were possible.

Source: European Commission (2015)

[43] Of course, one cannot exclude that all the barriers to trade are especially high in France, although this assertion should be confirmed by a proper study on all these type of barriers.

[44] However, it is not possible to assert whether this proportion is lower than in other countries, see French Customs (2010).

[45] See for example the note of the French Economic Analysis Council (CAE) (2015a).

[46] See the "Export Competitiveness Data Base", constructed by the World Bank, in association with the Banque de France and the International Trade Center (CNCUCED-OMC): https://mec.worldbank.org/builder.

[47] See for example French Economic Analysis Council (2015b).

[48] Knowing that one SME could only choose three measures when responding.

It is worth noting that some requested measures seem more specific to French SMEs than others:

- The share of French SMEs requesting opportunities to take part in international trade fairs (19 %), advice or training (20 %) or information on foreign markets (22 %) is not very different from the average share in the five largest EU economies (gap of only one to three percentage points).[49]

- On the other hand, the gap between French SMEs and their European counterparts is more pronounced for other measures: support for business partners and networking (requested by 41 % of French SMEs), grants, subsidies and low interest loans (41 %), tax incentives (37 %) and information on rules and regulations (28 %).

Bpifrance offers financial support for exporters
These requests raise the issue of public support. In France, the landscape of public support for exporters has been simplified over the last years and now mainly relies on two agencies.[50]

- Bpifrance provides several dedicated loans and guarantees for exporters to help them overcome the specific risks and costs they face (see below).

- Business France provides information and advisory services for firms seeking to expand on foreign markets. In particular, the agency organises meetings with potential foreign buyers / partners and also manages the "Volunteering for International Experience" (VIE) program, which provides financial, legal and administrative support for French companies recruiting young people for missions overseas.

The ambition of Bpifrance is to provide financing and insurance solutions for each step of the internationalisation process. This offer has widened progressively over the last years.

Until 2015, the offer was centred on direct loans and loan guarantees benefiting French exporters. Among these, the main product is the "International Growth Loan", which is dedicated to covering the intangible investments of firms engaging in international development, e.g. recruiting employees for export activities, adapting existing products to foreign markets, acquiring foreign companies or setting up new affiliates abroad. This loan offers attractive conditions for applicants (no personal guarantees, no interest payments over the first two years). New loans represented about EUR 730 million in 2016.[51] Since 2014, Bpifrance has also distributed the product "Advance + Export", which is a short-term loan backed by export receivables denominated in euro. In 2016, new loans amounted to EUR 100 million.

In 2015, Bpifrance launched an offer of export credits (loans for French exporters' foreign buyers), on the basis that few private actors were offering this type of loan for SMEs. This offer still represents modest amounts (EUR 30 million in 2016) but is expected to grow in the coming years (see Box 6 for an illustration).

Box 6: Promoting "collaborative" export – the example of Contirep
Contirep is a French SME producing power line transformers. The company has 24 employees and exports 44 % of its total sales (EUR 6.8 million in 2016).

In 2014, the company received an order for equipment with a total value of EUR 3 million from Kama, a company in Mali specialised in electric networks. However, the company could not find a financing solution at this time. One year later, Bpifrance contacted the company and presented its new export credit offer. The project was back on track.

Yet, in the meantime, Kama had lowered its investment needs, which only reached EUR 0.9 million and was below Bpifrance's eligibility thresholds. Contirep decided to organise a new meeting with Kama and Bpifrance regardless. It became clear during this meeting that Kama was relying on other French suppliers, which were producing complementary materials and were known to Contirep. The company decided to centralise purchases for Kama and to deliver all equipment in a single contract, whose total amount was now eligible for Bpifrance's export credit. Kama finally benefited from a EUR 3 million export credit and only had two contacts for this contract: Contirep and Bpifrance.

[49] Given the responses of French SMEs in the same survey (obstacles greater than average in terms of required specific skills, identifying partners and information on markets abroad), one can only wonder why the self-assessment on the need to get more advice/training or market information is not above average. This could also illustrate what seems to be a lack of awareness and preparation of French SMEs regarding the issue of internationalisation.

[50] It should be noted that other public schemes also exist at the regional level.

[51] See Bpifrance (2017).

Since 2017, Bpifrance manages state export guarantees for the French state. The two main guarantees are:

- The prospection insurance, which covers a fraction of the expenses related to prospection overseas. Beneficiaries have to partly or fully repay these expenses depending on the growth of their export sales. This guarantee benefited about 1,200 firms in 2016 and represented EUR 255 million of covered expenses;

- The credit insurance, which allows French exporters to cover the risk of non-payment from a foreign buyer. Beneficiaries are mainly large companies specialised in industrial and transport equipment and in the defence sector. New authorisations reached EUR 16.1 billion in 2016.

Finally, in parallel with its financing activity, Bpifrance has partnered with Business France (see above) in order to organise immersion missions into specific markets such as China or the US. These missions help companies to evaluate their market potential, to learn the local business practices, to find partners and / or clients and to define their international strategy.

Future challenges
The performance of French exporters will ultimately depend on their ability to increase their competitiveness.

The price-competitiveness of French exporters has recently improved, in part thanks to government measures designed to lower labour costs for French companies (mainly the “Crédit d’Impôt pour la Compétitivité et l’Emploi” – CICE). These measures have improved French exporters’ margins leading to a greater capacity to invest in innovation and quality and to penetrate new markets.

However, exporters still need to improve their non-price competitiveness in order to face foreign competition, which will require a long-term effort. To that end, Bpifrance will boost not only its dedicated offers for exporters but also for all financings which aim at fostering SME’s productivity, innovation and quality. It will also develop its “coaching” programmes for entrepreneurs so that they strengthen their ambitions and seize their opportunities, in France and overseas. ■

2.2 Germany

Dr Jennifer Abel-Koch and Dr Philipp Ehmer (KfW)

- Germany is deeply integrated in the world economy – both with regard to international trade and investment flows.

- While SMEs represent the majority of exporting and importing firms in Germany, they contribute relatively little to the total volume of German trade, and represent only a tiny share in German foreign direct investments.

- The key export markets of German SMEs are geographically close countries within the European Union.

- Besides complicated administrative procedures, the lack of qualified staff and insufficient knowledge of the rules that have to be followed are also severe obstacles to non-exporters.

- Financing issues are less of a problem in Germany than in other European countries. However, especially for small export and foreign investment volumes, there seems to be a lack of external finance.

- To foster SME participation in international trade, it is crucial to improve SMEs' international competitiveness. This requires continuous investment and innovation on part of the SMEs.

- KfW offers various programmes to support German SMEs investment and innovation, most of which also cover projects implemented abroad. With its subsidiaries IPEX and DEG, it offers a broad range of financing instruments for German enterprises exporting or investing abroad.

2.2.1 International trade relations of the German economy

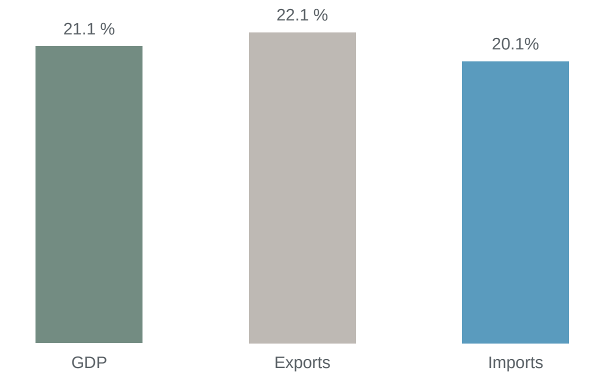
Germany is strongly connected to world markets

Germany is deeply integrated in the world economy. With exports of EUR 1,207 billion and imports of EUR 955 billion in 2016, it was the largest international trader of merchandise goods after China and the US. It is also among the most active international traders of services. In 2016, Germany exported services worth EUR 254 billion, placing it third behind the US and the UK in the ranking of service exporters.

Among the five largest European countries, Germany is the economy with the highest trade openness. In 2016, the total of exports and imports of goods and services amounted to 84 % of GDP in Germany, in contrast to roughly 60 % in the UK, France, Italy and Spain.

Consequently, Germany makes up for a substantial share of EU exports and imports – about 22 % and 20 % respectively. Interestingly, this roughly reflects its share in EU GDP, which is around 21 % (Figure 23). This is different for all other countries considered in this report, which make up for smaller shares in EU trade than in EU GDP. France, for instance, accounts for only 10 % of EU exports but for 15 % of EU GDP (see chapter 2.1.1).

Figure 23: Weight of Germany in the EU



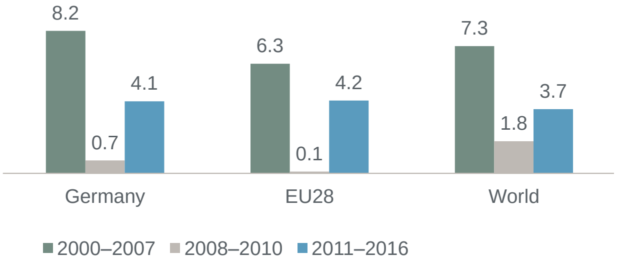
Note: Share of Germany in EU GDP, exports and imports of goods and services in 2016.

Source: Eurostat, national accounts

Financial crisis dampened export growth in Germany as well

As most European countries, Germany experienced a sharp drop in export growth rates during the financial and economic crisis which had its beginnings in 2008. While German exports of goods and services grew at annual rates of 8.2 % on average from 2000 to 2007, they increased by merely 0.7 % per year from 2008 to 2010. Export growth rates have partly recovered since then but are still much lower than before the crisis, with an average of 4.1 % (Figure 24).

Figure 24: Trends in German export growth



Note: Average annual growth rate of export volumes of goods and services in per cent.

Source: IMF (WEO database), European Commission (AMECO database)

Although domestic demand has become more important in recent years, external trade remains an important driver of growth in Germany. About 40 % of Germany's total real GDP growth since 2000 can be attributed to net exports. In this regard, the country differs from France and the UK, for instance, where net exports weighed on growth and the rise in GDP since 2000 can be largely attributed to domestic demand.

Increasing trade surplus must be addressed

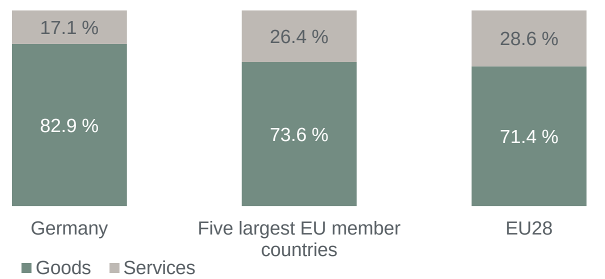
Germany's strong export performance comes with a persistent trade and current account surplus, which reached EUR 261 billion in 2016. The growing current account surplus has come under scrutiny from international organisations such as the IMF. The European Commission formally identified a macroeconomic imbalance already in 2014 and has confirmed its finding every year since.

In fact, the largest share of the growing surplus must be attributed to the enterprise sector rather than to the public sector or private households. Since 2009, non-financial corporations have consistently turned from net investors into net savers. Reducing its current account surplus is in Germany's own interest. Investing in a modern and efficient capital stock at home rather than accumulating monetary capital abroad seems crucial to reduce the surplus – and essential to ensure future growth and prosperity.[52]

Trade in goods dominates trade in services

Although the cross-border exchange of service is growing, merchandise goods still dominate world trade. This is particularly true for Germany, where merchandise goods make up for nearly 83 % of total exports. In the EU28, as well as in the five largest EU countries, the average share of merchandise goods in total exports does not exceed 74 % (Figure 25).

Figure 25: Composition of German exports



Note: Composition of exports in Germany, the five largest EU member countries and the EU28 in 2016.

Source: UNCTAD

[52] See Borger (2017).

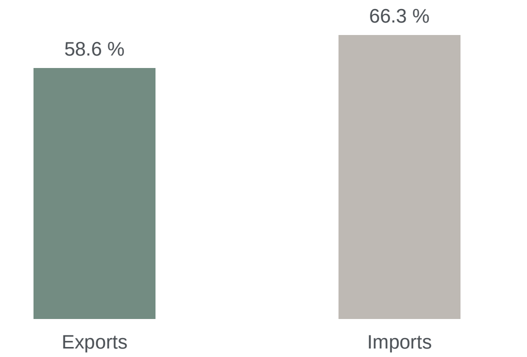
The most important merchandise goods Germany exports are motor vehicles (EUR 228 billion in 2016), machinery (EUR 170 billion), chemicals (EUR 107 billion), computers and electronical as well as optical devices (EUR 100 billion), electrical equipment (EUR 76 billion) and pharmaceuticals (EUR 71 billion).[53] Just as the German economy is geared towards exports, its sectoral structure is tilted towards manufacturing industries which produce the bulk of tradable goods. Transport equipment, machinery, chemicals and pharmaceuticals are Germany's manufacturing industries most reliant on trade openness featuring export shares in turnover of 60 % and above. The stable share of manufacturing in gross value added has been a distinguishing feature of Germany in recent years, compared to other developed economies.

EU is the most important export destination

Regarding single countries, the most important export destination for German merchandise goods is the US, which absorbed around EUR 107 billion of German merchandise exports in 2016. France (EUR 101 billion) and the UK (EUR 86 billion) are placed second and third in the ranking of German export destinations.

In total, nearly three fifths of German exports of merchandise goods are sold within the EU (Figure 26). The UK, France, Italy and Spain absorb nearly a quarter of total German exports of merchandise goods.

Figure 26: Share of intra-EU trade in Germany



Note: Share of intra-EU exports and imports of merchandise goods for Germany in 2016.

Source: Eurostat

[53] According to the German Federal Statistical Office. Data refer to the year 2016.

SMEs contribute to German exports …
According to Eurostat data, SMEs make up for at least 69 % of German firms exporting within the EU (Table 3).[54] This reflects their dominance in numbers in the overall economy. Their export volumes are, however, relatively small, at least in comparison to the export volumes of large firms. The average intra-EU exports of SMEs amounted to EUR 0.9 million in 2015, while the average intra-EU exports of large firms were close to EUR 70 million. Consequently, while dominating intra-EU trade in numbers, SMEs account for only 22 % of the total volume of intra-EU exports in Germany. Similar to France but more than in Italy, Spain and the UK, exports in Germany are dominated by a small number of large firms.

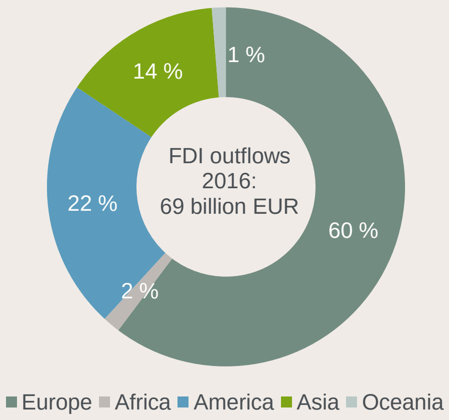
A similar pattern also applies to extra-EU exports. While SMEs make up for 57 % of all German firms shipping their goods to destinations outside the EU, they account for only 16 % of the extra-EU export volumes (Table 3). Overall, extra-EU exports are smaller than intra-EU exports. While this is also true for large firms, the difference is particularly pronounced for SMEs, emphasizing their strong focus and dependence on EU markets.

… but not to the German trade surplus
The data also suggest that the German trade surplus is not driven by SMEs. In contrast to large firms, SMEs export substantially less than they import. In 2015, their exports of goods amounted to less than EUR 231 billion, while their imports of goods exceeded EUR 260 billion. Thus, SMEs run a trade deficit of about EUR 30 billion (Table 3). Taking into account that small firms are often part of the value chains of large enterprises and hence export part of their products indirectly puts this result somewhat in perspective. Nevertheless, empirical evidence suggests that indirect exports are much smaller than direct exports of SMEs.[55] In addition, some small enterprises may also import indirectly through large firms.

Box 7: Germany among ten largest source countries of FDI
In Germany, financial resources are relatively abundant. Savings are high and capital is exported abroad. In fact, Germany regularly ranks among the ten largest source countries of FDI. In 2016, FDI outflows amounted to EUR 69 billion. Two thirds of all FDI are invested in Europe (Figure 27). The outward FDI stock totalled almost EUR 1,300 billion in 2015.

Not only do receiving countries benefit but also investors who achieve considerable returns when they invest their capital in countries where capital is scarcer: Net earnings of German outbound FDI equalled EUR 70 billion in 2015.

Figure 27: German FDI concentrated in Europe



Note: Regional distribution of German outward FDI flows in 2016 (in per cent).

Source: Deutsche Bundesbank

SMEs take only a tiny share in German outward FDI. Official statistics on FDI by firm size do not exist. However, representative survey evidence suggests that German enterprises with annual turnover less than EUR 500 million have invested about EUR 10 to 15 billion abroad in the period from 2012 to 2015.[56] Cross-border investments do not only require lots of human and financial resources but are also much more risky than investments at home. Therefore, it is a form of internationalisation hardly used by SMEs and hence one that will be given only marginal consideration in the following sections.

[54] Again, the dataset contains a number of trading firms which cannot be classified by size. Given that their average trading volume is much closer to the average trading volume of SMEs as opposed to big enterprises, it is very likely that the majority of these trading firms are in fact SMEs. Adding the share of the „unknown“ firms to the share of SMEs exporting within the EU would result in an upper bound of German SME participation in intra-EU exports of 98 %. See also the discussion of this issue in chapter 1.

[55] See Abel-Koch (2016a) and IW Consult (2016).

[56] See Abel-Koch (2017a).

Table 3: German trade by firm size

Germany	Trading volumes		Number of trading firms		Average trading volume
	EUR billion	Per cent of total	In thousands	Per cent of total	EUR million
Total exports of goods	1195.8	100.0 %	316.9		3.8
Of which **intra**-EU	692.8	57.9 %	256.4	100.0 %	2.7
SMEs	151.5	21.9 %	177.2	69.1 %	0.9
Between 1 and 9	21.8	14.4 %	103.2	58.3 %	0.2
Between 10 and 49	41.0	27.1 %	53.7	30.3 %	0.8
Between 50 and 249	88.7	58.6 %	20.3	11.5 %	4.4
Large enterprises	428.1	61.8 %	6.1	2.4 %	69.8
Unknown	113.2	16.3 %	73.0	28.5 %	1.6
Of which **extra**-EU	503.0	42.1 %	144.4	100.0 %	3.5
SMEs	79.0	15.7 %	82.7	57.3 %	1.0
Between 1 and 9	12.4	15.8 %	39.9	48.2 %	0.3
Between 10 and 49	21.4	27.0 %	28.1	33.9 %	0.8
Between 50 and 249	45.2	57.2 %	14.8	17.8 %	3.1
Large enterprises	375.5	74.7 %	5.2	3.6 %	71.7
Unknown	48.5	9.6 %	56.5	39.1 %	0.9
Total imports of goods	947.6	100.0 %	707.7		1.3
Of which **intra**-EU	621.6	65.6 %	584.2	100.0 %	1.1
SMEs	177.0	28.5 %	399.4	68.4 %	0.4
Between 1 and 9	34.3	19.4 %	272.2	68.2 %	0.1
Between 10 and 49	54.4	30.7 %	98.5	24.7 %	0.6
Between 50 and 249	88.3	49.9 %	28.6	7.2 %	3.1
Large enterprises	340.1	54.7 %	8.9	1.5 %	38.4
Unknown	104.5	16.8 %	176.0	30.1 %	0.6
Of which **extra**-EU	326.0	34.4 %	215.6	100.0 %	1.5
SMEs	83.4	25.6 %	93.7	43.5 %	0.9
Between 1 and 9	11.9	14.3 %	46.3	49.5 %	0.3
Between 10 and 49	28.2	33.9 %	30.9	33.0 %	0.9
Between 50 and 249	43.2	51.8 %	16.5	17.6 %	2.6
Large enterprises	182.0	55.8 %	6.4	3.0 %	28.6
Unknown	60.7	18.6 %	115.5	53.6 %	0.5

Note: Data refer to the year 2015. Manufacturing goods only. Firm size measured by the number of employees.

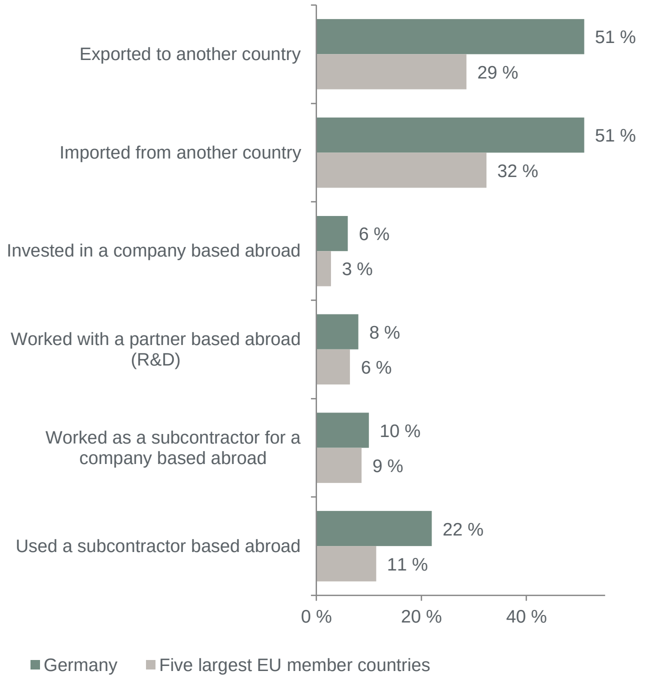
Source: Eurostat (TEC database)

2.2.2 International activities of German SMEs

Exporting and importing are the most common international activities of SMEs

German SMEs do not dominate German trade or FDI flows in quantitative terms. Nevertheless, many of them are active abroad. A Eurobarometer Survey on behalf of the European Commission in June 2015 indicates that one in two German SMEs exported in the three years previous to the survey.[57] About the same share of German SMEs imported from another country (Figure 28). For comparison, in the five largest EU member countries, the average shares of SMEs exporting and importing are substantially lower with 29 % and 32 % respectively. Only Spain has similar participation rates of SMEs in international trade.

Figure 28: International activities of German SMEs



Note: Share of SMEs which have engaged in the respective activity in the three years previous to the survey.

Source: European Commission (2015)

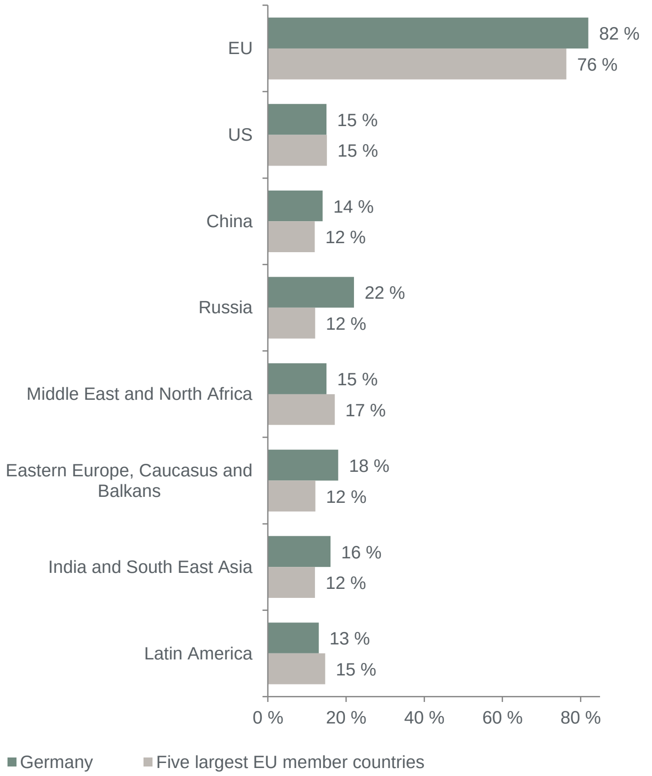
In contrast to exporting and importing, investing abroad is relatively rare among German SMEs. Only 6 % of the enterprises surveyed report that they invested in another company based abroad in the three years previous to the survey. Some more cooperated with foreign partners in R&D and about 10 % worked as a subcontractor for a company based abroad. The share of German SME that used a subcontractor based abroad themselves is substantially higher. Nearly a quarter of the interviewed SMEs reported to have done this in the past three years.

EU is a key market for exporting SMEs

The destinations of SMEs exports are mostly located within the EU. Four out of five exporting SMEs have delivered their goods or services to at least one other EU country, according to the European Commission's survey (Figure 29). More than half of SMEs export revenues originates from intra-EU trade.

Other destinations are clearly of lesser importance to trading SMEs. About one in five German SMEs exported to Russia in the year previous to the survey. A few less exported to non-EU countries in Eastern Europe. Overall, export destinations in the East seem to be more attractive to German SMEs than to SMEs in France, Italy, Spain or the UK, which may partly be due to geographical distance and historical ties. The US was an export destination for about 15 % of German SMEs.

Figure 29: Markets for German exporting SMEs



Note: Destination countries of German exporting SMEs in 2014.

Source: European Commission (2015)

[57] This figure may seem rather high if compared to data from the KfW SME Panel, the yearly representative survey among German SMEs, which features shares of exporters around 20%. However, there is substantial entry into and exit from export markets and many SMEs are rather occasional than persistent exporters. It is thus plausible that the share of SMEs which export within a three year period is much higher than the share of SMEs which export in a single year. Furthermore, in contrast to the Eurobarometer Survey, the KfW SME Panel also includes the smallest firms with no employees, which can be expected to be even less active on foreign markets than SMEs with at least one employee.

The happy few – German SMEs investing abroad
Only a small fraction of German SMEs invests abroad and the amounts invested are generally small. As for exports, the most important destinations of SMEs' cross-border investments are other EU countries.[58] This is in part because the Single Market ensures free movement of capital. Also, most EU countries provide stable economic and political conditions, which reduce the country risks associated with FDI.

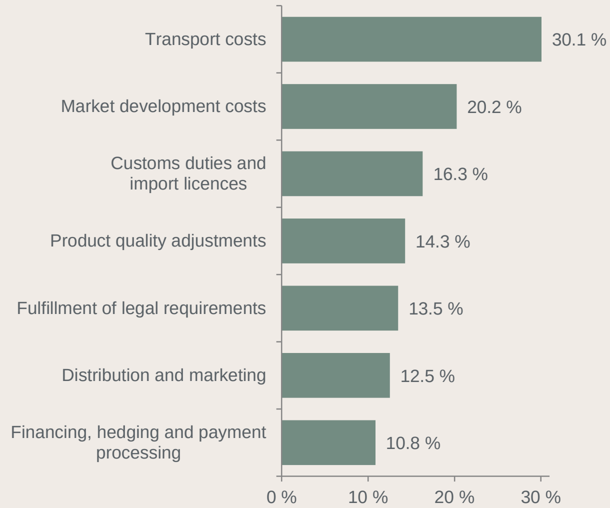
Still, investing abroad is more risky than investing at home – both for the firm itself and for its financing partners. For this reason, most SMEs finance their foreign direct investments with their own resources. Only about one in ten SMEs uses bank credit to finance its foreign business, as shown by a recent study of representative data from the KfW SME Panel. The risks taken with FDI may nevertheless pay off. SMEs which have invested abroad in the previous years are shown to have much more optimistic growth expectations for the near future.[59]

Box 8: Regional differences in export destinations and the role of trade costs
Market size, trade barriers, a common currency, language or culture – many factors determine which foreign countries firms export to. Certainly one of the most important determinants of international trade flows is geographical distance, as the standard gravity equation in international trade forcefully demonstrates.[60]

A recent analysis of data from the KfW SME Panel[61] finds evidence that geographical distance also plays an important role for SMEs' export destinations.[62] To be more specific, SMEs in Bavaria and Baden-Wuerttemberg, the Southern federal states of Germany, disproportionately often export to Austria and Switzerland. SMEs located in the West of Germany, in contrast, exhibit an above average share of exporters selling their goods in the Netherlands, Belgium, Luxemburg or France. Small exporters from East Germany sell their goods or services in Eastern European countries more often than exporters from any other region in Germany.

In fact, SMEs perceive transport costs, which are clearly related to geographical distance, as the most important driver of costs in international trade. The costs of market analysis and development, the costs of necessary product modifications or the costs related to tariffs, licenses, financing or insurance do not weigh as heavily on their foreign sales as transport costs, according to the SMEs own assessment (Figure 30).

Figure 30: Role of different types of costs in international trade



Note: Share of SMEs with foreign sales in 2015 reporting that the respective factor plays a large role for the additional costs of their foreign business.

Source: KfW SME Panel 2016

2.2.3 Challenges to the internationalisation of German SMEs

Internationalisation, in particular exporting, can have substantial benefits for SMEs.[63] Nevertheless, a considerable share of SMEs does not export. What obstacles do they perceive as most burdensome when it comes to selling their goods or services abroad?

An important issue seems to be the lack of specialised staff, which is mentioned by one in three non-exporting SMEs in Germany. Nearly the same share perceives insufficient knowledge of the rules that have to be followed (e.g. with respect to labelling) as a major issue. Consequently, many non-exporting SMEs fear costly cross-border complaints and disputes when selling their goods or services abroad (Figure 31).

[58] See Abel-Koch (2017a).

[59] See Abel-Koch (2017a).

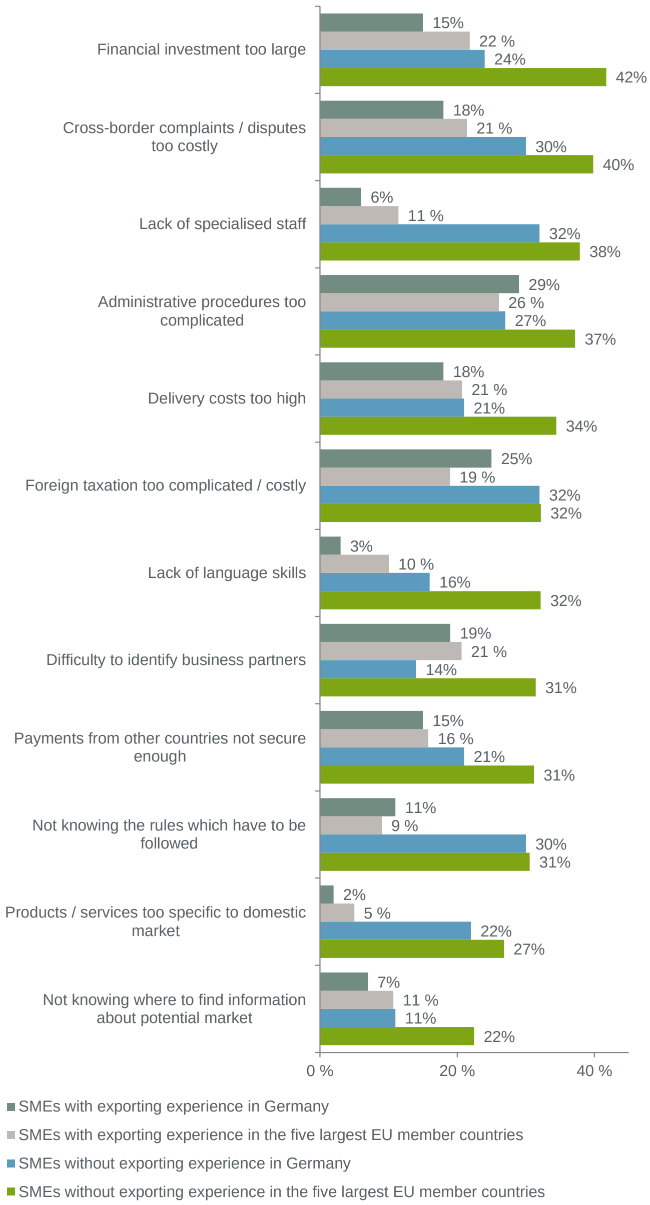
[60] For an overview of the gravity equation in international trade, see e.g. Head and Mayer (2014).

[61] The KfW SME Panel is a yearly representative survey of up to 15.000 enterprises with annual turnover of no more than EUR 500 million. For more details, see Schwartz (2017).

[62] See Abel-Koch (2017b).

[63] See chapter 1.2.

Figure 31: Major obstacles to exporting for German SMEs with and without exporting experience



Note: SMEs with exporting experience include SMEs which have exported in the past three years and SMEs which have not exported in the past three years but used to export and stopped or tried to export and gave up. SMEs without export experience are SMEs which have not exported in the past three years. They might consider export or currently try to export, however, or they believe that they will never export.

Source: European Commission (2015)

Interestingly, only one in four German non-exporting SMEs perceives the financial investment related to exports as too large. In all other countries considered in this report, the share of non-exporting SMEs seeing financial constraints as a major obstacle is substantially larger, ranging from 33 % in Italy to 61 % in France.

In comparison to non-exporters, current or recent exporters view things differently. Generally, they perceive obstacles to exporting as less severe. In particular, only few German SMEs with exporting experience complain about a lack of specialised staff, and hardly any exporting SME perceives its product to be too specific to its domestic markets. Only 15 % of SMEs with export experience say that the financial investment is too large.

Part of the difference between non-exporters and exporters in the perception of obstacles to trade is certainly due to learning and experience. For instance, an SME which is active abroad has learned that cross-border complaints occur less often and are less costly than expected. Most likely, however, there are also selection effects at work. SMEs which perceive their products to be specific to their domestic market, lack specialised staff or language skills are simply less likely to be exporters.

Both German SMEs with and without export experience feel less hampered by most obstacles to trade than their European counterparts. This may reflect the general export orientation of the German economy and the international competitiveness of the German SME sector.

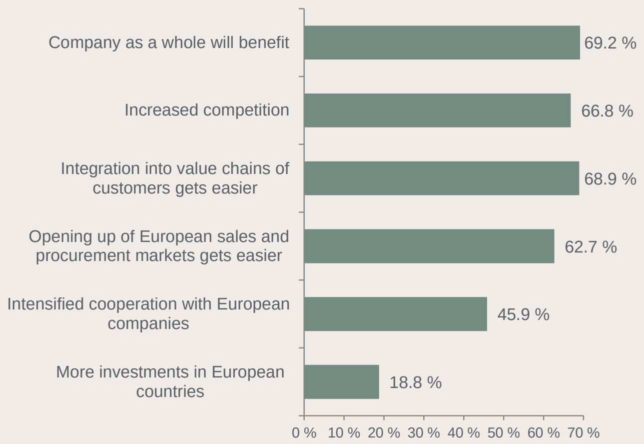
Box 9: A challenge and an opportunity - digitalisation and the internationalisation of German SMEs

The ongoing process of digitalisation holds many challenges for European SMEs.[64] For instance, in Germany, two out of three SMEs expect digitalisation to lead to increased competition (Figure 32).[65] Nevertheless, digitalisation may also open up new opportunities, in particular when it comes to internationalisation. About 63 % of German SMEs think that digitalisation will make it easier for them to access European sales and procurement markets and 46 % think that it will lead to intensified cooperation with European companies. Nearly 20 % even think that digitalisation may provide incentives to invest in other European countries. To sum up, digitalisation is likely to give additional impetus to the internationalisation process of German SMEs.

[64] For a more extensive overview of digitalisation and SMEs, see for instance Zimmerman (2016).

[65] This finding is based on a representative survey among German manufacturing and business service firms with 20-499 employees which has been carried out by IW consult for KfW Research. See IW Consult (2016) and Abel-Koch (2016a).

Figure 32: Potential impact of digitalisation on German SMEs



Note: Share of SMEs with 20–499 employees from the manufacturing and business services sectors that agree with the respective statement on the consequences of digitalisation over the next 3–5 years. Figures in per cent for 2015.

Source: IW Consult (2016)

2.2.4 National policies to support the internationalisation of German SMEs

In Germany, there is a diverse landscape of export and foreign investment promotion schemes offered by both public and private institutions. While some of them are only applicable to SMEs, others address German enterprises of all sizes.

Provision of advice, information and business contacts

Most importantly, the Federal Ministry for Economic Affairs and Technology offers a market development programme targeted at SMEs from all industries. It is organised into different modules and offers advice on the key steps to take before exporting, provides information on specific target markets, supports showcases to present goods or services or fosters contacts to foreign business partners. In addition, the Federal Ministry for Economic Affairs and Energy administrates so-called export initiatives**,** focusing on SMEs active in fields such as green technologies or healthcare, for instance. The export initiatives also provide SMEs with advice, information and opportunities to present their goods and find business contacts abroad.

The Federal Ministry for Economic Affairs and Energy also coordinates the different public actors of foreign trade and investment promotion located abroad, in particular the German chambers of commerce, German foreign missions and Germany Trade and Invest (GTAI), the information agency for both German enterprises going abroad and foreign investors investing in Germany.

Provision of finance and insurance

The most prominent instrument to reduce the risk of German exporters is Hermes guarantees offered by the Federal Government. They provide insurance for claims to payments abroad for German enterprises, which export to developing and emerging countries. In this, they complement the offer of private insurance companies, which mostly focus on export credit guarantees for less risky target countries.

Both large and small enterprises investing in emerging and developing countries may also apply for investment guarantees from the Federal Government to reduce political risks.

Regarding financial support for SMEs, the national promotional bank KfW and its subsidiaries KfW IPEX-Bank and DEG are key players. KfW offers a variety of programmes directed at German enterprises with the purpose of promoting the domestic economy. However, many of these programmes also support the commercial activities of German SMEs abroad, such as the KfW Start-Up Loan, the KfW Renewable Energies programme or the KfW Energy Efficiency Programme. The largest programme in terms of financing volumes is the KfW Entrepreneur Loan.

Box 10: The KfW Entrepreneur Loan

The KfW Entrepreneur Loan finances long term investments, e.g. in production facilities, machinery or intangible assets such as patents of enterprises with an annual turnover of up to EUR 500 million. Enterprises which are SMEs according to the EU definition[66] can get especially favourable terms and conditions, in line with EU state aid rules.

The financing volume is limited to EUR 25 million. As KfW programs are based on the on-lending principle, applications for the KfW Entrepreneur Loan must be made through the enterprise’s local bank.

In 2016, KfW financed more than 16.000 projects with a total financing volume of EUR 5.8 billion within the Entrepreneur Loan programme.

The KfW IPEX-Bank generally finances export projects, infrastructure projects and environmental as well as climate protection projects for German as well as European enterprises, including SMEs. Specifically, KfW IPEX-Bank in cooperation with Northstar Europe

[66] These are enterprises with less than 250 employees and an annual turnover of no more than EUR 50 million or a balance sheet of no more than EUR 43 million.

offers buyer credits to the customers of exporters for small export volumes between EUR 0.5 and 5 million.

The DEG has been set up with the goal of supporting SMEs setting up production facilities in developing countries. Qualifying employees and suppliers, tapping into new markets, improving production processes – the aims of the foreign direct investment projects financed by DEG can be diverse. In addition to financial means, DEG also supports enterprises with funds from the Federal Ministry for Economic Cooperation and Development for feasibility studies or pilot projects, for instance.

Future challenges

Foreign trade and investment promotion schemes for SMEs are numerous and diverse both at national and at provincial level. Nevertheless, there is potential for improvement.

For instance, the financing of small export or foreign investment volumes seems to be an issue, especially for manufacturing SMEs. Expected revenues from financing smaller volumes are rather small. At the same time, assessing the risk of exports or investments abroad is difficult and requires in-depth knowledge of the foreign market. In case the project fails, collateral located abroad is hard to liquidate. This makes financing small export volumes rather unattractive for private banks.

First and foremost, however, SMEs need to be internationally competitive to be successful on foreign markets. Innovative products, high quality and comprehensive services – this is where German SMEs which successfully compete on global markets see their strengths.[67] Offering innovative and high quality products and improving productivity to ensure competitive prices requires continuous investment and innovation on the part of the SMEs. Providing finance and support for investment and innovation more generally and digitalisation in particular is thus crucial to overcoming market failures and sustaining a viable SME sector – and will finally also help SMEs to benefit from global markets. ■

[67] See Abel-Koch (2016b).

2.3 Italy

Claudio Bruno, Gino del Bufalo and Alessandro Melini (CDP)

- Since 2010, export volumes have increased from 25.2 to 29.8 % of GDP in Italy.
- Unlike SMEs in most EU countries, Italian SMEs make up the lion's share in trading volumes as they export and import significantly more than large enterprises.
- Italian non-exporting SMEs show a low propensity to do business abroad, despite perceiving export barriers as relatively easy to overcome. Raising awareness about the benefits of internationalisation can prove key in increasing the number of exporting SMEs.
- The CDP Group supports the internationalisation of Italian SMEs not only by financing their operations but also by fostering the competitiveness of the entire system, promoting innovation and digitalisation and increasing SMEs' ability to compete on the global market.
- Together with its subsidiaries, SACE (the national export agency) and Simest (the national agency for companies' development), CDP established the "Italian Export and Internationalisation Hub" in 2016. The hub serves as the single access point to the entire range of financial instruments and services previously provided by the three companies separately.
- An appropriate dimensional uplift of Italian SMEs, along with an increase in the number of exporting SMEs, would boost the Italian economy and strengthen its sustainable competitiveness.

2.3.1 International trade relations of the Italian economy

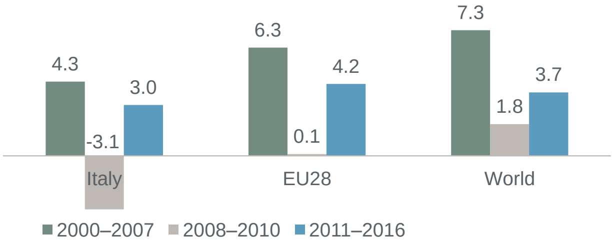
In 2017, both Italian exports and imports expanded strongly, respectively at an annual rate of 7.4 % and 9 % year-on-year. The expansion of exports is diversified and attributable to many target countries: +8.2 % for non EU countries and +6.7 % for EU countries. The trade surplus reached EUR 47.5 billion (EUR 81.0 billion net of energy).

Trade historically represents a relevant component of Italian GDP. However, since the beginning of the new millennium, Italian export and import growth rates have been subdued compared to EU and world averages and Italian trade has suffered a significant slowdown in the aftermath of the financial crisis.

In the last few years, despite below-average export growth rates, Italy's trade activity has gained new momentum. Driven by relatively strong growth in the export of goods and services, the Italian economy is indeed increasingly integrated with the global economy. In particular, exports as a percentage of GDP increased from 25.2 % in 2010 to 29.8 % in 2016.

It is worth mentioning that in the period 2011–2016, while Italy's GDP grew on average by -0.33 % p.a., Italian exports were growing at an average rate of roughly 3 % p.a. (Figure 33).

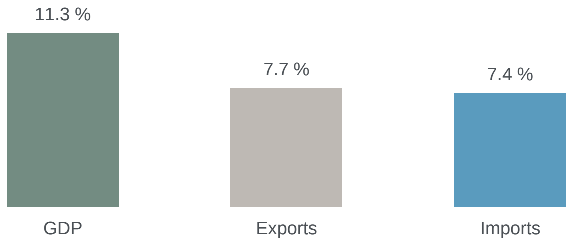
Figure 33: Trends in Italian export growth



Note: Average annual growth rate of export volumes of goods and services in per cent.

Source: IMF (WEO database), European Commission (AMECO database)

Figure 34: Weight of Italy in the EU



Note: Share of Italy in EU GDP, exports and imports of goods and services in 2016. Source: Eurostat, national accounts

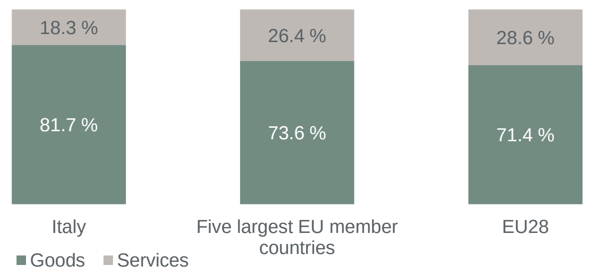
Touching base with a revamp in internal demand, the Italian economy has the potential to generate sustainable growth while increasing competitiveness through internationalisation. This can dynamically relieve current public debt burden.

As far as import dynamics are concerned, they move in diametrically opposite direction relative to export dynamics. Indeed, a modest average growth rate of 0.4 % p.a. in imports over the period 2010–2016 led to a decrease in the share of Italian imports from 27.2 % of GDP in 2010 to 26.4 % of GDP in 2016.

Consequently, the strong growth in Italian exports, coupled with a low growth in Italian imports, led to a structural shift in Italian trade balance, which moved from a 2 % deficit in terms of GDP in 2010 to a 3.4 % trade surplus in 2016. The latter represents an all-time high in absolute terms of EUR 57 billion, comprised of roughly EUR 60 billion surplus in terms of goods and of about EUR 3 billion deficit in terms of services.

Similar to Germany but much more than in other European countries, the overall trade balance in Italy is mainly driven by trade in goods, which is reflected in the general composition of exports (Figure 35).

Figure 35: Composition of Italian exports



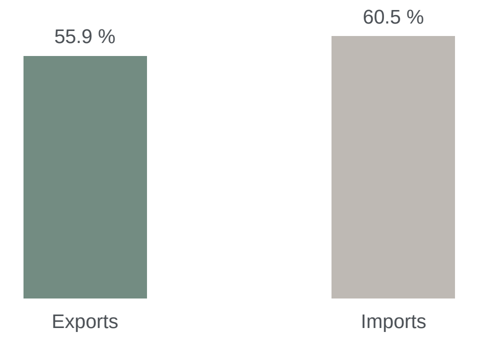
Note: Composition of exports in Italy, the five largest EU member countries and the EU28 in 2016.

Source: UNCTAD.

While the low oil price has certainly played a role in consolidating the trade surplus, the manufacturing sector also continued to expand. In particular, the manufacturing surplus reached a EUR 90 billion surplus, supported by a high growth in pharmaceuticals, food and beverage, fashion and machinery. The latter continues to represent the backbone of Italian exports, both in absolute terms (EUR 76 billion) as well as in trade surplus (EUR 48 billion).

In 2016, EU member countries accounted for 60.5 % of total Italian imports and roughly 56 % of total Italian exports (Figure 36). Nevertheless, the increased size of the Italian trade surplus reflects an improvement in trade balances with many geographical areas.

Figure 36: Share of intra-EU trade in Italy



Note: Share of intra-EU exports and imports of merchandise goods for Italy in 2016.

Source: Eurostat

Between 2015 and 2016, the highest surplus growth was registered with respect to EU countries (+35 %, reflecting a sustained growth in the region). Among Italian bilateral trade balances with European countries, Italy runs the highest deficit with the Netherlands and the greatest surpluses with the UK and France.

After Germany and France, the US still represents the third largest market for Italian exports. Together with the UK and Spain, these countries represent the list of the top five partners for Italian exports of goods. Moreover, Italy once again runs the largest part of its surplus with the US (about EUR 23 billion, +6 % year-on-year in 2016).

The sharp contraction in imports from Russia (-26.3 % year-on-year in 2016) contributed to a significant reduction (roughly EUR 3.5 billion) in the trade deficit with this country. Finally, in 2016 Italy recorded a lower trade deficit against Central and Eastern Asia.

As far as FDI is concerned, inward and outward investment levels are still low compared those registered in some of the largest EU economies. However, positive signs of recovery are materialising, as Italy has recorded a strong average annual growth (+7 %) in FDI over the last six years.

2.3.2 International activities of Italian SMEs

Unlike SMEs in most EU countries, Italian SMEs make up for the lion‘s share in trading volumes as they export and import significantly more than large enterprises.

By showing the distribution of trading volumes and trading firms across different firm size classes, Table 4 highlights the relative importance of Italian SMEs in total exports and imports of goods in 2015.

The intra-EU market is of critical importance for the Italian economy in general and SMEs in particular. In fact, intra-EU activities account for 55 % of total exports and 59 % of total imports, of which in both cases SMEs represent roughly 53 % of total.

SMEs represent the overwhelming majority of exporting and importing firms. Of the 222,000 exporting firms, at least 87 % are SMEs. Similarly, of the 362,000 importing firms, at least 80 % are SMEs (the quota reaches 93 % for firms importing from extra-EU countries). These figures can be considered as lower bounds since – by considering average trading volumes – it is reasonable to assume that most firms included in the "unknown" category can be assigned to the SME category.

According to Table 4, SMEs make up for the majority of intra-EU exports and for slightly less than half of total extra-EU exports in Italy. By significantly contributing to Italian exports, Italian SMEs also contribute to Italy's trade surplus. Indeed, SMEs run a surplus of about EUR 36.3 billion, or roughly 64 % of the total Italian trade surplus. SMEs surplus' is mainly driven by extra-EU trade (surplus of EUR 32 billion) and efficiently supported by intra-EU trade (surplus of EUR 4.3 billion).

Taking into account the effects of global value chains, the already remarkable trade surplus of SMEs may prove even larger. In fact, Italian SMEs often sell within national borders semi–finished goods to big enterprises which use them in their production process and ultimately ship the finished goods abroad. Moreover, Italian SMEs often sell their goods to wholesalers, which then export these goods. In traditional trade statistics, the semi–finished goods produced by the SMEs are not considered as SMEs' exports. As a result, big enterprises' export volumes tend to be inflated, while SMEs' export volumes tend to be underestimated. In Italy and in general in the EU, the indirect exporting activity of SMEs is extremely relevant. Thus, SMEs are potentially much more involved in export activities than current statistics would imply.[68]

Notwithstanding their contribution to the Italian trade surplus, Italian SMEs make up for at least 38.6 % of extra-EU imports and at least 52.8 % of intra-EU imports, way above the European averages. Moreover, the number of importing SMEs in Italy is more than 50 % higher than the number of exporting SMEs. The difference is entirely driven by the outstanding number of firms importing within the EU, with the result that almost two thirds of SMEs' imports are related to intra-EU activities, while only about a third of SMEs' imports take place outside the EU. This implies that Italian SMEs do not only make up for the largest share of total exports but also play a key role in feeding EU demand.

[68] See also the discussion in chapter 1.1 on this issue.

Table 4: Italian trade by firm size

Italy	Trading volumes		Number of trading firms		Average trading volume
	EUR billion	Per cent of total	In thousands	Per cent of total	EUR million
Total exports of goods	412.3	100.0 %	222.6		1.9
Of which **intra**-EU	226.0	54.8 %	165.1	100.0 %	1.4
SMEs	119.0	52.7 %	144.0	87.2 %	0.8
Between 1 and 9	11.8	9.9 %	89.6	62.2 %	0.1
Between 10 and 49	39.6	33.3 %	45.0	31.2 %	0.9
Between 50 and 249	67.6	56.8 %	9.4	6.5 %	7.2
Large enterprises	99.8	44.2 %	1.7	1.0 %	58.7
Unknown	7.2	3.2 %	19.4	11.7 %	0.4
Of which **extra**-EU	186.3	45.2 %	138.0	100.0 %	1.4
SMEs	91.0	48.8 %	123.2	89.3 %	0.7
Between 1 and 9	11.9	13.1 %	75.3	61.1 %	0.2
Between 10 and 49	31.2	34.3 %	38.7	31.4 %	0.8
Between 50 and 249	47.9	52.6 %	9.1	7.4 %	5.2
Large enterprises	81.0	43.5 %	1.7	1.3 %	46.7
Unknown	14.3	7.7 %	13.1	9.5 %	1.1
Total imports of goods	370.5	100.0 %	362.3		1.0
Of which **intra**-EU	217.4	58.7 %	331.9	100.0 %	0.7
SMEs	114.7	52.8 %	264.2	79.6 %	0.4
Between 1 and 9	16.8	14.7 %	194.4	73.6 %	0.1
Between 10 and 49	39.1	34.1 %	57.9	21.9 %	0.7
Between 50 and 249	58.8	51.3 %	11.9	4.5 %	5.0
Large enterprises	81.0	37.3 %	2.3	0.7 %	35.3
Unknown	21.7	10.0 %	65.4	19.7 %	0.3
Of which **extra**-EU	153.1	41.3 %	87.4	100.0 %	1.8
SMEs	59.0	38.6 %	81.3	93.0 %	0.7
Between 1 and 9	9.7	16.4 %	47.4	58.2 %	0.2
Between 10 and 49	23.5	39.8 %	25.9	31.9 %	0.9
Between 50 and 249	25.8	43.8 %	8.0	9.9 %	3.2
Large enterprises	61.2	40.0 %	1.8	2.1 %	34.1
Unknown	32.8	21.5 %	4.3	4.9 %	7.7

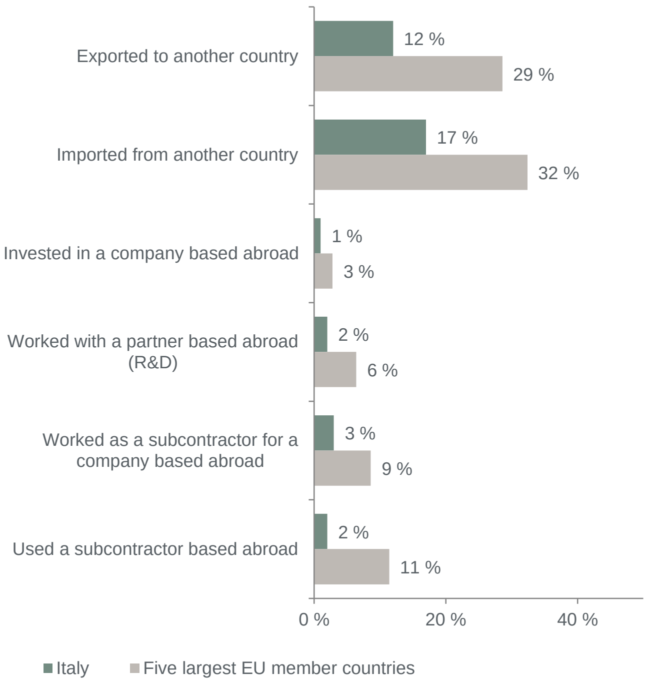
Note: Data refer to the year 2015. Manufacturing goods only. Firm size measured by the number of employees.

Source: Eurostat (TEC database)

Finally, Table 4 breaks down SMEs into micro enterprises (fewer than 10 employees), small enterprises (10 to 49 employees) and medium-sized enterprises (50 to 249 employees). One central result from the breakdown is that micro enterprises make up for slightly more than 10 % of total SMEs' exports, despite representing more than 60 % of the total number of exporting SMEs. On the other hand, medium-sized enterprises, which represent less than 10 % of SMEs, make up for the largest share of SMEs' export and import volumes. Accounting for 33–40 % of total SMEs' export and import volumes, as well as about 22–32 % of the total number of exporting and importing SMEs, small enterprises confirm their important role across-the-board. Promoting a dimensional uplift, in particular at least from micro to small enterprises, remains paramount.

Trade represents only one of the available forms of internationalisation through which SMEs can engage in business abroad. A recent Eurobarometer Survey provides a comprehensive picture of the degree of internationalisation of European SMEs, taking into account multiple forms of international activities, including trade but going beyond it.[69] According to the survey, the share of exporting and importing SMEs over the past three years is much lower than the average share of trading SMEs in the five largest EU member countries. Other forms of international experience, such as working as a subcontractor for a foreign company (3 % of SMEs), working with a partner abroad for R&D (2 %), using a subcontractor based abroad (2 %) or investing abroad (1 %) are even less frequent (Figure 37).

Figure 37: International activities of Italian SMEs



Note: Share of SMEs which have engaged in the respective activity in the three years previous to the survey.

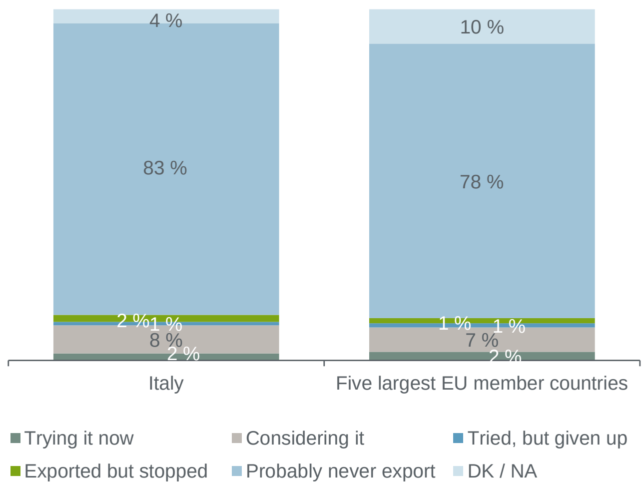
Source: European Commission (2015)

Looking at the graph, it seems that the degree of internationalisation of Italian SMEs is relatively low compared to its European counterparts. However, the same Eurobarometer Survey states that exports represent an important share of total turnover for Italian exporting SMEs (39 %), relatively higher than the share of exports for exporting SMEs in the EU28 (34 %). This implies that, although the share of SMEs among Italian exporters is still low compared to the average across the five largest EU economies, Italian exporting SMEs are very well established on foreign markets.

2.3.3 Challenges to the internationalisation of Italian SMEs

Beyond analysing the degree of internationalisation of European SMEs, the Eurobarometer Survey provides useful insights on the attitude of non-internationalised SMEs towards doing business abroad. In particular, it gives important information on the willingness of SMEs currently non-exporting to export.

Figure 38: Position of Italian non-exporting SMEs towards exporting



Note: Share of those SMEs which have not exported to another country in the three years previous to the survey that take the respective position towards exporting.

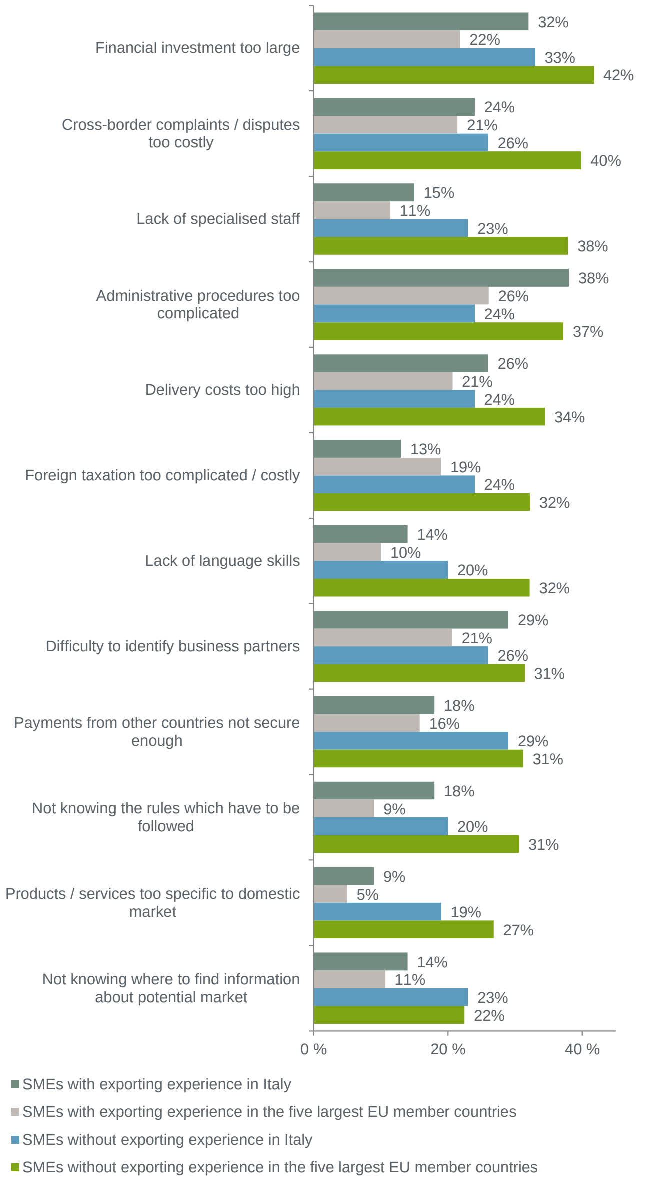
Source: European Commission (2015)

Figure 38 shows that, although the share of SMEs considering exporting is slightly higher in Italy than on average in the five largest EU member countries and the share of SMEs trying to export is basically the same, non-exporting SMEs in Italy are less likely to export in the future. To be more precise, 83 % of non-exporting SMEs in Italy claim that they would probably never export, compared with an average of 78 % in the five largest EU economies. This evidence might suggest that non-exporting SMEs face major obstacles that impede exporting, more than their European counterparts, one of which is probably related to their size (very high percentage of micro enterprises compared to the other four EU member countries considered in this report).

[69] For more details on this survey, see also chapter 1.1.

Figure 39 shows the major obstacles to exporting which both exporting and non-exporting firms have to deal with.

Figure 39: Major obstacles to exporting for Italian SMEs with and without exporting experience



Note: SMEs with exporting experience include SMEs which have exported in the past three years and SMEs which have not exported in the past three years but used to export and stopped or tried to export and gave up. SMEs without export experience are SMEs which have not exported in the past three years. They might consider export or currently try to export, however, or they believe that they will never export.

Source: European Commission (2015)

Interestingly, it appears that Italian non-exporting SMEs perceive the export barriers indicated in the survey as relatively less severe. This is true for all the aforementioned barriers, with the exception of the lack of information on the potential market. In general, Italian non-exporters perceive the size of the financial investment and the security of cross-border payments as the biggest obstacles.

Taking together Figures 38 and 39, Italian non-exporting SMEs seem to perceive export barriers as relatively less binding in comparison to their European counterparts. Nevertheless, the share of Italian exporters is low compared to that in other similar economies. Most likely, Italian non-exporting SMEs are still unaware of the potential benefits of internationalisation.

The picture is completely reversed when exporters, rather than non-exporters, are considered. In fact, in comparison to exporting firms in the largest five EU economies, Italian exporters perceive the export barriers indicated in the survey as relatively more severe. The complexity of administrative procedures represents the single most forbidding obstacle perceived by Italian exporters, followed by the size of the financial investment and the difficulty to identify business partners.

Although possibly redundant, it is appropriate in our opinion to point out that despite perceiving the export barriers as relatively more severe, Italian exporting SMEs are strongly export-focused and exports represent a relevant share of Italian exporters' turnover. This ultimately implies that, notwithstanding the still highly perceived barriers, the benefits of internationalisation are crystal clear for Italian exporting SMEs as they should become for the non-exporting ones.

2.3.4 National policies to support the internationalisation of Italian SMEs

In Italy, public support for the internationalisation process of enterprises is managed on a central level, as well as on a regional one.

The Ministry of Economic Development (MISE) is the central institution in charge of coordinating the activities of different public institutions. Along with the Minister of Foreign Affairs and International Cooperation (MAECI), MISE manages the organisation of institutional and business missions abroad.

Although there are different institutions – such as the Chambers of Commerce – that participate in the execution of the strategy outlined on a central level, the national trade agency, ICE, is historically the point of contact between enterprises and the Italian Government.

In particular, ICE is responsible for the organisation of international roadshows, which are exclusively attended by Italian SMEs, and the promotion of inward as well as outward investments.

Moreover, each single region is responsible for the attraction of foreign investments and the organisation of its regional export strategy.

The national strategy for internationalisation
Currently there are no specific programmes to foster the international activity of Italian SMEs. Nevertheless, at the beginning of 2015, a steering committee – led by the MISE and the MAECI – approved the framework of an operational program to implement the Extraordinary Plan to Promote Made in Italy Products and Attract Investment to Italy (the "Plan").

The Plan's objective is to increase the number of firms (especially SMEs) that operate on global markets. In this context, SMEs' organisational structure – often inadequate for the challenges faced on international markets, not only due to the size issue but, foremost, due to the lack of specific professional skills – has been strengthened through the release of so called "Vouchers for Internationalisation" that can be used to purchase temporary export management services at a discount.

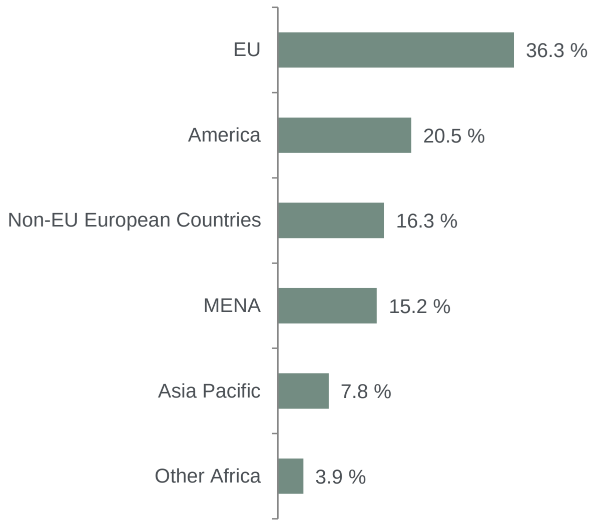
Finance for internationalisation
As far as financial services are concerned, the Italian government has assigned CDP Group the key task of supporting Italian companies in their internationalisation process. To this end, CDP, with its subsidiaries SACE (the national export-credit agency) and Simest (the national agency for companies development), established the "Italian Export and Internationalisation Hub" in 2016.

The Hub represents an important step towards the implementation of the 2016–2020 business plan of the CDP Group. The latter aims, among other things, to channel up to EUR 111 billion to Italian companies by creating a mechanism to support the growth and international competitiveness of the national productive system.

The ultimate goal is to provide a single access point (known as "one door") for Italian companies to the entire range of financial instruments and services provided by CDP, SACE and Simest, in the sense of a one-stop-shop. As a matter of fact, a company willing to compete internationally can have simultaneous access based on its specific needs to insurance products, grants (if applicable), subsidised loans and investments in equity capital (minority shareholdings). In its day-to-day business, the Hub already cooperates closely with more than 23,000 companies.

With its diversified product range comprising insurance instruments, trade finance and guarantees, SACE reached a total portfolio with global exposure of EUR 44 billion in 2016. The portfolio is geared to SMEs. The largest share of activity takes place within the EU (36.3 %), followed by the Americas (20.5 %) (Figure 40). Together, Non-EU European countries and MENA countries represent one third of the portfolio. In terms of sectors of activity, industrial companies are the most prevalent. Indeed, the cruise industry with more than EUR 10 billion holds the largest share (23.1 %), only a few percentage points above the oil and gas sector (20.3 %).

Figure 40: Geographical breakdown of SACE's portfolio



Note: Regional distribution of SACE's portfolio in 2016. Shares in per cent.

Source: ICE (2017)

CDP supports the internationalisation of Italian firms mainly through the activity of the "Export Banca". In 2016, the Export Banca, directly through buyers' credit and indirectly through funding provisions, deployed approximately EUR 5 billion – the highest amount of funds mobilised since its creation in 2011. The Export Banca works as a catalyst of private financial resources, operating in synergy with the banking sector and leveraging up to EUR 7.7 billion.

The activity of Simest is complementary to those of CDP and SACE. In 2016, Simest invested more than EUR 500 million through both debt instruments and equity capital[70] to support operations outside EU borders. The main sectors served in 2016 were the mechatronic industry (28 %), agriculture (27 %) and services (12 %), with a high concentration in the US, United Arab Emirates (UAE) and China.

Finally, the CDP Group supports the internationalisation of Italian companies not only by financing their operations (direct strategy) but also by increasing their ability to compete on global markets (indirect strategy). Indeed, alongside the traditional export finance instruments, CDP has operated to promote innovative investments, support dimensional growth, develop material and immaterial infrastructures and attract foreign investments.

Future challenges

In the aftermath of the financial crisis, exports have been an important driver for Italy's economic growth and supporting the internationalisation of Italian SMEs has become a key priority in the agenda of Italian policy-makers.

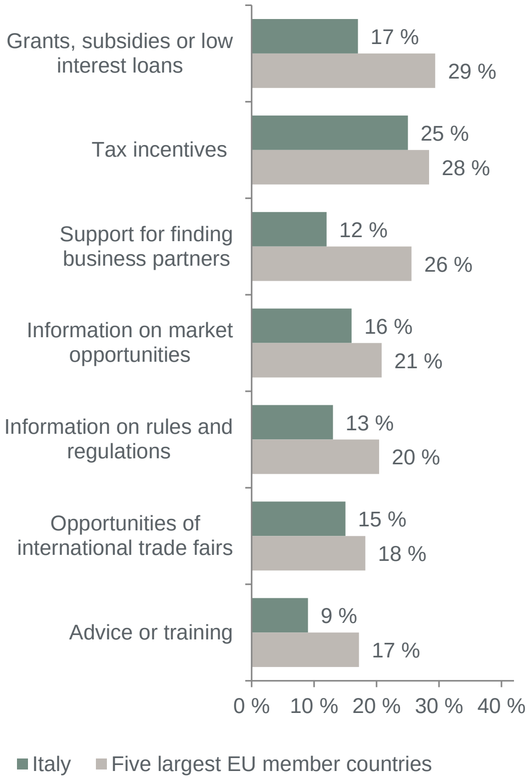
Italian exporting SMEs are increasingly more integrated with the global economy, while non-exporting SMEs, despite perceiving export barriers as relatively easy to overcome, are reluctant to make business abroad.

This evidence is further confirmed in Figure 41 which shows how Italian SMEs perceive the need for specific supporting measures dedicated to export activities as less urgent.

Among the seven measures analysed in the Eurobarometer Survey, Italian SMEs perceive tax incentives as the most important and critical measure to facilitate exports. However, the request for tax incentives is advocated by only one quarter of Italian SMEs, compared with an average of 28 % of SMEs in the largest five EU member countries.

In general, specific supporting measures dedicated to exporting already seem to be at a sufficient level for Italian SMEs. On the contrary, widespread policies aimed at fostering competitiveness, such as policies improving innovation and digitalisation, are still pivotal for Italian SMEs. CDP is focusing on building momentum in venture capital and improving innovation and digitalisation of SMEs. This seems to be the appropriate path towards the enhancement of Italian SMEs' competitiveness above all on international markets.

Figure 41: Measures requested by Italian SMEs to foster internationalisation



Note: Share of SMEs which considers a given measure to be helpful for their company to engage in business abroad. Up to three answers were possible.

Source: European Commission (2015)

Finally, given the low propensity to export of Italian non-exporting SMEs, it is critical to raise awareness on the benefits arising from internationalisation. An increase in the number of exporting SMEs along with an appropriate dimensional uplift would propel the Italian economy and strengthen its competitiveness sustainably. ■

[70] Up to a maximum of 49 % of shareholders' equity.

2.4 Spain

Miguel Fernández Acevedo and Blanca Navarro Pérez (ICO)

- Foreign trade in goods and services shows a positive balance in Spain since 2012. This surplus has been growing since then due to the bigger growth of exports compared to the evolution of imports.

- The Spanish foreign sector relies more on services compared to the average of the five largest EU countries and the EU as a whole.

- Spanish SMEs export and import relatively more frequently than SMEs in other countries but the average operation is smaller, reflecting the smaller size of Spanish SMEs.

- ICO offers a wide range of products for the internationalisation of SMEs and is about to apply a new strategy that aims to introduce new products with the main goal of fostering the internationalisation of the Spanish economy.

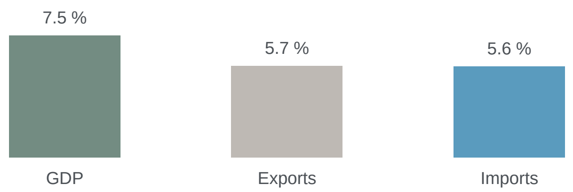
2.4.1 International trade relations of the Spanish economy

The overall volume of Spanish exports of goods and services amounted to EUR 407 billion in 2016 (32.9 % of Spanish GDP). Imports of goods and services were EUR 370 billion in 2016 (29.9 % of GDP).

The volume of exports has grown considerably in the last years, with logical fluctuations due to the evolution of the economic cycle. In 2005, goods and services represented EUR 253 billion (24.7 % of GDP). Imports have also grown in the same period (from EUR 305 billion or 29.7 % of GDP in 2005) but import growth has been more moderate than export growth. In 2016, the import volume had not reached its historical high of 2007 (EUR 385 billion or 31.7 % of GDP). Consequently, Spanish exports of goods and services have been higher than imports of goods and services since 2012 and the surplus grew each year until 2016. This has led to a positive contribution of the external sector to GDP growth. It implies a structural change in Spanish economy because traditionally GDP growth was accompanied by a negative growth contribution of the external sector. The latest years are the first ones with positive GDP growth and a positive growth contribution of the external sector.

Spain is the fifth largest economy of the EU in terms of GDP, as it makes up for 7.5 % of EU GDP. Its weight in terms of total exports and imports is slightly below its overall weight in the EU economy.

Figure 42: Weight of Spain in the EU



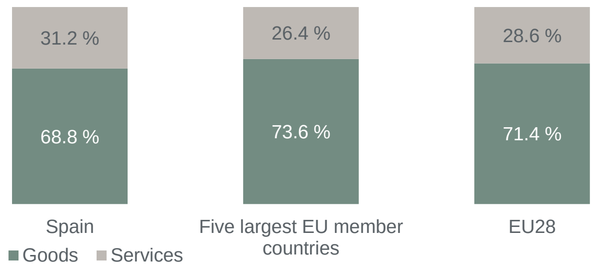
Note: Share of Spain in EU GDP, exports and imports of goods and services in 2016.

Source: Eurostat, national accounts

Regarding the composition of overall exports, services have a slightly higher share in Spain (31.2 % of overall exports) than in the EU28 (28.6 %) and on average in the largest five EU countries (26.4 %). This reflects the large weight of services in the Spanish economy. Moreover, services play a crucial role for the referred surplus of overall foreign trade. Spain shows a trade deficit in goods (declining along the last years but still a deficit) that has been more than compensated in the last years by a trade surplus in services.

Spain's key export goods are vehicles, machinery (including computers), electrical machinery and equipment, as well as mineral fuels including oil and plastics. The main import products are vehicles, mineral fuels including oil, machinery including computers, electrical machinery and equipment and pharmaceuticals.

Figure 43: Composition of Spanish exports

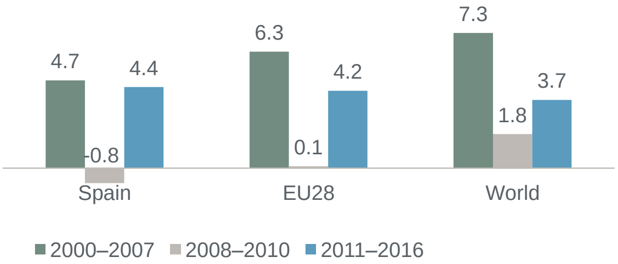


Note: Composition of exports in Spain, the five largest EU member countries and the EU28 in 2016.

Source: UNCTAD

The evolution of exports over the last few years has been highly influenced by the economic cycle (Figure 44). Similar to EU exports, Spanish exports grew from 2000 to 2007, even if the average growth in Spain was below the EU or the world average. During the crisis, exports decreased more in Spain than in the world or the EU. However, between 2011 and 2016, Spain showed bigger export growth (average annual growth rate of 4.4 %) than the EU (4.2 %) and the world (3.7 %).

Figure 44: Trends in Spanish export growth



Note: Average annual growth rate of export volumes of goods and services in per cent.

Source: IMF (WEO database), European Commission (AMECO database)

Other indicators, such as the number of exporters, are also very positive: According to Spanish official data, the number of exporting firms reached 148,794 in 2016 (+1.0 % compared to 2015) and the number of firms exporting regularly (i.e. in every year over the last 4 years) grew by 4.2 %, reaching 49,792 in 2016.

Regarding export destinations, intra-EU exports are significantly more important in Spain than in the five largest EU countries on average. While intra-EU exports represent 67 % of overall exports in Spain, they represent just 58 % of all exports in the five largest EU countries. The picture looks different for imports, as intra-EU imports amount to 62 % of the overall volume of imports in Spain, which is also the average share of intra-EU imports in the five largest EU countries.[71]

The top export destinations in 2016 were as follows (in this order): France, Germany, Italy, the UK and Portugal. The top import origins were (in this order): Germany, France, China, Italy and the US.

2.4.2 International activities of Spanish SMEs

In 2015, according to Eurostat, more than 159,000 firms exported goods that amounted to almost EUR 255 billion. Accordingly, the average export operation was EUR 1.6 million. For SMEs, the average volume is less than half as much, as can be seen in Table 5. It is important to emphasise that the average export volume of SMEs is smaller in Spain than in the other four countries considered in this report, reflecting the fact that Spanish SMEs are generally smaller than other European ones.

More than 95 % of the 159,000 firms which exported in 2015 were SMEs. In terms of export volumes, however, the share of SMEs was well below 50 % (47.3 % for intra-EU exports and 42.4 % for extra-EU exports). These figures also reflect that Spanish SMEs have a larger share in intra-EU exports than in extra-EU exports.

The number of importing firms was around 305,000, while the volume of imports amounted to EUR 281.2 billion in 2015. At EUR 0.9 million, the average import volume was smaller than the average export volume. However, as with exports, the average import volume for SMEs was less than half as much. Again, more than 95 % of importing firms were SMEs, while the share of SMEs in the total import volume was below 50 % (48.7 % for intra-EU imports and 38.7 % for extra-EU imports), again showing that SMEs are more keen to import from the EU than from outside the EU.

[71] Figures for 2016, looking at trade in goods only.

Table 5: Spanish trade by firm size

Spain	Trading volumes		Number of trading firms		Average trading volume
	EUR billion	Per cent of total	In thousands	Per cent of total	EUR million
Total exports of goods	254.6	100.0 %	159.4		1.6
Of which **intra**-EU	165.6	65.1 %	113.1	100.0 %	1.5
SMEs	78.3	47.3 %	107.8	95.3 %	0.7
Between 1 and 9	19.6	25.0 %	76.3	70.8 %	0.3
Between 10 and 49	22.0	28.1 %	25.0	23.2 %	0.9
Between 50 and 249	36.7	46.9 %	6.6	6.1 %	5.6
Large enterprises	75.1	45.3 %	1.6	1.4 %	47.0
Unknown	12.3	7.4 %	3.7	3.3 %	3.3
Of which **extra**-EU	89.0	34.9 %	88.8	100.0 %	1.0
SMEs	37.7	42.4 %	84.9	95.6 %	0.4
Between 1 and 9	8.1	21.5 %	56.9	66.9 %	0.1
Between 10 and 49	11.4	30.2 %	21.1	24.9 %	0.5
Between 50 and 249	18.2	48.3 %	7.0	8.2 %	2.6
Large enterprises	41.2	46.3 %	2.0	2.3 %	20.2
Unknown	10.1	11.3 %	1.9	2.1 %	5.4
Total imports of goods	281.2	100.0 %	304.9		0.9
Of which **intra**-EU	170.8	60.7 %	257.9	100.0 %	0.7
SMEs	83.2	48.7 %	245.4	95.1 %	0.3
Between 1 and 9	23.6	28.4 %	195.3	79.6 %	0.1
Between 10 and 49	23.2	27.8 %	40.1	16.3 %	0.6
Between 50 and 249	36.4	43.8 %	10.0	4.1 %	3.6
Large enterprises	72.4	42.4 %	2.7	1.0 %	26.8
Unknown	15.2	8.9 %	9.8	3.8 %	1.5
Of which **extra**-EU	110.4	39.3 %	100.0	100.0 %	1.1
SMEs	42.7	38.7 %	95.7	95.7 %	0.4
Between 1 and 9	13.2	31.0 %	72.1	75.4 %	0.2
Between 10 and 49	14.7	34.3 %	17.1	17.9 %	0.9
Between 50 and 249	14.8	34.6 %	6.5	6.8 %	2.3
Large enterprises	58.1	52.7 %	2.1	2.1 %	27.6
Unknown	9.6	8.7 %	2.1	2.1 %	4.4

Note: Data refer to the year 2015. Manufacturing goods only. Firm size measured by the number of employees.

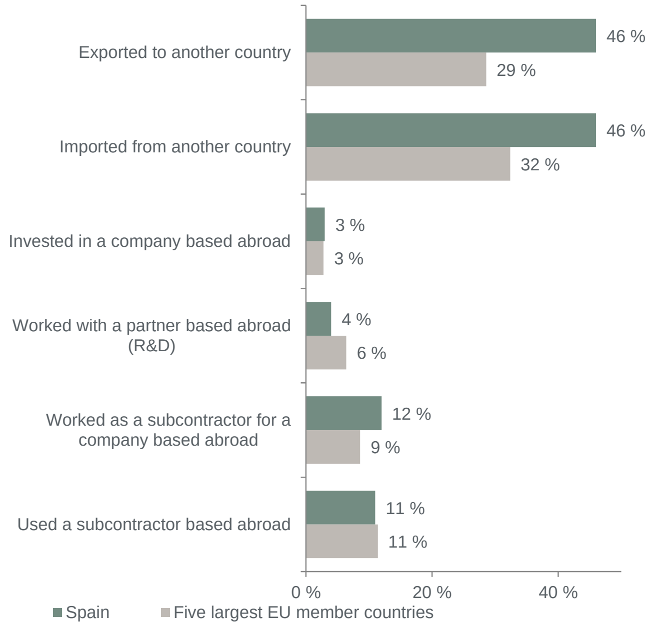
Source: Eurostat (TEC database)

The Eurobarometer Survey[72] provides broader information on the internationalisation of European SMEs, as it also includes forms of internationalisation other than exporting and importing. It nevertheless shows that for Spanish SMEs, the main international activity is exporting and importing (Figure 45). About 46 % of Spanish SMEs had exported and the same share had imported in the three years previous to the survey. Activities related to subcontracting are also quite frequent, as more than 10 % of Spanish SMEs worked as a subcontractor for a foreign company or

[72] See European Commission (2015).

subcontracted some activity abroad themselves. Other activities, such as investing or working with a foreign partner in R&D, were carried out by 3 and 4 % of Spanish SMEs respectively.

Figure 45: International activities of Spanish SMEs



Note: Share of SMEs which have engaged in the respective activity in the three years previous to the survey.

Source: European Commission (2015)

Comparing these results with the average of the largest five EU countries, we observe that Spanish SMEs exported and imported significantly more often than their European counterparts. This is broadly in line with the high number of exporting companies in Spain. However, it reflects that also in Spain, the majority of SMEs does not export nor import.

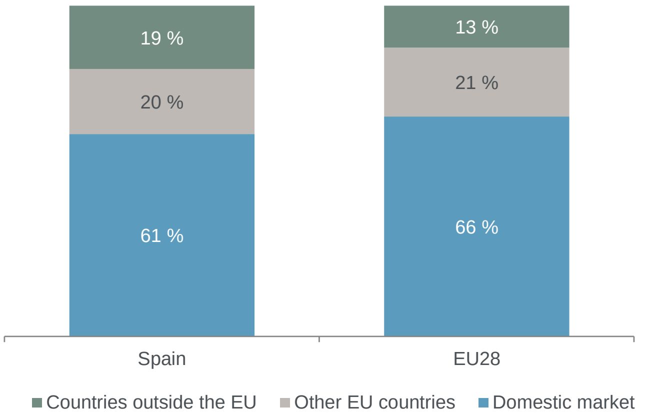
Regarding subcontracting activities, there is no large difference between Spanish SMEs and SMEs in the five largest EU countries. The relative number of Spanish SMEs that invested abroad is, however, slightly smaller than in the other four countries. The same is true in the case of working with foreign partners for R&D purposes.

The Eurobarometer Survey also provides interesting data on the markets SMEs export to or import from. About 76 % of Spanish exporting SMEs sent products to the EU, followed by Latin America (24 %) and the region comprising Northern Africa and the Middle East (18 %). Compared to SMEs in the EU, Spanish SMEs export less frequently to the US (6 % of Spanish SMEs vs 15 % of SMEs in the five largest EU countries) or Russia (2 vs 12 %).

About 75 % of Spanish importing SMEs imported from the EU, followed by China (14 %). Other regions such as Latin America, India and South East Asia and Northern Africa were less attractive import markets for Spanish SMEs (11 %).

Sales of Spanish exporting SMEs are more diversified than those of exporting SMEs in the EU. This reflects a smaller dependence on the home market of Spanish exporting SMEs.

Figure 46: Origin of sales of Spanish exporting SMEs



Note: Average share of sales in 2014 that came from countries outside the EU, from other EU countries and from the domestic market of SMEs in Spain and the EU28 which exported in the three years previous to the survey.

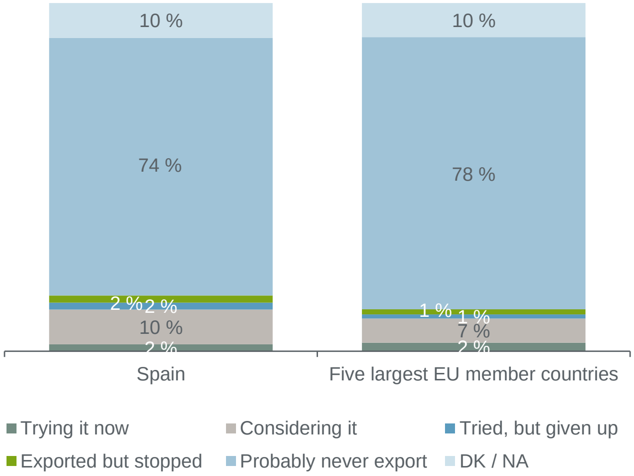
Source: European Commission (2015)

2.4.3 Challenges to the internationalisation of Spanish SMEs

The aforementioned data show some 'structural' challenges for the Spanish economy, such as raising the share of Spanish exports and imports in EU trade and bringing it up to a similar share as Spanish GDP has in EU GDP. This kind of challenge could be addressed by encouraging SME internationalisation.

The Eurobarometer Survey offers very interesting insights into specific obstacles to internationalisation for Spanish SMEs. Firstly, this survey examines the attitude of non-exporting SMEs towards exporting. This information offers very valuable information about what SMEs are planning to do. Figure 47 shows that 74 % of Spanish non-exporting SMEs believe that they will probably never export (slightly less than in the five largest EU countries on average), while just 10 % of Spanish non-exporting SMEs consider exporting (slightly more than in the five largest EU countries). It thus seems important to encourage SMEs to adopt a more favourable attitude towards exporting.

Figure 47: Position of non-exporting Spanish SMEs towards exporting



Note: Share of those SMEs which have not exported to another country in the three years previous to the survey that take the respective position towards exporting.

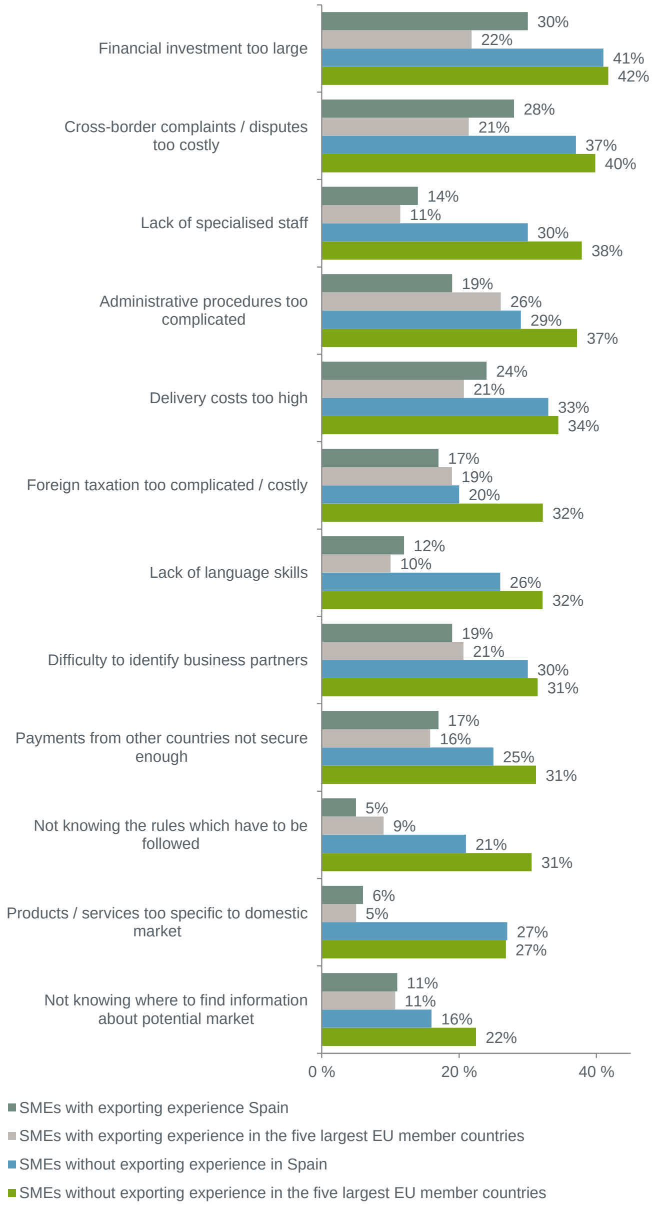
Source: European Commission (2015)

When asked about 12 potential barriers to internationalisation, 67 % of Spanish SMEs[73] perceive only a few of them (from 0 to 3) as a major problem, in comparison to 60 % for the five largest EU countries. About 27 % of Spanish SMEs find that there are several issues (from 4 to 8) that are a major problem, which is broadly in line with the 30 % for the five largest EU countries. Only 6 % of Spanish SMEs perceive many of the issues mentioned (from 9 to 12) as a major problem, compared to 10 % of SMEs in the five largest EU countries.

This means that, in general, Spanish SMEs are less pessimistic when analysing the problems they could face when internationalising their activities. Nevertheless, an analysis of the major problems as perceived by Spanish SMEs provides a valuable assessment of what is most needed to foster their internationalisation. This is different for SMEs already exporting and non-exporting SMEs.

About 30 % of Spanish exporting SMEs see financial constraints as a major problem versus 22 % in the five largest EU member countries. Dealing with the costs of cross-border complaints and disputes is seen as a major problem by 28 % of Spanish exporting SMEs (21 % in the five largest EU member countries). The difference between Spanish and other European SMEs is smaller with regard to issues such as delivery costs (a major problem for 24 % of Spanish exporting SMEs) or finding business partners (a major problem for 19 % of Spanish exporting SMEs).

Figure 48: Major obstacles to exporting for Spanish SMEs with and without exporting experience



Note: SMEs with exporting experience include SMEs which have exported in the past three years and SMEs which have not exported in the past three years but used to export and stopped or tried to export and gave up. SMEs without export experience are SMEs which have not exported in the past three years. They might consider export or currently try to export, however, or they believe that they will never export.

Source: European Commission (2015)

Considering Spanish non-exporting SMEs, their main problems are not the same and their perceptions are more aligned with the perceptions of non-exporting SMEs in the rest of the EU. It is also interesting to note that the percentages of non-exporters perceiving an issue as a major problem are higher than the shares of

[73] Including both SMEs with and without exporting experience.

exporters, reflecting that the absence of international experience amplifies the problems.

About 41 % of non-exporting SMEs consider financial constraints as a major problem (42 % in the largest five EU member countries). About 37 % of Spanish non-exporting SMEs mention the resolution of cross-border conflicts as a key obstacle (40 % in the largest five EU member countries) and 33 % of them see delivery costs as a major problem for cross-border operations (34 % in the largest five EU member countries). The lack of specialised staff is mentioned by 30 % of Spanish non-exporting SMEs as a major problem for exporting (38 % in the largest five EU member countries), while the difficulty of finding business partners is perceived as a major problem by 30 % of Spanish non-exporting SMEs (31 % in the largest five EU member countries).

To sum up, Spanish non-exporting SMEs are generally less worried about potential barriers to international business than their peers in the five largest EU member countries. Financial constraints and the resolution of conflicts appear to be most pressing problems for both Spanish non-exporting and exporting SMEs.

2.4.4 National policies to support the internationalisation of Spanish SMEs

The Eurobarometer Survey also offers some hints on the measures to adopt at a national level to encourage the internationalisation of SMEs (Figure 49). Not surprisingly, financial support is what Spanish SMEs mention most frequently when asked about the most efficient measures to encourage internationalisation. Tax incentives, more information about the potential foreign markets and help to find business partners are the next requested measures.

The Spanish government has recently launched an internationalisation strategy for the years 2017–2027 that will be developed through biennial action plans in the medium term. The action plans will incorporate a set of concrete measures that the government seeks to implement to support Spanish exporters and attract foreign direct investment to Spain.

Figure 49: Measures requested by Spanish SMEs to foster internationalisation

Note: Share of SMEs which consider a given measure to be helpful for their company to engage in business abroad. Up to three answers were possible.

Source: European Commission (2015)

This "Strategy for the Internationalisation of the Spanish Economy 2017–2027" includes the lines of action to maximise the contribution of the foreign sector to growth and job creation. It states that the efforts of the public sector to support internationalisation should be focused on the following:

1. Offer internationalisation support increasingly adapted to the needs and profiles of Spanish companies.

2. Incorporate innovation, technology, branding and digitalisation into internationalisation.

3. Develop human capital for internationalisation.

4. Take better advantage of business opportunities derived from the common commercial policy and from financial institutions and multilateral organisations.

5. Promote the capture and consolidation of foreign investment with high added value.

6. Strengthen the coordination and complementarity of the actions of all the relevant actors in the field of internationalisation.

Moving to the level of the policies already in place, there are several measures consistent with the aforementioned lines of action. In this regard, ICO is offering a range of financial products specifically designed for SMEs. The new “Strategic Plan” of ICO, which is part of the Spanish government’s internationalisation strategy and was approved internally in the summer of 2017, considers the internationalisation of the Spanish economy as the main pillar of its activity for the coming years. Its main action plans are as follows:

- Extend the distribution of ICO funds to companies or projects with a Spanish interest, operating with international counterparts, such as second or third tier banks, in a gradual process of getting closer to the “local market”.

- Promote new public-private partnership mechanisms with local promotional banks and private financial intermediaries, easing the necessary participation of Spanish banks in the intermediation of transnational flows.

- Provide financing to investment projects with a Spanish interest in the local currencies of the regions where the investment is made.

- Continue providing long-term financing aimed at productive investments, both domestically and internationally, to increase business growth and foster the internationalisation of Spanish companies.

- Create financing platforms for SMEs focused on projects increasing the overall energy efficiency, both at Spanish and international levels.

- Establish new guarantee schemes in collaboration with both Spanish and foreign financial entities. The "ICO International Guarantees" program aims to support Spanish companies that participate in international tenders, either by granting a bank guarantee directly to a company or by counter-guaranteeing the guarantees issued by a Spanish financial institution, so that Spanish companies can participate in international bidding processes or formalise contracts awarded abroad in which the provision of technical guarantees is required.

It is worth mentioning ICO's role as a catalyst for the investment of foreign capital through its private equity manager, AXIS Participaciones Empresariales, with special relevance of the Fund of Funds “FOND-ICO Global”, approximately one third of which are international funds committed to investing in Spain.

- In the field of private capital, ICO and EIB formalised two operations to invest in capital within the EFSI in 2016. These are the first operations of the national promotional bank within the framework of the “Investment Plan for Europe”. In these capital investment operations, the EIB shares 50 % of the financing and risk with ICO, pari passu. This innovative financing scheme allows AXIS private equity funds to become joint investment platforms with the Investment Plan for Europe in Spain, so that Spanish companies, including SMEs, can benefit from the EFSI initiative.

Box 11: Helping Spanish SMEs to internationalise and grow: the case of Aceites Maeva

Aceites Maeva is a Spanish company that produces and sells top quality extra virgin olive oil in Spain and abroad. It was an SME until it grew beyond the thresholds defining SMEs in 2012. In 2016, it employed around 100 people and had a sales volume of more than EUR 140 million. Around 70 % of the sales volume came from outside Spain, mainly from France, Mexico, the US and China, where Aceites Maeva has commercial representatives to sell its products. Its main production facilities are located near Granada, in the South of Spain. Additionally, Aceites Maeva has a bottling plant in Mexico that mainly serves the North American market.

ICO internationalisation programmes have been used for many years by Aceites Maeva in its internationalisation and growth process. Aceites Maeva has frequently used the exporting line to anticipate international invoices, both when it was a SME and now that it has become a larger company. This line has allowed Aceites Maeva to avoid liquidity problems, as payments quite often arrive with a delay after the invoice was sent. ICO’s financing has been very important for this company since it decided to start its internationalisation process, selling to European and North American markets. It has also been very useful since Aceites Maeva has started to sell in China, where it has opened its latest commercial office.

Besides ICO, there are also other national agencies promoting the internationalisation of Spanish companies. ICEX is the most commonly known but there are more at a regional level in many Spanish regions. ICEX, as well as the regional agencies, focus on the assistance on a non-financial and consultancy level. ■

2.5 United Kingdom

Jake Horwood (British Business Bank)

- Of the five largest economies in the EU, the UK is the only country which exports more to countries outside of the EU than it does to those within.

- For the UK, where services make up nearly 80 % of the economy, goods account for only around 56 % of exports and service exports have grown every year since the turn of the century.

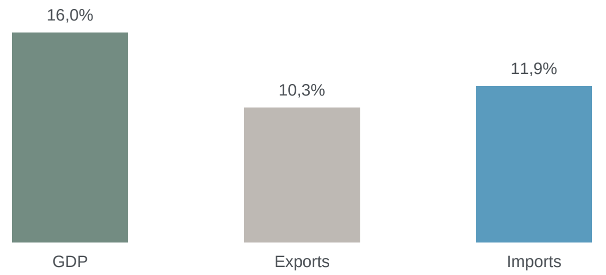
- For SMEs already exporting, language skills and administrative procedures are the most readily identified barriers to trade, whilst non-exporters highlight a lack of specialised staff and financial constraints.

2.5.1 International trade relations of the UK economy

The UK is as an open economy with about 28 % of the goods and services we produce sold abroad, while around 32 % of what we buy are imports. These equate to roughly EUR 670 billion and EUR 750 billion respectively.

However, while the UK currently accounts for 16 % of EU GDP, making it the second largest EU economy in 2016, it only produces 10 % of EU exports in goods and services (Figure 50), the lowest exports to GDP ratio of the five largest EU economies.

Figure 50: Weight of the UK in the EU



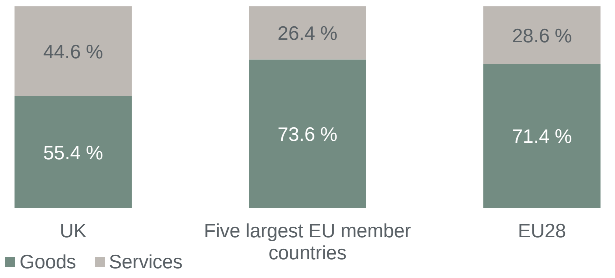
Note: Share of the UK in EU GDP, exports and imports of goods and services in 2016.

Source: Eurostat, national accounts

Composition of trade

The composition of UK exports is an outlier. For the other four EU economies considered in this report, goods account for between 68–83 % of total exports. For the UK, where services make up nearly 80 % of the economy, goods account for only around 55 % of exports with service exports growing every year since the turn of the century (Figure 51). For imports the split is 75 / 25, which is consistent with both EU and world averages.

Figure 51: Composition of UK exports



Note: Composition of exports in the UK, the five largest EU member countries and the EU28 in 2016.

Source: UNCTAD

Potentially, given the mix of the UK economy, UK exports and imports would be even more tilted towards services but trade liberalisation within the EU is more developed for goods than for services. Despite services being a large proportion of the EU economy, they remain a small proportion of EU trade. Services account for over 70 % of EU's value added but only account for around a quarter of the EU's internal trade.

In the EU, services are still covered by a complex and often confusing mix of national and EU regulations. The Services Directive was meant to bring services in line with goods regulations but it was heavily amended in the legislative process. As a result, the "country of origin principle" contained in the original proposal was removed. The result is that, although what is left of the original directive obliges member states to liberalise their services sectors and has provided some economic benefits, there remains ambiguity with regard to what barriers member states can keep in place. This ambiguity has often resulted in poor implementation across the EU.

Extra- versus intra-EU trade

As with the composition of UK exports, the destination also makes the UK an outlier. When added together, the extra-EU imports of goods and services accounts for around 56 % of UK exports.

Of the five largest economies in the EU, the UK is the only country which currently exports more to countries outside of the EU. For imports the split is almost equal with the UK importing slightly more from within the Union than from outside. However, this hides variations between goods and services.

For the UK, the US is the largest individual export market and second largest import partner. This is likely to partly reflect a combination of a shared language and cultural and historical ties. Furthermore, unlike most of the rest of the EU, the UK does not have a land border with any other member state other than the Republic of Ireland. This can impose a barrier to trade with the EU for UK SMEs that is not present for continental member country SMEs.

Trends in trade

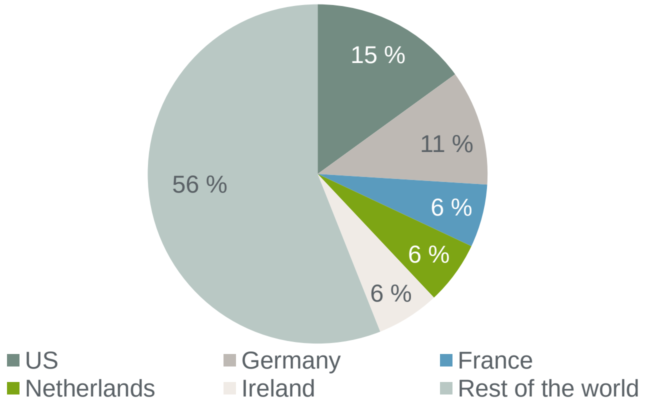
Since the mid-90s the UK has run a trade deficit, usually partially offset by a positive capital account. The recent UK trade balance has been split between a positive balance in services, which is difficult to accurately measure and is thought to be underestimated, and an even larger deficit in goods.

Exports

Prior to the financial crisis, intra-EU exports were higher than extra-EU exports. The gap began to narrow in early 2008 and extra-EU exports have been larger than intra-EU exports since early 2012.

Whilst the gap narrowed in 2016, the most recent figures showed exports of goods to non-EU countries rose to EUR 194 billion in 2016. There was a smaller increase for exports to the EU, to EUR 176 billion for the same period. In 2016 the largest goods export markets for the UK were the US (15 %), Germany (11 %), France (6 %), the Netherlands (6 %), and Ireland (6 %) (Figure 52).

Figure 52: UK top five goods exports markets



Note: Data refer to the year 2016.

Source: Eurostat (Comext database).

For services the gap is even larger between extra- and intra-EU exports, with a little over 60 % of UK service exports being sold to non-EU member states.

Imports

There was a similar picture for imports between 2007 and the end of 2012. However, instead of extra-EU imports of goods remaining higher than intra-EU imports as seen with the export data, intra-EU imports now exceed extra-EU imports, albeit by a narrow margin in 2016 (51 %). Between 2005 and 2015, the largest goods importers into the UK were Germany (12 %), the US (10 %), France (7 %), the Netherlands (7 %) and China (6 %).

Unlike with goods, service imports have remained tilted towards extra-EU though only marginally at 52 % to 48 %.

Weight of SMEs

SMEs make up 97 % of firms that export to EU countries and 89 % that export to countries outside the EU. This is unsurprising given in the UK SMEs account for 99.9 % of all private sector businesses, 60 % of all private sector employment and almost half (47 %) of private sector turnover. Despite this, SMEs only account for around 27 % of the value of exports to both EU and non-EU countries.

For imports the picture is pretty much the same by number of firms. SMEs make up 97 % of firms that import from EU countries and 82 % that import from countries outside the EU. Whilst still making up less of imports by value than large companies, SMEs accounted for 49 and 40 % of intra-EU and extra-EU imports respectively (Table 6).

Table 6: UK trade by firm size

United Kingdom	Trading volumes		Number of trading firms		Average trading volume
	EUR billion	Per cent of total	In thousands	Per cent of total	EUR million
Total exports of goods	414.3	100.0 %	139.3		3.0
Of which **intra**-EU	184.1	44.4 %	109.3	100.0 %	1.7
SMEs	49.0	26.6 %	105.9	96.9 %	0.5
Between 1 and 9	0.0	0.0 %	70.4	66.5 %	0.0
Between 10 and 49	16.9	34.5 %	27.1	25.6 %	0.6
Between 50 and 249	32.1	65.5 %	8.4	7.9 %	3.8
Large enterprises	84.3	45.8 %	2.4	2.2 %	35.1
Unknown	11.5	6.2 %	1.0	0.9 %	11.1
Of which **extra**-EU	230.3	55.6 %	72.1	100.0 %	3.2
SMEs	61.4	26.7 %	63.8	88.5 %	1.0
Between 1 and 9	20.0	32.6 %	34.5	54.1 %	0.6
Between 10 and 49	16.0	26.0 %	21.0	32.9 %	0.8
Between 50 and 249	25.4	41.3 %	8.3	13.0 %	3.1
Large enterprises	153.2	66.5 %	3.1	4.3 %	49.8
Unknown	15.7	6.8 %	5.2	7.2 %	3.0
Total imports of goods	560.8	100.0 %	212.0		2.6
Of which **intra**-EU	301.5	53.8 %	152.0	100.0 %	2.0
SMEs	147.6	49.0 %	147.0	96.7 %	1.0
Between 1 and 9	61.2	41.5 %	99.6	67.8 %	0.6
Between 10 and 49	35.7	24.2 %	36.3	24.7 %	1.0
Between 50 and 249	50.8	34.4 %	11.1	7.5 %	4.6
Large enterprises	148.1	49.1 %	3.5	2.3 %	42.5
Unknown	5.8	1.9 %	1.6	1.0 %	3.7
Of which **extra**-EU	259.3	46.2 %	105.3	100.0 %	2.5
SMEs	102.6	39.6 %	86.8	82.4 %	1.2
Between 1 and 9	37.0	36.0 %	53.0	61.1 %	0.7
Between 10 and 49	29.3	28.6 %	24.2	27.9 %	1.2
Between 50 and 249	36.3	35.4 %	9.5	10.9 %	3.8
Large enterprises	137.0	52.8 %	3.6	3.4 %	38.0
Unknown	19.7	7.6 %	15.0	14.2 %	1.3

Note: Data refer to the year 2015. Manufacturing goods only. Firm size measured by the number of employees.

Source: Eurostat (TEC database)

2.5.2 International activities of UK SMEs

The Eurobarometer Survey, which asks SMEs questions about exporting, importing and investing overseas in the last three years, can give further insight into the international activities and attitudes of UK SMEs.

Activities

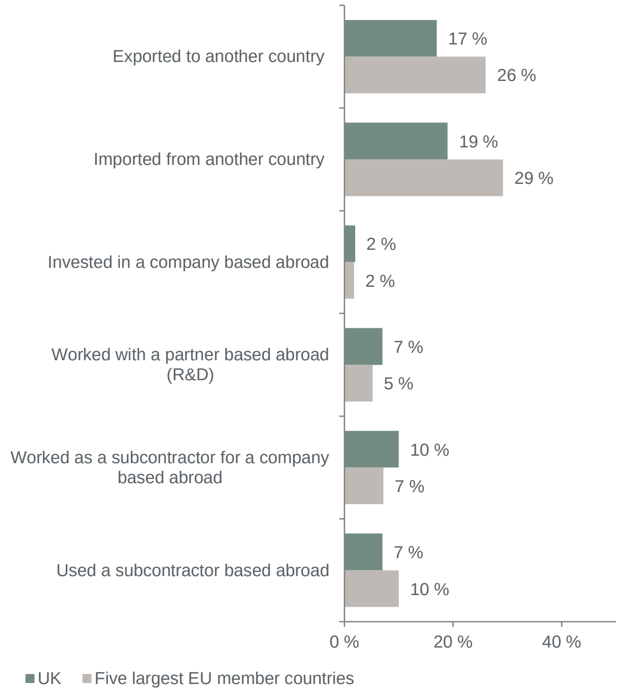
In 2015, the Eurobarometer found that only 17 % of UK SMEs exported within the EU and 11 % outside the EU in the three years previous to the survey. This is roughly half the EU average and puts the UK third amongst the five largest economies and well behind

Germany where 48 and 33 % respectively of SMEs reported exporting within and outside the EU (Figure 53).

The picture is very similar for imports. 19 % of UK SMEs report they imported from the EU and 12 % from outside the EU during the three years previous to the survey, the second lowest of the five largest EU economies for both and again roughly around half the EU average (Figure 54).

Combined the survey found 68 % of UK SMEs had no experience with exporting or importing over the last three years. This is the second highest of the largest five EU economies and well above the EU and largest five economies' averages of 49 and 56 % respectively.

Figure 53: International activities of UK SMEs inside the EU

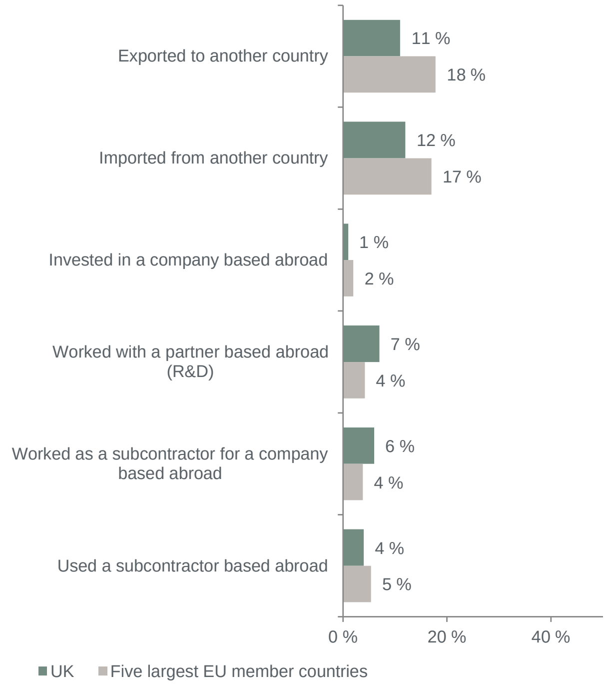


Note: Share of SMEs which have engaged in the respective activity inside the EU in the three years previous to the survey.

Source: European Commission (2015)

These survey results suggest two striking conclusions. Firstly, when compared to the SMEs of some of the other EU countries, UK SMEs appear to be relatively inward looking. In addition, UK SMEs, at least in terms of numbers, appear more likely to export or import within the EU, the opposite of the aggregate trade number discussed earlier for the UK as a whole.

Figure 54: International activities of UK SMEs outside the EU



Note: Share of SMEs which have engaged in the respective activity outside the EU in the three years previous to the survey.

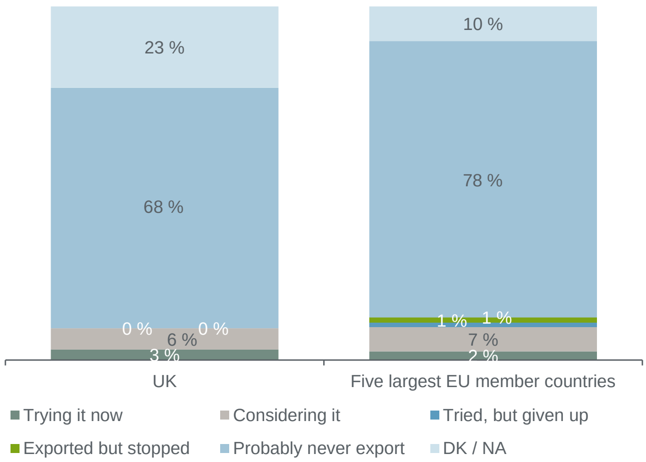
Source: European Commission (2015)

Attitudes

Despite this apparent relative reluctance to export or import amongst UK SMEs, the Eurobarometer also found that UK non-exporting and non-importing SMEs are the least likely to say they will probably never carry out international trade.

For both activities, around 10 % less of UK SMEs, when compared to the largest five EU economies average, said they would probably never either export or import. This suggests that whilst many UK SMEs would potentially be interested in exporting or importing, there are barriers they are yet to overcome (Figure 55).

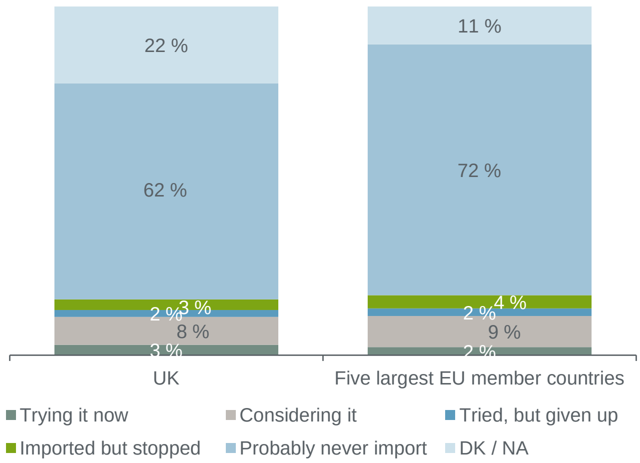
Figure 55: Position of UK non-exporting SMEs towards exporting



Note: Share of those SMEs which have not exported to another country in the three years previous to the survey that take the respective position towards exporting.

Source: European Commission (2015)

Figure 56: Position of UK non-importing SMEs towards importing



Note: Share of those SMEs which have not imported from another country in the three years previous to the survey that take the respective position towards importing.

Source: European Commission (2015)

Box 12: FDI in the UK

Information about SME involvement in foreign direct investment (FDI) is difficult to find. For businesses of all sizes, total net direct investment flows abroad peaked in 2007 at GBP 167.9 billion before falling notably during and post crisis and were negative in both 2014 and 2015. Net direct investment flows into the UK were at GBP 88.4 billion in 2007 and, whilst much lower, have remained positive since (Table 7).

Table 7: UK FDI flows – Geographical split

GBP billion	2012	2013	2014	2015
Outward Europe	-4.0	-20.2	-107.8	-10.8
Outward The Americas	11.3	41.0	8.4	-20.2
Outward Asia	1.3	-6.5	8.7	-11.8
Outward Aust. and Oceania	2.9	8.4	-2.6	-9.9
Outward Africa	1.7	3.2	2.5	-0.2
Inward Europe	22.8	9.5	0.0	-12.1
Inward The Americas	6.6	17.8	7.9	27.2
Inward Asia	4.9	4.6	6.7	4.9
Inward Aust. and Oceania	0.8	0.9	0.0	1.2
Inward Africa	0.0	0.2	0.4	0.4

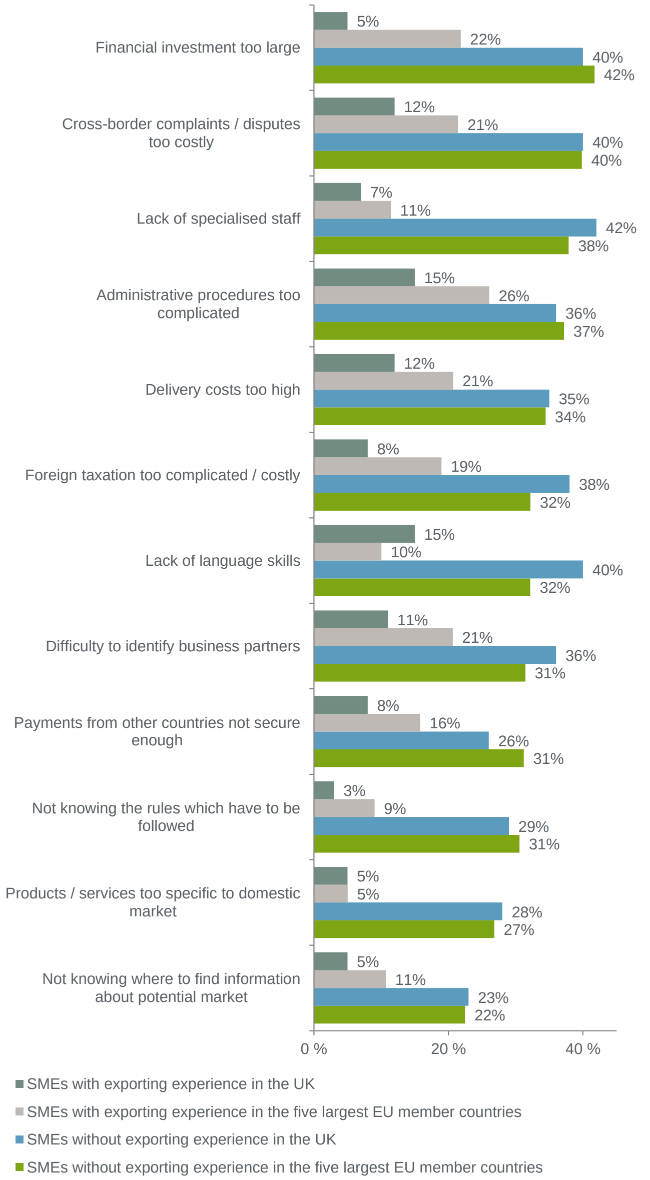
Source: Office for National Statistics

Whilst there are no volume and value data for SME involvement in FDI for the UK, the Eurobarometer Survey again sheds light on the outward FDI activity of UK SMEs surveyed. The survey found that 2 % of UK SMEs reported investing in a company based abroad in the EU, in line with both the EU and the five largest EU economies' averages and only bettered by German SMEs.

2.5.3 Challenges to the internationalisation of UK SMEs

UK SMEs' views on barriers to exporting are impacted depending on whether the SME already exports or not. Figure 57 shows the two barriers identified most frequently by non-exporters are a lack of specialised staff and financial constraints. However, for those already exporting, these two barriers are near the bottom of the list with language skills and administrative procedures being more readily identified.

Figure 57: Major obstacles to exporting for UK SMEs with and without exporting experience



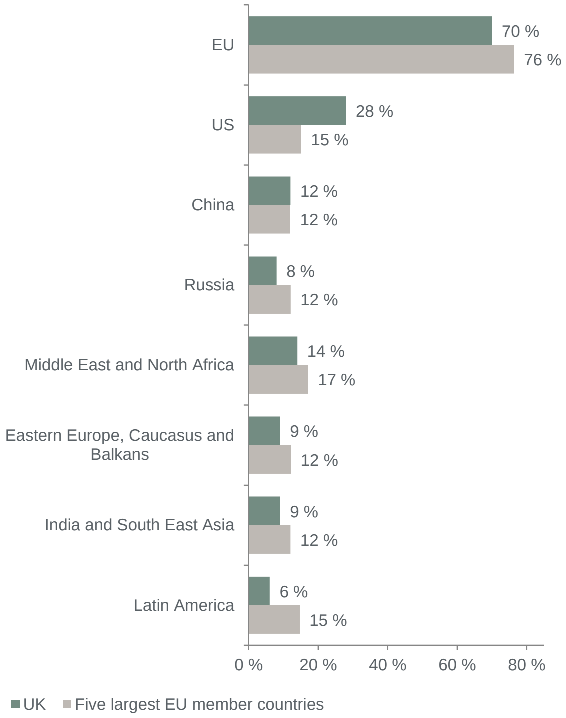
Note: SMEs with exporting experience include SMEs which have exported in the past three years and SMEs which have not exported in the past three years but used to export and stopped or tried to export and gave up. SMEs without export experience are SMEs which have not exported in the past three years. They might consider export or currently try to export, however, or they believe that they will never export.

Source: European Commission (2015)

This is likely to be due to a couple of reasons, either there are differences in the circumstances of the two SME groups or barriers that appear to exist before you export become less of an issue with experience.

Unsurprisingly, as with all the EU, more UK SMEs surveyed exported within the EU than outside. However, the data also show a greater percentage of UK SMEs export to the US than any of the other four countries' SMEs (Figure 58). Given the barriers to trade highlighted by UK SMEs, this could add further weight to the suggestion that UK companies feel more confident and comfortable in dealing with the US due to the common language, as well as cultural and historical ties between the two countries.

Figure 58: Markets for UK exporting SMEs



Note: Destination countries of UK exporting SMEs in 2014.

Source: European Commission (2015)

The same picture is repeated for imports with a greater percentage of UK SMEs compared to EU SMEs importing from the US whilst less SMEs import from most other regions.

With trading and customs arrangements with the EU are yet to be decided post-Brexit, it is likely the uncertainty around future financial and regulatory costs of trading with the EU for UK SMEs will further add to the real or perceived barriers for many.

2.5.4 National policies to support the internationalisation of UK SMEs

The Department for International Trade is responsible for providing operational support for exporters and facilitating inward and outward investment for the UK.[74] In addition, UK Export Finance provides products and services with a stated mission to “ensure no viable UK export fails for lack of finance or insurance …”

UK Export Finance offers a range of products either to UK exporters or buyers of UK products or services. The former includes loans to cover working capital and insurance against the risk of not being paid, or of not being able to recover the costs of fulfilling an export contract. The latter includes a direct lending facility and a buyer loan guarantee designed to encourage overseas businesses to buy UK products.

In addition to finance and insurance products, UK Export Finance also offers advice via Export Finance Managers. These are regional representatives of UK Export Finance. They are local points of contact for exporters and businesses with export potential and can provide information on:

- payment methods and risks
- the types of finance available
- trade finance (pre- and post-export)
- credit insurance
- foreign exchange risks

They are also able to discuss private market options and often refer exporters to insurance brokers and credit insurance companies.

Similarly, for inward or outward FDI, the Department for International Trade offers advice and support on a range of topics including building connections, visa applications, available grants and other incentives and hiring and training staff and can share insights into specific markets. ■

[74] https://www.gov.uk/government/organisations/department-for-international-trade

References

Abel-Koch, J. (2016a), SMEs' Value Chains are Becoming More International – Europe Remains Key, Focus on Economics No. 137, KfW Research.

Abel-Koch, J. (2016b), KfW Competitiveness Indicator 2016, KfW Research.

Abel-Koch, J. (2017a), The Happy Few: German SMEs Investing Abroad, Focus on Economics No. 183, KfW Research.

Abel-Koch, J. (2017b), The World is not a Village – Geographic Proximity to Export Markets is Crucial to SMEs, Focus on Economics No. 182, KfW Research.

Andersson, M. and H. Lööf, (2009), Learning by Exporting Revisited – The Role of Intensity and Persistence, Scandinavian Journal of Economics, vol. 111(4), pp. 893–916.

Auboin, M. (2007), Boosting Trade Finance in Developing Countries: What Link with the WTO? WTO Staff Working Paper No. ERSD-2007-4.

Bas, M. and V. Strauss-Kahn (2014), Does Importing More Inputs Raise Exports? Firm-Level Evidence from France. Review of World Economics, vol. 150(2), pp. 241–275.

Borger, K. (2017), Current Account Balance: Reduce Surplus, Make Germany Stronger, Focus on Economics No. 178, KfW Research.

Bpifrance (2017), Annual Financial Report Bpifrance Financement 2016.

British Business Bank, ERC and Goldman Sachs (2015), Unlocking UK Productivity – Internationalisation and Innovation in SMEs.

British Business Bank (2018), 2017 Business Finance Survey.

Castellani, D. (2002), Export Behavior and Productivity Growth: Evidence from Italian Manufacturing Firms, Review of World Economics, vol. 138(4), pp. 605–628.

Castellani, D. and A. Zanfei (2007), Internationalisation, Innovation and Productivity: How Do Firms Differ in Italy? The World Economy, vol. 30(1), pp. 156–176.

Corner, T. (2017), Exporting: A Key Driver of SME Growth and Profits, Business Development Bank of Canada, April 2017.

Crespi, G., Criscuolo, C. and J. Haskel (2008), Productivity, Exporting, and the Learning-by-Exporting Hypothesis: Direct Evidence from UK firms, Canadian Journal of Economics, vol. 41(2), pp. 619–38.

Criscuolo, C., Haskel, J. E. and M. J. Slaughter (2010), Global Engagement and the Innovation Activities of Firms', International Journal of Industrial Organization, vol. 28(2), pp. 191–202.

Damijan, J. P. and Č. Kostevc (2015), Learning from Trade through Innovation, Oxford Bulletin of Economics and Statistics, vol. 77(3), pp. 408–436.

Delgado, M. A., Fariñas, J. C. and S. Ruano (2002), Firm Productivity and Export Markets: A Non-Parametric Approach, Journal of International Economics, vol. 57(2), pp. 397–422.

Egger, P. and T. Url (2006), Public Export Credit Guarantees and Foreign Trade Structure: Evidence from Austria, The World Economy, vol. 29(4), pp. 399–418.

Ellingsen, T. and J. Vlachos (2011), The Theoretical Case for Trade Finance in a Liquidity Crisis, in Chauffour, J.-P. and M. Malouche (eds.), Trade Finance During the Great Trade Collapse, pp. 235–243.

European Commission (2010), Internationalisation of European SMEs, Brussels**.**

European Commission (2014), Helping Firms Grow – European Competitiveness Report 2015.

European Commission (2015), Internationalisation of Small and Medium-Sized Enterprises, Flash Eurobarometer 421.

European Commission (2016), Single Market Integration and Competitiveness Report.

European Commission (2017), 2017 SBA Fact Sheets.

Falk, M. and E. Hagsten (2015), Exporter Productivity Premium for European SMEs, Applied Economic Letters, vol. 22(12), pp. 930-933.

Felbermayr, G. J. and E. Yalcin (2013), Export Credit Guarantees and Export Performance: An Empirical Analysis for Germany, The World Economy, vol. 36(8), pp. 967–999.

French Customs (2010), Les primo-exportateurs indépendants peinent à s'enraciner à l'international, Etudes et éclairages n°16.

French Economic Analysis Council (2015a), In Search of Lost Market Shares.

French Economic Analysis Council (2015b), Help SMEs to Prosper.

Golovko, E. and G. Valentini (2011), Exploring the Complementarity between Innovation and Export for SMEs' Growth, Journal of International Business Studies, vol. 42, pp. 362–380.

Gopinath, G. and B. Neiman (2014), Trade Adjustment and Productivity in Large Crises, American Economic Review, vol. 104(3), pp. 793–831.

Görg, H. and M.-E. Spaliara, (2014), Financial Health, Exports, and Firm Survival: Evidence from UK and French Firms. Economica, vol. 81(323), pp. 419–444.

Head, K. and T. Mayer (2014), Gravity Equations: Workhorse, Toolkit, and Cookbook, in Gopinath, G, Helpman, E. and K. Rogoff (eds.), Handbook of International Economics, Volume 4, North-Holland, Amsterdam.

ICE (2017), Italy in the World Economy, ICE Annual Report, July 2017.

IW Consult (2016), Mittelständische Unternehmen in europäischen Wertschöpfungsketten [SMEs in European Value Chains, in German], Cologne.

Kneller, R. and M. Pisu (2011), Export Barriers: What are They and Who Do They Matter To? The World Economy, vol. 34(6), pp. 893–930.

Love, J. H. and S. Roper (2015), SME Innovation, Exporting and Growth: A Review of Existing Evidence, International Small Business Journal, vol. 33(1), pp. 28–48.

OECD (2009), Top Barriers and Drivers to SME Internationalisation, Report by the OECD Working Party on SMEs and Entrepreneurship, OECD.

Onkelinx, L. and L. E. Sleuwaegen (2010), Internationalization Strategy and Performance of Small and Medium-Sized Enterprises, National Bank of Belgium Working Paper No. 197.

Riding, A., Ensign, P., and B. Belanger (2007), Financing Canadian Exporters, SME Financing Data Initiative, Industry Canada, Government of Canada.

Schwartz, M. (2017), KfW SME Panel 2017 – Germany's SMEs Continue to Break Records – Sectoral Transformation Poses New Challenges, KfW Research.

Serti, F., and C. Tomasi (2008). Self-Selection and Post-Entry Effects of Exports: Evidence from Italian Manufacturing Firms, Review of World Economics, vol. 144(4), pp. 660–694.

Silva, A., Africano, A. P. and O. Afonso (2012), Learning-by-Exporting: What We Know and What We Would Like to Know, International Trade Journal, vol. 28(3), pp. 255–288.

Spearot, A. (2013), Variable Demand Elasticities and Tariff Liberalization, Journal of International Economics, vol. 29(1), pp. 26–41.

Sui, S. and D. Goldfarb (2014), Not For Beginners: Should SMEs Go to Fast-Growth Markets? Conference Board of Canada, February 2014.

UNCTAD (2017), Methodological Note on the World Investment Report 2017, Geneva.

Wagner, J. (2012), International Trade and Firm Performance: A Survey of Empirical Studies since 2006, Review of World Economics, vol. 148 (2), pp. 235–267.

Wagner, J. (2013), Exports, Imports and Firm Survival: First Evidence for Manufacturing Enterprises in Germany, Review of World Economics, vol. 149(1), pp. 113–130.

Wagner, J. (2014), Credit Constraints and Exports: A Survey of Empirical Studies Using Firm-Level Data, Industrial and Corporate Change, vol. 23(6), pp. 1477–1492.

WTO (2016a), World Trade Report 2016 – Levelling the Trading Field for SMEs, Geneva.

WTO (2016b), Trade Finance and SMEs - Bridging the Gaps in Provision, Geneva.

Zhang, M., Sarker, S. and S. Sarker, (2008), Unpacking the Effect of IT Capability on the Performance of Export-Focused SMEs: A Report from China", Information Systems Journal, vol. 18(4), pp. 357–380.

Van der Veer, K. J. M. (2015), The Private Export Credit Insurance Effect on Trade, Journal of Risk and Insurance, vol. 82(3), pp. 601–624.

Zimmerman, V. (2016), SMEs and Digitalisation: The Current Position, Recent Developments and Challenges, Focus on Economics No. 138, KfW Research.