

## Services Promote the Competitiveness of U.S. SMEs<sup>1</sup>

The majority of firms in the United States are not large multinational corporations, but small and medium-sized enterprises (SMEs), defined in the United States as businesses employing up to 500 workers. They are the source of many American workers' livelihoods. SMEs are innovators; most are also service providers. These firms are engaging more deeply in domestic and international trade using the internet, digital platforms, and electronic payment systems; yet the full potential for SMEs to export services remains underutilized. International trade and growing foreign demand offer tremendous potential benefits for these firms and for the U.S. Gross Domestic Product (GDP) and job growth.

- **Small and medium-sized enterprises (SMEs) are critically important to the U.S. economy.**
  - SMEs export goods, create jobs, and absorb new entrants into the workforce.
  - In the U.S., there are nearly 30 million businesses with fewer than 500 workers, representing 99.7 percent of all businesses.
  - These SMEs employed nearly 57 million workers, or about half of the entire private-sector workforce.
  - Since 2002, SMEs have accounted for nearly two-thirds of all new private sector jobs, with over 80 percent of these new jobs in the services sector.
  - Because nearly 40 percent of SME-created jobs are in high-tech industries that pay higher wages, SMEs contribute to better living standards as well as drive innovation.
  - SMEs promote strong rules of intellectual property, producing 16 times more patents per employee than large firms.
- **Most SMEs and most exporters in the U.S. are services firms.**
  - Over two-thirds of SMEs identify themselves as services companies. Comparatively, only 27 percent of SMEs work within manufacturing and 5 percent within agriculture and mining.
  - SMEs form the backbone of the U.S. economy, with the services sector constituting nearly 70 percent of GDP.
  - Nearly 98 percent of the U.S. companies that exported in 2013 were SMEs, and they generated one-third of the total value of U.S. exports.
  - Overall, services exports consistently generate a trade surplus for the United States (\$262 billion in 2015), but there is more SMEs can do to reach the 96 percent of consumers outside of the United States.
- **Services and digital platforms are enabling U.S. SMEs to reach global markets.**
  - SMEs use digital platforms – which rely on services to work – to not only reach consumers in all corners of the world, but also to provide marketing, peace of mind, and transaction facilitation for even the smallest companies.
  - For instance, in 2016, eBay had 167 million global active buyers across 190 markets, generating sales of \$84 billion. Of the small U.S. businesses on eBay, 97 percent export, reaching an average of 18 foreign markets.
  - In 2016, Etsy, a peer-to-peer e-commerce website that focuses on handmade or vintage items, had nearly 60 million users and connected 1.7 million sellers with 26 million buyers. Exports constituted one-third of its revenue; 30 percent of sellers were located outside the United States.
- **Examples of small services exporters.**
  - Remn is a 10-person microbusiness that provides technology services in the real estate space. While less than a year old, Remn is already working in Canada and some countries in the Asia-Pacific, owing to its use and adoption of digital platforms.
  - Cask is service firm that offers professional project management and technology engineering services. Using digital platforms, Cask has grown to over 200 employees and is exporting services across the globe, with 18 percent of revenue coming from overseas.
  - Further, small business such as app developers have customers outside the U.S. For instance, Montessori's educational apps are now sold in over 120 countries, generating \$5 million in revenue.
- **Moving forward with trade and SMEs growth.**
  - Services SMEs can better participate in the global economy through the creation of trade agreements and elimination of trade barriers.
  - Trade agreements codify rules, ensuring open markets and providing legal guarantees that digitized services export flows will encounter little resistance as the businesses expand abroad.
  - Services exports facilitated by digital platforms are subject to obstacles that goods exports are not, including limitations on cross-border data flows, restrictive privacy and security rules, and data localization requirements, among others.

<sup>1</sup>Based on the 2017 paper by Sherry Stephenson, ICTSD