

Tuesday, February 19, 2008

## **Latin SME's in the Global Economy**

**The harsh reality of Latin American SMEs in the new global economy.**

**BY JERRY HAAR**

The new economy poses daunting challenges for SMEs. Whether based in developing or industrialized nations, these enterprises must rapidly adapt to survive, let alone thrive, as globalization—including trade, investment, and financial liberalization—bring relentless pressure upon them.

Traditionally, protectionist policies insulated SMEs from free market competitiveness threats. However, trade liberalization and domestic policy reforms have altered the playing field in favor of the market rather than government fiat. As barriers have been lowered, large firms from both developing and industrialized nations are entering foreign markets and (if present already) expanding their business operations. In a great many instances the suppliers (both large firms and SMEs) follow their customers into foreign markets. The electronics/IT cluster in Guadalajara, Mexico, is a typical example where contract manufacturers have co-located to serve their multinational customers. The consolidation of global value chains creates relentless pressure on SME suppliers in particular.

### **SMALLNESS A VIRTUE**

Nevertheless, smallness can also be a virtue, and the new global economy also presents notable opportunities for SMEs. To begin with, technology is the great “leveler”—accessible to firms of all sizes. Consequently, technology-based systems help level the playing field for SMEs vis-à-vis large firms. Additionally, smallness allows SMEs greater flexibility, latitude, and speed in responding to both threats and opportunities. For entrepreneurial SMEs from developing or industrialized nations, a globalizing business environment and the continuation of market liberalizing and reform measures aimed at their domestic business environment will provide more benefits than costs.

It is well established that government programs at all levels that support small business have taken a more active role in assisting SMEs. However, experience to date reveals that off-the-shelf approaches to assisting SMEs are not the most effective. Customization works best.

Recognizably, government-supported SME promotion programs, particularly those that are export-oriented, can produce results. Colombia, Chile, and Peru are good examples. Critically important knowledge on market intelligence, entry processes and strategies, and access to financing go far in assisting SMEs. Nevertheless, SME promotion programs do not focus on the bottlenecks of business competitiveness that SMEs face. Namely, government itself. If a Eurobarometer survey found that 50 percent of SMEs are constrained by governmental dysfunctionality, one can easily imagine how SMEs respond to similar surveys in developing nations. The World Bank's annual Doing Business report catalogs the tax, regulatory, and administrative barriers that businesses face. One can readily surmise that without the immediate removal of these barriers and implementation of business-friendly reforms, governmental SME promotion programs will come up short in achieving their intended results.

## KEY FINDINGS

In our recent book *Small Firms, Global Markets*, Jörg Meyer-Stamer and I found that for SMEs not just in Latin America but worldwide:

1. Local economic development matters greatly.
2. Financial access remains a major challenge for SMEs, especially in developing countries.
3. SMEs can facilitate but not solve the development problems of low income sectors.
4. Innovativeness and entrepreneurial orientation are necessary for success.
5. The lack of policy clarity and SMEs' lack of knowledge of government assistance programs remain impediments.
6. As clusters are becoming more diversified, medium size firms are increasing *their* competitiveness.
7. SMES are increasingly globalizing but it is unclear that government assistance agencies are effective.
8. Public support of SMEs is not only helpful but often indispensable, especially in poorer economies.
9. Addressing infrastructure needs is a pre-requisite for success.

SMEs face many competitive challenges in the new economy, and they will continue to do so. There are increasing opportunities before them as well, in both their home markets and foreign ones. Although SMEs are not a panacea for economic growth, increased incomes, and poverty reduction, they nonetheless play a vital role in developing and industrialized economies and in fostering private enterprise. There is not one single high income economy that does not have a competitive SME sector. If these entities are to flourish in the 21st century economy, they must design, plan and implement firm-level changes to enhance and sustain their competitiveness; and the enabling institutions and structures at the federal, state/provincial, and local levels must institute major changes to strip away administrative and regulatory barriers and work closely with private enterprise organizations to unleash entrepreneurship, innovation and the spirit of enterprise among SMEs.

*Jerry Haar is an associate dean and professor in the College of Business Administration, Florida International University. His latest book is Small Firms, Global Markets: Competitive Challenges in the New Economy, published by Palgrave Macmillan. A version of this article was recently published in América Economía.*