A REVIEW OF EXPORT OPPORTUNITIES FOR SMALL AND MINORITY BUSINESSES

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PURPOSE OF THE STUDY

The broad objective of the study is to examine how to increase small and minority export business. In addition, the study determines if regional trading blocs in less developed countries provide a viable vehicle for trade and technology transfer by small and minority business.

DEFINITIONS

"Small business" for this study is defined as fewer than 99 employees.

SCOPE AND METHODOLOGY

The study is divided into four sections: (I) the world trade setting and the performance of the United States; (II) the role that governments play in exporting; (III) the Third World regional trading groups; and (IV) conclusions and recommendations.

A survey was conducted of small and minority firms to determine activities and attitudes toward exporting. From a universe of 1,000 small and minority firms, a random sample of 450 was selected to be surveyed. The response rate was approximately 20 percent. Information was obtained on characteristics of the respondents; organization and operations of the business; rank order of services needed to meet export objectives; and commentaries regarding promotional programs or services, impediments to exporting, and specific assistance in marketing, financial operation, and management. See the chart on the next page.

HIGHLIGHTS OF THE STUDY

I. International Trade and Small Business Exporters

A. The U.S. in World Trade

Relative to the five largest exporting countries, the U.S. ranked third in growth of exports and last in growth of imports between 1979 and 1980. (The five largest exporters are the U.S., Germany, Japan, France, and the United Kingdom.) By the end of 1980, U.S. merchandise exports had grown an average of 24 percent annually since 1978. The annual growth rate for merchandise imports was 18 percent for the same period.

The U.S. has lost ground in foreign markets. In 1962, U.S. exports to less developed countries accounted for 24.3 percent of the total. Today it is only 17.9 percent.

Small business is not reaching its full export potential. Small businesses represent 70 percent of all exporters but account for only 9 percent of export
SELECTED SURVEY RESULTS

MOST FREQUENTLY USED SOURCES FOR INFORMATION ON FOREIGN MARKETS AND TRADE OPPORTUNITIES

<table>
<thead>
<tr>
<th>Rank</th>
<th>Source</th>
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<tbody>
<tr>
<td>1</td>
<td>Department of State</td>
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<tr>
<td>2</td>
<td>Department of Commerce</td>
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<tr>
<td>3</td>
<td>State and local governments</td>
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<td>4</td>
<td>Chambers of Commerce</td>
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<td>5</td>
<td>Other Domestic Companies</td>
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EXPORTING ASSISTANCE NEEDED:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Assistance Needed</th>
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<tbody>
<tr>
<td>1</td>
<td>Opportunities to expose products and meet foreign buyers</td>
</tr>
<tr>
<td>2</td>
<td>Opportunities to publicize products abroad</td>
</tr>
<tr>
<td>3</td>
<td>Specific sales or representation leads for products abroad</td>
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<tr>
<td>4</td>
<td>Assistance in making bids for overseas contracts</td>
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<tr>
<td>5</td>
<td>Information on individual foreign buyers or representatives</td>
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</tbody>
</table>

EXPORT ASSISTANCE PROGRAMS KNOWN TO RESPONDENTS:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Program</th>
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<tbody>
<tr>
<td>1</td>
<td>Department of Commerce</td>
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<tr>
<td>2</td>
<td>Trade shows and fairs</td>
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<td>3</td>
<td>Business Council Service</td>
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<td>4</td>
<td>Eximbank</td>
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<td>5</td>
<td>Foreign Credit Insurance Association</td>
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<tr>
<td>6</td>
<td>Commerce Department Export Promotion</td>
</tr>
<tr>
<td></td>
<td>Trade Development Program</td>
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COUNTRIES MOST LIKELY TO IMPORT RESPONDENT'S PRODUCTS:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
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<tbody>
<tr>
<td>1</td>
<td>Africa</td>
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<tr>
<td>2</td>
<td>Caribbean</td>
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<tr>
<td>3</td>
<td>South America</td>
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<td>4</td>
<td>Far East</td>
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<tr>
<td>4</td>
<td>Japan</td>
</tr>
<tr>
<td>5</td>
<td>Europe</td>
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<tr>
<td>5</td>
<td>Central America</td>
</tr>
</tbody>
</table>
volume and 3 percent of export value.

B. Survey Results

The survey showed widespread awareness of information concerning "how to" export and government programs, but most respondents indicated difficulties in obtaining information without having to contact numerous institutions.

Respondents expressed a preference for quality rather than quantity in export assistance programs.

Financial and information were the types of assistance desired. The survey indicated there are problems with access to assistance, not availability of it.

Geographical areas to which respondents wished to export ranked in order of preference are:

Africa, Caribbean, South America, the Far East, Central America, Europe, and Japan.

II. Government Trade Promotion Activities

A. Government Trade Promotion Programs

Eleven different agencies and some 36 programs comprise the U.S. effort to facilitate exports. The other four major trading nations offer a similar array of services.

The United Kingdom, Japan, France, and Germany all have cabinet-level ministries in which all export-related functions are consolidated. The governments and private businesses work closely together to coordinate political initiatives with trade initiatives. Because in the U.S. our democratic traditions promote competition between different interests, relations between private business and government agencies cannot become that close.

The four other major trading nations provide more subsidies of trade missions and trade fair activities than the U.S. The authorized maximum financial resources of the Eximbank are less than its counterparts in France and Japan, but greater than those in the United Kingdom and Germany. The value of the U.S. commitment represents a smaller proportion of the total than in any of the other four countries.

The European Economic Community (EEC) signed the Lome Convention with the African, Caribbean, and Pacific States (ACP countries) in 1975, which outlines ways in which developing countries can cooperate in trading. By giving free access to EEC markets, protecting from falls in prices, lending funds for exports, making technology transfers, and otherwise promoting trade among ACP nations, great
benefits have accrued to the EEC.

B. U.S. Government Export Promotion Programs

Agencies or groups in the U.S. having some form of export financing include:

Agency for International Development, Department of Agriculture, Eximbank, Small Business Administration (SBA), the Overseas Private Investment Corporation, International Development Cooperative Agency, Economic Development Administration, and African Development Foundation.

The SBA and the Minority Business Development Agency provide management and technical assistance to small exporters. The Overseas Private Investment Corporation conducts export seminars and has funded the Minority Enterprise Small Business Investment Company International Project Management Corporation, Inc., which assists minority small exporters.

The Department of Commerce export programs are generally oriented toward distribution of intelligence.

III. Regional Trade Groups

The study examines six regional trade groups as potential export markets for American small business. These include:

1) Economic Community of West African States (ECOWAS), 2) Association of Southeast Asian Nations (ASEAN), 3) Union of Central African States (UDEAC), 4) Caribbean Common Market (CARICOM), 5) Central American Common Market (CACM), and 6) Andean Common Market (ANCOM).

These groups were selected because each is pursuing practices and policies which will provide opportunities for American small business to sell products and services to them.

A. Economic Community of West African States (ECOWAS)

ECOWAS originated in 1975 when 15 West African states signed a treaty in Lagos, Nigeria, after meeting informally over a 10-year period. The countries are: Benin, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Senegal, Nigeria, Sierra Leone, Togo, and Upper Volta. Cape Verde joined in 1977.

ECOWAS intends to evolve into a common market with intra-regional trade, industrial integration and coordinated foreign trade. Politics and economics interact to produce a system in which government plays a significant role. Trade alliances are strong between these countries and the countries of which they were formerly a colony, although these relationships are diminishing.

Entry of an American company into the ECOWAS market is usually through an established European trading
company. Later, the U.S. company may set up its own local company or become a subcontractor for a government project. To do business within the ECOWAS countries, an American company must know the array of government regulations for each country. A large portion of the study is devoted to the ECOWAS countries. The topics covered include: the formation of ECOWAS, general trading practices, financial systems and practices, accounting practices, investment promotion policies, tendering and procurement, profiles by industry sector, trade potential, and sub-regional priority projects.

B. Association of Southeast Asian Nations (ASEAN)

The countries of ASEAN are Indonesia, Malaysia, Philippines, Singapore, and Thailand. This is one of the fastest growing regions in the world and has a well-coordinated system of American Chambers of Commerce to facilitate small business initiatives in trading. The import items in which they are interested include: management expertise; machinery, heavy automotive electronic and electrical equipment; agricultural machinery; manufacturing components for agricultural equipment; food processing equipment; chemical and petrochemical, iron and steel products; construction materials; cement; glass; furniture; fittings; and abrasive materials.

C. Union of Central African States (UDEAC)

The countries of UDEAC are Cameroon, Central African Republic, Chad, Congo, and Gabon. Presently, most goods are supplied to these countries by France, but this is a market small and minority U.S. businesses should explore. Imports needed include: technical, electrical, livestock and livestock raising, health equipment, and pharmaceutical supplies.

D. Caribbean Common Market (CARICOM)

The countries of CARICOM are Anguilla, Antigua, Barbados, Belize, Grenada, Guyana, Jamaica, St. Kitts/Nevis, St. Lucia, and St. Vincent. CARICOM has been one of the more effective trade groups in increasing trade for partners. Current requirements for imports include: agricultural equipment and supplies, food processing and packaging equipment, foodstuffs, medical equipment and supplies, pharmaceuticals, metalworking machinery, business equipment, building and construction supplies, electric power machinery, and vehicle replacement parts.

E. Central American Common Market (CACM)

The countries of CACM are: Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela.
Presently, the U.S. provides one-third of CACM's imports. Political instabilities have diminished the effectiveness of integration between these countries, but does not mean business transactions are insecure. The import items in which they are interested include: food, live animals, tobacco, mineral fuels, chemicals, transport equipment, agricultural machinery and appliances, tractors, food processing machinery, construction and mining machinery and parts, pumps, heating and cooling machinery, electrical machinery, and telecommunications equipment.

F. Andean Common Market (ANCOM)

The countries that comprise ANCOM are Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela. With the exception of Chile, the ANCOM countries have comparable industrial bases and similar development problems. The U.S. currently supplies 36 percent of their total imports. Among the items of greatest interest for future import are: machinery and equipment for food processing and packaging, agricultural machinery, metalworking equipment, petroleum and petrochemical industrial equipment, telecommunications equipment, health care industry equipment, laboratory instruments, business equipment, construction equipment, housing construction systems, educational systems, textile manufacturing machinery, and aviation equipment.

Because the fastest economic growth over the next twenty years will take place in Third World countries, they offer a wider range of opportunities for small business exporters than industrialized countries. American small businesses can direct their sales efforts toward foreign government tenders, prime contractors for foreign government projects, USAID-funded projects, traditional trading houses, and local small businesses seeking new sources of supply.

One important element the U.S. government can use to foster greater export activity is to develop a trade policy to match the particular circumstances of each country.

The survey revealed that few respondents have either staff trained in exporting or comprehensive knowledge of government export promotion programs. They recommended that a regional one-stop information center or library on exporting be established. Existing SBA offices could serve this function, or Chambers of Commerce, or private organizations.

The service industry should be encouraged to participate in exporting to a greater extent. Developing countries require city planning, management consulting, project development and evaluation, vocational training, and numerous other services that American small businesses can provide.

Promote small export trading company activities by supplying leads to the small export trading
company and by supplying the names of small export trading companies to manufacturers.

Continue on a broader basis the "bridge financing" program of SBA and Eximbank.

Blend Eximbank lending programs with lending programs of other government agencies.

Use SBA international trade specialists to ensure that local banks understand financial strategies for assisting small businesses to export.

Facilitate contacts between American small business suppliers and Third World small business buyers.

SBA and the Department of Commerce should jointly develop solid information on the needs of Third World countries.

SBA should assist U.S. and ECOWAS banks in cooperatively developing the financing for projects in which small businesses can participate.

Promote greater small business involvement in large overseas commercial or public development projects.

Increase small business subsidies for trade fairs and trade missions.
A SURVEY
OF
EXPORT OPPORTUNITIES
FOR
SMALL AND MINORITY BUSINESSES

EXECUTIVE SUMMARY

Henderson International Incorporated
March 1981
EXECUTIVE SUMMARY

BACKGROUND

This study provides a basis for better defining the role federal and non-federal government programs can play in fostering increases in exports by small and minority businesses.

- That Congress, the Administration, and executive and legislative bodies throughout the United States appreciate the constructive value of exporting.
- That governments at all levels must operate with restricted budgets and limited staff.

SETTING

- Many US firms capable of exporting are not and exporters are selling less abroad than the market can bear.
- A majority of American manufacturing companies consider the export market a residual market, a casual adjunct to the domestic market.
- Although some 70 percent of exporting manufacturers fall into the category of "small," such companies account for only 9 percent of export volume and 3 percent of export value.
- Exports represent a modest 15 percent or less of total sales for 85 percent of small business exporters.
- An additional eleven thousand firms are "capable and interested" in exporting.
- The US exports more, while its economy depends on those exports less than Germany, Japan, France, or the United
Kingdom, the other major trading nations of the world.

- Only 21 percent of small business manufacturers export at all.

- While export opportunities abound, competition does too. Resource-poor industrialized countries approach export markets with an aggressiveness born of the need to survive.

CONCLUSIONS

1. American small businesses of many types have innumerable opportunities in export markets.

2. Because the fastest economic growth over the next twenty years will take place in Third World countries, they offer a wider range of opportunities for small business exporters than industrialized countries.

3. The US Government can foster greater export activity by developing a trade policy to match the particular circumstances of each country and by establishing links with regional trade groups.

4. To succeed with trade in the developing nations takes an approach sensitive to national economic priorities, local business practices, and policies of local government institutions.

5. Federal government export assistance programs should not focus on the categories of firms that can afford private sector services. Instead, federal government programs should assist small and minority businesses that are less
experienced and less established.

6. The SBA should play a major role in stimulating exports by small businesses through its existing field structure of 110 offices in 50 states in cooperation with the Department of Commerce.

7. Few small or minority businesses have either staff trained in exporting, or comprehensive knowledge of government export promotion services.

8. Greater small business export activity requires more and better financial support.

9. The international departments of many American commercial banks do not understand the various legitimate financing mechanisms available to help small businesses or small export trading companies avoid the need for substantial amounts of upfront cash for an export transaction.

RECOMMENDATIONS

1. Promote small export trading company activities.

2. Encourage greater attention to small business service suppliers, in addition to manufacturers.

3. Establish regional one-stop export information centers or libraries.

4. Use SBA international trade specialists to ensure that the international departments of local banks understand all possible financial strategies for assisting small business exports.

5. Encourage SBA to develop a coordinated effort involving
several agency representatives to establish contacts with
the Washington representatives of the regional trade groups
and with the personnel in embassy commercial sections.

6. Promote SBA development of joint venture financing packages.

7. Coordinate and "blend" Eximbank loan programs with the
low-interest loan programs of AID, USDA, and DOD.

8. Broaden the "bridge" financing program developed by the
SBA and the Eximbank by increasing federal budget allo-
cations and by greater promotional efforts through existing
SBA field offices.

9. Develop solid information on Third World needs.

10. Encourage US Government overseas commercial represen-
tatives to seek out and contact small businesses to match
with potential American small business suppliers.

11. US commercial offices in Third World countries could
courage joint ventures between local small businesses
and American small businesses.

12. Promote greater small business involvement in large
overseas commercial or public development projects.

13. Increase small business subsidies for trade fairs and
trade missions.

14. The US Travel Service could develop programs for commer-
cially oriented trips to the US by foreign small business-
men to enable them to meet with US small business suppliers.

15. Establish a trade and industry center for Third World markets
similar to the EEC's Centre for Industrial Development in Brussels.