BENEFITS OF TRADE:
AN ORGANISATIONAL PERSPECTIVE

Results from Focus Groups in APEC Economies

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INTRODUCTION
In many economies, there has been more recent, intense debate about the benefits of participating in international commerce, and about who gains and who loses from doing so. This has included the implications for businesses and for their staff. With respect to the latter, many people have looked at the apparent consequences in labour markets of participating in international commerce, and what happens to employment within firms. Researchers have also explored questions arising at the business level, such as which firms trade (exports and/or imports) and the consequences of doing so. The purpose of the work reported here is to explore those same questions, primarily at the business level. We do so by talking to people involved in business, rather than by studying survey or trade data. And, while business level decision making and consequences are our main interest, we also explore some implications for the respondents’ staff.

We find interesting results about what helps and hinders participating in trade and what happens as a result of doing so. The results have implications for trade policy design and in designing trade agreements, which are highlighted in the material presented. Since the material involves discussing who participates in trade and the consequences of doing so, the results are also relevant in understanding the links between economic integration and the notion of inclusion.

Inclusion is an important topic in the APEC work program. APEC has, for some time, recognised the challenges of economic integration, especially the associated equity considerations. In its opening paragraph, The Bogor Declaration of 1994 referenced efforts to ‘enhance the prospects of an accelerated, balanced and equitable economic growth’. The focus on equity received less attention than the work on integration over the following years but, after the Global Finance Crisis in 2008 and the lessons learned from its impacts, the pursuit of equity was more explicit in the 2010 APEC Growth Strategy. As the strategy document reports, the ‘underlying perception was that growth drivers were not balanced within and across economies; and the benefits of economic growth were not widely felt throughout communities…’

It is in this context that the 2009 Leaders’ Declaration acknowledged “the necessity to develop a new growth paradigm for the changed post-crisis landscape.” This new APEC approach focused on achieving balanced growth, fostering inclusive growth and promoting sustainable growth. In 2010, APEC Leaders endorsed the Growth Strategy. An element of the strategy was to promote ‘inclusive growth which involves enabling all segments of economies – from micro-enterprises to women – to participate in the economy and global trade.’ Questions of inclusion have received regular attention since then, and remain a priority. In 2018, the outcome of the meetings in Papua New Guinea referred to inclusion. Chile, the host of APEC in 2019, has identified inclusive growth, where everyone benefits from integration, as one of the four key goals for the year (alongside attention to the technological revolution, economic integration, and climate change).

In this project, we organised and documented interactions with business people across the APEC membership to understand their experience of the benefits and challenges of participating in international trade. These interactions took place in nine APEC countries from April to July 2018. We analysed transcriptions of these discussions to identify key factors that facilitate or impede business participation in international trade. This report presents the results of these discussions covering four key firm-level capabilities and two main external influencing factors. The report is organised under these headings. The text includes author commentary and quotes (verbatim) from business respondents. The Executive Summary presents key findings and the Concluding Remarks draw out messages for policy and APEC strategy. An outline of the methodology applied is included in the Appendix.
EXECUTIVE SUMMARY

- Four firm-level capability factors inform decisions about participating in international trade: information, finance, technology and people. Two core external factors also drive success in international trade: compliance requirements and market forces. The results of discussions with business undertaken for this project are presented under these headings.

- Among the firm-level capability factors, information has two components – the information itself and its management.

- Collecting information on market opportunities incurs a cost, which is also sunk in the decision-making process about trade participation. Reliable information about markets, regulations, market access conditions in Free Trade Agreements (FTAs) and intellectual property treatment are among the items sought. There are examples of good practice in providing this information. As access to information does not necessarily diminish the value of travel to export markets as well, since the mobility of decision-makers is valuable in managing trade. Service providers, such as advisers and consultants, also play a significant role. The current trend towards protectionism is increasing the value of ‘real time’ information on existing markets and on new markets that may emerge because of trade wars among other parties. While international markets are regarded as more complex than those at home, meeting the challenge of their complexity is a positive force for developing a business.

- Respondents identified a two-way relationship between information management systems and trade participation – success in trade demands good information management systems. So, developing those systems would support an international trade strategy. For many respondents, trade is fundamentally a matter of information exchange: in some cases this is organised digitally and in others by face to face interaction, which is another example of the importance of the movement of people. While new technologies, such as blockchain, could facilitate this information exchange, currently there are cheaper alternatives. Most respondents agreed that data sharing will become more commonplace, facilitating trade, and report that various networks are promoting data sharing. This process is critical for the successful operation of global value chains in the production process, examples showing that on some occasions successful exporters are also importers. A focus on data sharing also creates business opportunities and the platforms built around the new communications technologies are facilitating trade participation, especially for smaller firms. Other implications from widespread information technology use include the importance of investing in a web presence and social media, which is enabling trade participation by smaller firms.

- The finance factor received much attention, with respondents noting the critical contribution financial services could make to international competitiveness. Innovation by financial services providers is important to support exporters’ international strategy. Their significance is not limited to trade finance but also includes providing working capital for the business. Financial services systems also help manage risks associated with fraud by identifying ‘real’ customers. They can also bundle complementary services together, such as insurance, and meet customer expectations for different payment systems.

- Successful exporters have an explicit technology strategy. Relevant technology includes that related to managing information and specifically focussed on communications. It relates to transaction management as well as to the upstream production processes (track and trace, for instance). The use of technology in relation to trade is changing, offering opportunities for smaller firms. New technology also helps manage risks (responding to counterfeit, for instance). Often the experience of applying technology in one market can be transferred to others. Technological change creates new sales channels, allowing more direct contact with customers, which is also advantageous to smaller firms. Some respondents reported on ways in which managing technology challenged their business, mainly in the context of effectively using platforms like Facebook and Google. On the other hand, the proliferation of channels also raises new regulatory challenges.

- Access to, and the management of, people are critical to success in international trade. Many exporters report challenges in accessing skilled staff, either at home or offshore. Respondents refer to ‘skill shortages’, which are sometimes linked back to the education system’s lack of capacity in their economies. In response, many respondents have offshored tasks to service providers or, in relation to foreign investment, have arranged for offshore staff transfers, enabling their staff to work alongside local staff. Some firms have built new businesses based on their own experience of offshoring, assisting others to do likewise. Other responses to the people challenges include applying new technology and hiring (or relocating) staff offshore, involving both temporary and permanent movements.
Key external influencing factors related to compliance and market forces.

- In explicating the conducive conditions for international trade, respondents focussed on compliance with respect to three items: the conditions of FTAs; the increasing use of non-tariff measures; and managing the processes of regulation.

  - Respondents acknowledged the contributions FTAs have made to opening up markets, also noting the competition effects following from them. Many respondents stressed the difficulty of complying with Agreements terms to access their benefits.

  - The growth in non-tariff measures is another major topic in compliance. Data management, food safety measures and international current payments were raised, and the burden of compliance on smaller firms was stressed. Some firms responded by developing new, innovative products for which these barriers were relatively less important. Others noted the benefits of meeting international standards and the scope that doing so created for new market entry.

  - Managing the regulatory process is the third major issue with respect to compliance. Applying tariffs and meeting the expectations of regulators in other countries are all part of the context in which trade occurs. But the cumbersome nature of compliance processes was a regular talking point, particularly customs procedures. Respondents recognised the efforts to construct single windows for customs processes, but were not all convinced these would be effective, especially since critical decisions are in the hands of a new ‘kingmaker’.

- With respect to market forces, both pull and push factors drive decisions about participation in trade.
  - A number of factors ‘pushed’ respondents offshore: The successful experience of innovation in domestic markets, the response to a domestic crisis, support from foreign investors and the confidence arising from benchmarking products and services in international markets.
  - Pull factors included the opportunities to achieve greater scale and thereby greater productivity and competitiveness, opportunities created by cultural differences or by markets that did not exist at home, and changes in strategy by customers seeking to contract-out some services. The complementarity of technology transfer and foreign investment with trade is also noted.

- Immediate gains from trade are through the profitable business that is created. Longer term benefits arise via productivity growth and innovation.

- Contributions to productivity growth include applying ideas from other markets, benefiting from greater scale and opportunities to engage in importing, supporting export competitiveness.

- The association of trade and innovation is a cross cutting theme. While sometimes innovation is driven by circumstances in home markets, which increases offshore competitiveness, other times innovation follows from international market demand. In many cases, innovation follows to escape international trade constraints relating to policy impediments and their application. Firms’ capacities to respond depend on their capabilities. But when they succeed, business innovation undertaken to engage in trade is overwhelmingly positive on firms in both domestic and international markets.

- Traditional policy concerns remain among respondents, such as the presence of tariffs, gaps between home and offshore regulatory regimes, restrictions on Foreign Direct Investment (FDI) or rules on migration and people movement. More often, a talking point is managing the processes of applying policies, particularly customs procedures. Policy in sectors providing services to exporters is also critical. The complementarity of a competitive services sector and success in international trade is clearly evident.

- Inclusiveness elements of trade participation involve varying forces. While matters of compliance weigh more heavily on smaller firms, new technologies provide these firms with new opportunities and channels for engaging in trade. Most respondents were very positive about the latter force, noting emerging regulatory issues associated with storing and using data, which underpins these technologies.
FIRM-LEVEL FACTORS
INFORMATION

The need for information is a core requirement identified by respondents. This factor has two elements:

- Information on international markets and how to succeed, and
- Data and information management systems to operate successfully in trade.

International Market Information

A business may be able to provide products or services that are competitive in world markets, but that potential has to translate into action for trade to occur. The first factor in that transition to action is information. Key respondents across APEC identified a strong need to understand new international markets, rather than operating in an opportunistic or reactive manner. The information sought includes market opportunities and policies affecting market access. The capacity to succeed depends on:

- internal capabilities to discover and analyse the information required, and
- the nature of the information supply.

With respect to the latter point, finding relevant information is not without cost, and these costs cannot be recovered if a decision is made to withdraw from, or not proceed with, trade: they are ‘sunk’. This is a major inhibitor to trade participation. It was not surprising that senior executives sought to lower those costs by having access to clear, transparent and easy-to-access information. Many firms also asked for appropriate information in a timely and easy-to-access manner on the elements of FTAs, to understand how to use them for international trade and investment. For example, Malaysian respondents sought more information in both these respects:

“….providing clear, transparent and easy-to-access information on foreign investment restriction was most vividly observed in this industry. Partly due to enough accumulated know-how on utilizing FTA, [however many] Malaysian companies had no experience [of] FTA utilization.” (Malaysia)

Respondents in Singapore also identified the value of understanding FTAs and suggested there was often a need to bring in an external consultant to provide added information and knowledge on how to navigate the complexity of agreements:

“So you need some of the expert to help you understand it first, then you can see where you can come in. Because the free trade agreement is very complicated, it’s not so straightforward, from my understanding.” (Singapore)

Many respondents suggested good information could be gathered on regulations and market conditions. This theme emerged across all economies involved in the study. Firms in the United States indicated that, in some cases, (which may then serve as benchmarks) government resources were available to support trade and investment initiatives:

“There are foreign government resources in Malaysia, in Singapore, in the EU and elsewhere that can provide soft landing programmes and services for companies that are looking to expand their footprint abroad.” (USA)

The need to travel to markets to explore the best options for developing new trade and investment was also raised. This often involved engaging specialist international trade consultants to identify priority market opportunities before traveling in country to explore partnership opportunities and new trade relationships. One Australian firm, engaged in developing an international technical vocation and training business, travelled with specialist advisers to target Asian markets.

“We went to Indonesia and Malaysia. From there, once I got a bit of an understanding of the lay of the land and how to communicate with the people, and obviously without that support I wouldn’t have done that. I didn’t know how to communicate with them. I didn’t know much about the culture, but just that one week alone, you learnt so much. After that, I took over as dealing with the people.” (Australia)

Information demand is not just related to understanding compliance, regulation and market factors but also about how to secure intellectual property (IP), the skills for which may not be available in home markets. Respondents agreed that to succeed in trade they often had to add value to existing products by building new relationships. For example, an exporter of a food product needed to add to its shelf life to enter an international market. This drove international relationship development with companies in third markets to manufacture the product under licence. The firm was able to export via these contract manufacturing and licencing arrangements, which also preserved its IP.

“I have the recipe for avocado smoothie. But Singapore, the technology for is not there. Because, last time I thought of having it, I was talking to a overseas manufacturer, okay? There was frozen avocado smoothie… because the shelf life for international market I needed two years. Okay? Minimum must be one and a half years, okay? …… Who is that South Korean and Japanese smoothie manufacturer can produce my smoothie? …..I like the Japanese are very innovative in all those delicates. The ice cream is made in Singapore, but the smoothie [is made in Japan]… because Japan and market is my north-east market, Asian, north east market. Yah.” (Singapore)

Success in securing valuable information to design an international strategy depends on taking an international business mindset or approach. And operating in international markets is more complex than in domestic markets. However, this challenge was perceived to be positive for their business:

“Because when you are deciding overseas, you’re exposed to more, new things. The demands are more varied than when you’re just concentrating in Singapore. If you take that as a challenge, then you will develop your capabilities.” (Singapore)
Current circumstances were also complicating information collection, particularly regarding the risk of protectionism. Respondents were concerned about what that meant for their business. Would it increase costs or become more difficult to engage in international trade? This current level of uncertainty is increasing the need for real-time information and knowledge on changes in tariff rates. As well as flow-on trade effects of actions by third-party economies that could affect existing export relationships or create new ones. A respondent in Singapore noted:

“So, we are watching it very cautiously, very carefully. And our activities across continent is still high. Fingers crossed, but we got to probably be ready for knee-jerk reactions and knee-jerk decisions.” (Singapore)

Data and Communications Management

Information demand has seen many firms develop sophisticated data management systems to control, analyse and use information when managing international trade. In some cases international trade is undertaken to develop the data management process, and in other cases international trade follows the investment in data or information management systems. Respondents said an inherent information exchange is required during international trade. In many cases this is undertaken in a digital format, but many exchanges are based on the interaction of people. Opportunities for people-to-people contact are critical, and barriers to people movement remain an issue.

With respect to new technologies for information management, and for securing the quality of information, many respondents discussed the opportunity provided by blockchain technology, which is identified in international trade as:

“... a distributor technology, so I hold my piece of information, you hold your piece of information. I don’t put everything in a central database, and basically, we exchange that information among the different parties. We lock it, we secure it, I endorse, I change it, I pass it over to you, you endorse, and it goes on.” (Singapore)

Respondents see the opportunity to facilitate faster movements of documents with greater reliability:

“Quite essentially, the technology provides a way of pushing for the digitalization of all this information. It’s a processor into that digitization. So I deal with the whole block chain, actually. It’s because it’s able to exchange the information between stakeholders safely, at the same time, a logistic order that handles that information will not have the capability to manipulate the information. He has to get consensus among all the stakeholders, they are partners. At the same time, information is distributed. I have my piece, you have your piece. I have one key that I open to see what I need to see, you have your own key, own private key that opens up what you need to see. If a facility, a whole distributor concept of stored information, security concept coming in, exchange of information between different partners.” (Singapore)

While blockchain technologies in international trade are already being used, and have been for years, respondents are concerned about the costs in managing the systems. A number of respondents suggest they can access cheaper alternatives, such as information sharing across platforms in international trade, and this is being managed through freight forwarding and customs agents. One firm highlighted the growth and use of online cloud-based accounting software, which can be managed anywhere in the world. This is another example of rapid advancements enabling firms to effectively manage their information and data for international trade.

“The main accounting software packages, NYB and Zero, as recently as probably five or six years, NYB, which is a dominant market player in accounting software, didn’t really have a viable cloud-hosted solution, and now they do, and all the bank fees get sucked in. You can operate on that just as easily from anywhere in the world as you can from in front of your desk in your own office.” (Australia)

A firm in Australia involved in freight and logistics explained how it uses information sharing in much the same way as we think of blockchain technologies for the future:

“… a distributor technology, so I hold my piece of information, you hold your piece of information. I don’t put everything in a central database, and basically, we exchange that information among the different parties. We lock it, we secure it, I endorse, I change it, I pass it over to you, you endorse, and it goes on.” (Singapore)

Respondents generally agreed that, as the costs of managing data reduce and network relationships increase, data sharing will become more commonplace, facilitating faster international trade transactions. One Singapore respondent explained how showing a visitor their management systems at their warehouse facility, which tracked products in various stages of an international transaction, led to an exchange of ideas and better systems processes across borders:

“We have this recent visitor who came and I was quite surprised with the trail of conversation. It seemed like their concept of the warehouse facility capable of handling both bonded unbounded things placed on the same shelf, is not something that some countries think is immediately possible. When we explained it, all comes down to data management, it really all comes down to data management. This other dude, “Oh, you think you can give me a consultant, so that I can go and convince my government to go and try it in my country?” I say, “Yeah, I’ll talk to (JJJ).” So yeah, there are opportunities of learning. We learn from them, they learn from us.” (Singapore)

In this discussion, networks and global alliances were seen as essential to international business. There is a strong awareness of the growth of business-to-business trade. More specially, many firms are operating at various stages of a value chain where, having imported intermediate products, they pass a product down the chain with added information. This is another example of how successful exporters are also importers, in this case supported by access to data and its efficient management. Many firms see these networks becoming more and more valuable.
Respondents also noted using communications platforms as tools for information management. Rapid advancements in voice communication technologies (or video) over internet protocol (VoIP) services, such as Skype, are a strong enhancer of international trade. Internet-based communication strategies are making it easier to conduct international trade without the same cost levels required previously. Small and medium firms expressed some level of uncertainty over whether they should or could use new technologies to lower costs and compete in international markets effectively. Firms also acknowledged there are more opportunities to harness new technologies to enhance their information management and operate successfully in international trade. Many smaller firms with limited resources are now able to participate in international trade, no longer needing to invest in international offices, with the associated labour costs, as they would have previously:

“The advance of technologies like Skype and all that sort of thing just make it very, very easy to communicate, whereas in the past KPMG or IBM would send an expat country-manager off to India or whatever it was, with the associated costs, and set up an office. If you had 500 staff over there, it’s worth doing. Whereas now because of the ease of communication ...” (Australia)

Respondents recognised the importance of managing their internet presence and using social media platforms to build business, market products and engage with customers in markets worldwide. One United States respondent noted the critical importance of this:

“I have international vendors all over the world, because we create experiences so it’s gone into so many different directions. I was just telling someone I produce fitness trips now, and I’ve had people come as far away as Africa and England because I can reach everybody through social media and through the internet. So doing business international is very important to me, and the growth of my business as well, international event planning.” (USA)

Social media’s ability to connect and engage firms with their customers around the world is an important factor enabling smaller companies to engage in international trade through marketing efforts:

“I use a lot of influencers to push out our experiences. Experience travel is really big right now, so using social media, Instagram, Facebook, all of that is what drives people to me and I also feel people want to be talked to nowadays. Social media allows us to talk to our audience daily, so I’m constantly staying on top of social media, learning what’s new and constantly staying engaged with it.” (USA)

**FINANCE**

Finance is regarded as the second most important driver of a firm’s competitive advantage in world markets. The financial system plays an important role in facilitating payments and issuing letters of credit. But the value of financial services extends beyond that role. Respondents presented examples of innovation in finance and new approaches by banks and other financiers in funding their firm’s international market activities.

Access to innovative finance systems is providing some countries with a competitive advantage over their neighbours, where more traditional finance models were dominant:

“The development of this financial system in Chile gave our country advantages over others in Latin America. Access to credit, low interest rates, stable financial policies, low country risk and certain access to the developed financial markets, undoubtedly set a positive scenario for trade and constituted a significant comparative advantage over other countries. Associated to this, a number of banks related with foreign trade also were born.” (Chile)

New finance structures can shape an organisation’s ability to trade and the nature of its activities:

“Our biggest operating cost is purchasing and storing meat for the offseason. Banks used to be very demanding in the past but now more relaxed. I guess bank competition has helped. And they now recognise that frozen meat is a good commodity – low risk. Banks [are now] more sophisticated. Way better than they used to be.” (New Zealand)

Other firms identified access to new finance models as critical to their international trade success:

“I had been turned down so many times by so many banks, because I’m a service business and they don’t have a storefront, ... I really didn’t believe it until I clicked, and it actually did happen. I’m on my sixth working capital loan, which has allowed me to market, expand, hire employees.” (USA)

Respondents cited many examples where finance models provide an opportunity to build capability to succeed in international markets:

“I don’t think my business 12 years now, would be where it is today without the partnership of PayPal. I did try other banks and I went to Merchant Banks and when I started getting these charge backs because they had 30 minutes without electricity in their hotel in the Caribbean, and American Express gives them all their money back. I hope no one here from American Express but those kinds of situations, I don’t have to deal with that with PayPal. They’re screening the people, there’s a 90-day process that they have to go through.” (USA)

Other firms noted that new finance systems enabled them to identify real customers, rather than scammers and fraudulent customers, which is a common challenge for small firms engaging in international trade:

“Tablet technology enables local coffee growers for example, to receive and make spot payments in real Payment processing— and accounting systems of QuickBooks (for example) – enables them to deal with paying duties and taxes and also helps with fraudulent buyers.” (Papua New Guinea)

Some respondents said accessing business investment via stock markets and private equity reduced investment costs. Others identified the opportunity to use new financial systems to improve risk management:

“Today, direct credit to the supplier with credit insurance is used. It has been very positive because the insurance company evaluates the risk and they determine the quota to sell to company X, which is always reasonable. 100% of [our] exports and domestic sales are made with this insurance system and losses are practically zero.” (Chile)
Firms also noted a number of ways in which finance systems and innovation are facilitating international trade and enhancing a firm’s competitiveness in international markets:

“The free trade zone in Malaysia is connected to a free trade zone in China, so even an EU license means I can freely move my goods between these two [economies] and then only when you sell to the local market, then you start paying taxes. It helps the business tax flow because I’m not paying tax up front.” (Singapore)

Finance systems supported adaptation to cultural nuances and preferences in specific markets: a US firm provided an example of exporting products to customers in Germany where there is an expectation of cash on delivery. This was reported to be the cultural and market norm in this economy. It would not be possible to access this international market without the financial systems to accommodate this seemingly higher risk approach to sales.

“Selling into Germany, and they still use cash on delivery. We offer that as a service because that’s how people want to pay in Germany. People in America are like, “Really? Cash on delivery, that’s a thing?” So also have to take into consideration things like that where your payment type isn’t necessarily going to be digital because the society wants to have that as an option.” (USA)

Many market requirements demand a technology platform, to access a market. One firm in New Zealand identified, as a critical success factor, technological adaptation:

“We have had to adopt technology to compete. In some areas we have led the technology. A bit of both. Exporting knocks you into shape pretty quickly! We have been forced into it. New Zealand benefits from the fact that we have to compete internationally with technology – NZ gets the flow-on benefits.” (New Zealand)

And a respondent from the US offered the following:

“The one piece of advice that I would say is, use technology. It levels the playing field between a small company and a big company. It levels the playing field across many, many levels. I think it’s the key to our success, so do invest in technology.” (USA)

Rapidly developing technology is changing the way business is being conducted in many markets, providing extensive new market opportunities for small and medium sized firms around the world.

“We used to fix computers out of a shop down in Houston but we shortened the name to RPC, to better reflect the services we offered. We cooperate with others now. China is at the forefront. You have to have sophisticated traceability measures from a legal standpoint, the data, we don’t actually ever have possession or ownership of the data, because it’s all cloud-hosted on servers in Australia that they host on servers in Australia that they access remotely.” (Australia)

Technology innovations in smaller economies are providing competitive advantages to local business:

“They’re obviously very concerned about the security of the data as well. Because they’re all cloud-hosted and the servers sit in the cloud, the data never actually transfers to us now, so we just had screens and terminals, and from a legal standpoint, the data, we don’t actually ever have possession or ownership of the data, because it’s all cloud-hosted on servers in Australia that they access remotely.” (Australia)

Risks in international markets are seen as large drivers for adopting new technologies, particularly in large markets like China. This has created a demand to improve internal firm competencies in risk mitigation technologies:

“Food counterfeiting is a big one [driver for the need to adopt new technology]. Need to have sophisticated traceability measures now. China is at the forefront. You have to jump on board that but it definitely adds a layer of cost. We cooperate with others around the world on that.” (New Zealand)
While technology drives success in trade, technology advantages can also be acquired from international trade and be used to aid success in the target market and in other world markets:

“We are currently developing with the Chinese an oven that works with a smartphone application. We developed the software and the chips are being manufactured in China. If you manage to anticipate, adding technology, you may be able to export it.” (Chile)

Our respondents said technology makes it easier for producers to reach final consumers directly in many markets – a key factor allowing smaller businesses to compete globally. Many firms have shifted sales towards technology platforms and away from traditional channels. For example:

“Depending upon where you’re looking at, mobile technology is really important to look at because it’s going to make it easier for people to order from you, and that includes, “Can you fat-finger? Can you use something like a one-touch to check out?” (USA)

While the increasing use of technology through e-commerce in international trade has created opportunities for SME’s, it has also created new regulatory challenges. These differ between markets as government regulators seek to provide some control and oversight to the new market channels. For example, through the processes required to establish the origin of goods:

“While already utilizing E-commerce at high level (41.2%), textile industry is also seeking more sales channels to enter into foreign markets. Introduction of clear rules and disciplines to utilise E-commerce is the strong request from this industry (52.9%). Facing the difficulty on time consuming process at issuing CO (58.8%).” (Malaysia)

Technology changes, particularly internet technologies, allowed many firms to access international markets at substantially lower costs. The communication benefits of email, VOIP and other internet communication platforms have enhanced the ability to do business and find new global customers. It has lowered costs in developing new markets as firms have sought to pre-validate their market opportunities and potential partners prior to traveling to the target market:

“I don’t meet a lot of our clients, we do not meet until we’re in location. So without the internet that wouldn’t be possible, without social media it wouldn’t be possible. I consider the continuing growth in technology is what’s going to help us to continue to grow, and being able to market through those platforms is very important to the growth of international business.” (USA)

Some of the often-discussed technology innovations coming upon the market were judged with a level of uncertainty and scepticism:

“Yet, the challenge today is how to monetise a blockchain for service providers. So you got provided a blockchain service to you, how do I monetise it? How do I charge you? Otherwise, it can be for free, otherwise, it means your own investment into building that blockchain completely yourself, and maintaining and running it. So I think that the challenge today is that while there are many proof of concepts going on in different industries to adopt blockchain, but I have yet to see one that is.” (Singapore)
Other technological factors were judged to have a negative effect on international trade. Respondents highlighted the changing nature of social media and internet-based platforms as a new impediment to international trade, as the algorithms focused increasingly on niche marketing opportunities. This focus on the narrow was viewed as counter to the needs of SME’s who were looking to expand into international markets. In some cases, firms find that their ability to harness social media marketing is limited, which has a negative growth impact on their international trade results:

“The biggest issue that I see is Facebook constantly changing the game. I do a lot of advertising on Facebook and every month, they change a rule or they change the way we market. So I’d like to see that not change as much, because we’re always on our toes with the new changes.” (USA)

Another respondent provided the following example of how changing technology negatively impacts business:

“I think one of the big things for us is that Facebook and Google have broken up the world into different segments. You can’t reach those people that I initially could reach 10 years ago, so it’s become harder to cut through those barriers that are put through just even through with the technology of what a search engine does, because now my base is the United States, when I had like all of Europe. I had orders from all over the world and I think that’s one of the things that has been limiting as years go on for us, and the idea that it’s getting cut up and then monetised. So we’re having to pay a little bit more in advertising, but that’s one of the things that I just have to learn, and get over and work past.” (USA)

Many firms identified skill shortages as a critical challenge when engaging in international trade:

“Educational system not producing the talent market needs; businesses, however, conduct training to develop talent pool. The K-12 system does not seem to be producing the graduates responsive to industry needs. For the software industry, they need to invest 4 to 5 months of training in hires prior to getting them to work. Construction participant mentioned their company efforts of training children of farmers on carpentry and masonry, whom they deploy to other companies or abroad, to meet the labour demand. Cosmetics participant noted that it has linkages with academe (i.e. what chemicals are now banned, standards) for better output.” (Philippines)

A respondent from Singapore mentioned the level of skill required:

“I’ve got really just empty positions, so I lift a very lean workforce. There are just certain jobs that your locals will not do. And frankly the operations that we do, we don’t have low skilled jobs. They are still skilled jobs, but they’re technical skill sets. And our local poly techniques don’t train them.” (Singapore)
Some respondents reported significant interactions between public and private sector workforces, recognising the value of competencies in the former to support trade:

“The importance of the tuna export market has contributed to an upskilling of the government labour force. The technology innovations noted above requires skilled fisheries observers on board vessels to ensure adequate monitoring, surveillance and data capture. The skills are transferred from commercial activities to those involved in regulating and monitoring catches and other regional economies seeking PNG experts to work in regional waters. As regards the work force in on shore canneries, foreign enterprises usually employ their own predominantly expatriate management teams. Training is provided on a continuous basis for all staff. There is a tendency to test the job market once a certain level of competency is achieved.”

(Papua New Guinea)

In most of the markets where this study was conducted the importance of labour mobility is noted, particularly how it complements international trade. For example:

“We have been managing our production lines with the local workforce. Japanese factories are run almost entirely with Japanese workforce with a small number of foreign interns. Therefore, our foreign factories are managed by Japanese, but the actual factory workers are local people supplied by local manpower supply companies. Our largest operation is in Vietnam with about 200 employees.”

(Japan)

“Relaxation of labour restrictions in Japan has opened new opportunities for Philippine workers (not enough are taking advantage of this). Participants note that it has become easier to access the Philippine market through trade agreements, but doing business in the Philippines remains challenging.”

(Philippines)

Other respondents see the challenge of human resources at home as one of the key factors leading to offshore market investment, including developing skills in the host economy’s workforce:

“Our mission has been to provide the beautiful and healthy lifestyle to our customers in Japan, and we are concentrating our efforts to expand into Vietnam by teaching and introducing local people to the Japanese style cosmetics and techniques. Korea is our strongest competitor with very popular drama series emphasizing their presence in the Vietnamese market.”

(Japan)

“Our productivity or efficiencies haven’t improved, but we are improving our partners over in Malaysia, I can assure you of that.”

(Australia)

The advantages arising from easier movement of people from one market to another are also evident. The transferability of staff across domestic and foreign markets accelerates international trade and foreign direct investment:

“Our foreign factories are managed by Japanese, but the actual factory workers are local people supplied by local manpower supply companies. Our largest operation is in Vietnam with about 200 employees. We have not faced any problems with the issue of acquiring foreign workers within Japan so far.”

(Japan)

Often, overhead tasks are contracted out and relocated offshore, while value-adding jobs are retained at home. Time zones and cultural considerations, as well as wage gaps, influence offshore location choice. Respondents said the value of offshoring declines as the ‘seniority’ (skill level) in the tasks increases. In many cases, savings from offshoring are reinvested at home. While in other cases, the lack of skilled labour is a major inhibitor of international trade, as seen in New Zealand:

“The biggest driver [in setting up our export business] was the [low value] dollar and access to raw material. And labour wasn’t too badly priced. These days it’s hard to find labour! We have been looking for people for ages. Our production is slow because we can’t find enough production workers. Or they’re not reliable (failure rate is about 30%).”

(USA)

An Australian respondent enjoyed advantages by developing a back office support centre in the Philippines to undertake bulk processing work. Although this does not replace existing activities at home, it allows the firm to focus on higher value adding services and sales in the home market:

“Manila is more back office, sales support, accounting. It’s not direct customer discussion, so if someone rings into [our company] here, we actually have a call centre at Norwood, which is staffed regularly by approximately 20 ... generally uni students and people who are looking for part time jobs, and they take the calls for our domestic area. That’s what we do there, but Manila then takes off of that a lot of the back office, sales support work for [our] systems, for accounting and things like that.”

(Australia)

While value-adding roles may not be offshored, employing senior staff takes place in a global market:

“Think for a lot of our clients, the ability to communicate well with their staff, as you might expect, is really important, and a lot of the roles that we’re filling are not really high end roles. I think as you get more senior in the role, the difference in price decreases. So once you become CFO level, your skills are transferable globally, and all of a sudden the wage you command is a global wage.”

(Australia)
One firm is directly engaged in providing offshore professional service delivery for other firms around the world. They developed the service in response to increasing client needs, which in most cases has allowed clients to reinvest in its primary business:

“I could name a half a dozen of my clients that I deal with directly that wouldn’t be in business still without the efficiency that’s provided by the lower cost back office. I would say in the vast majority of cases, those savings are then re-invested in other areas of their businesses. Probably in a lot of the cases, it’s more front-of-house people, more sales people, or a lot of the time more kind of inventory and stock levels and those sorts of things. So, I guess rather than driving productivity and efficiency, I would say that we were more of a provider of that. If you’re saving $300K on your salary bill every year in people that are chasing up your invoices and doing all that back of house stuff that doesn’t really add any value, you can then spend that money going and hiring people where they do add that value. Go and hire three more reps on the road to go out and generate business.” (Australia)

Offshoring services opportunities in international trade are positively impacting small and medium sized firms to compete globally. But the scope to employ this strategy is limited by education and language in potential host countries. Appropriate skill levels among offshore staff are required to complete tasks at high productivity levels to drive a competitive advantage for the originating business. High levels of language proficiency are also needed for communication between home and host country employees. But it is difficult to develop offshoring centres in some countries where there is a unique language:

“These offshoring examples highlight the fact that successful exporters are often also importers. Other firms responded to people-related challenges with different strategies. In Chile, digital technologies have improved productivity and price competitiveness in international markets:

“Another important factor is digitalization (making things with fewer people), which is a very important trend in mining. Today, a mine can be operated 1,500 km away. Specialised labour in mining will be less on-site and more IT, robotisation, digitisation-intensive, etc).” (Chile)

“In the case of mining, the externalization of services is taking place. It is a trend that is clearly growing in our company. Half of the people in the corporate office have just left. We had 700 employees in Chile and today we are less than 100. We no longer have an IT division or a HR nor an engineering. In some cases, former employees have been invited to remain providing services to the company, as in the case of the 6 lawyers in the former legal area, where there is only one left who manages their contracts. In general, this has had a positive impact on results and productivity.” (Chile)

In some markets, immigration is a strong enabler of international trade, however respondents also identified some challenges of using this labour source. Local regulations are a perceived inhibitor to firms using and harnessing skilled migrants in their business:

“Immigration is part of the answer [to skills shortage] but we don’t necessarily recognise their qualifications. That’s a real problem. We had a French engineer [who] took 18 months to get his engineering qualification recognised. It’s the same for tradesmen. Qualified people aren’t on the list of needed skills and they can’t get their qualifications recognised.” (New Zealand)
EXTERNAL INFLUENCES
EXTERNAL INFLUENCES

COMPLIANCE

Respondents identified a variety of ways in which compliance matters affect their business. Compliance in this study relates to three elements: applying Free Trade Agreements; imposing non-tariff measures and other regulations, which were inhibiting international trade; and compliance through bureaucratic and regulatory systems. These issues also provide incentive to firms to innovate their international trade processes.

Free Trade Agreements (FTAs)

Bilateral and multilateral FTAs have been developed throughout the APEC region, and all economies in this study have access to some. These FTAs provide increasing opportunities for trade and open up new markets previously not available:

“The market changed rapidly in the last 10 years and the Asia Pacific region is now clearly our main market. The trade agreements that the government has promoted and signed have been the catalyst for this. China is our number 1 market today and 10 years ago it ranked 24. The year the free trade agreement with them was implemented, in 2005, was the moment the market began to grow exponentially.” (Chile)

“First, the size of the market: Chile is a very small market. Second, FTAs (for example, thanks to the FTA with Korea our nuts are 30% cheaper in Korea than those from the US). These treaties gave Chile a competitive advantage.” (Chile)

Some respondents highlighted the inevitable competition effect of FTAs, increasing the number of competing firms in an international market, which sometimes negatively impacts their business:

“Asean free trade agreement helps me. Asean Japan free trade agreement help me. China Asean free trade agreement was against me because they go in China, export to all the same countries and compete with me.” (Singapore)

Another exporter lost competitiveness in South Asia:

“I’ve lost some markets because of the tariffs. I used to be able to sell to specific economies, like Sri Lanka, for example. If I can sell to Sri Lanka, means I’m competitive. It just means that right now, they hiked the tariffs up further, and even the reason free FDA really doesn’t help me because packaging is not [up to standard]. I was a market leader there before, and now I got zero market share, not only because of the reality, but because they have a South Asian free-trade agreement, which means products from India goes in.” (Singapore)

Others said an FTA had opened the home market to international competition, but did not necessarily allow them to enter international trade:

“But while trade agreements and economic partnerships have helped the Philippines, concerns on whether the Philippine businesses can compete still prevail. Garments industry has benefited from GSP+, Cosmetics participant notes that it has become easier for foreign products to enter Philippine market, but the same is not the case for local products to go abroad.” (Philippines)

One of the common themes emerging from this study is the difficulty FTAs can cause through compliance. Firms identified substantial challenges in adhering to the rules of the agreements, which in some cases meant forfeiting the FTA advantages. This is a particular challenge for small and medium sized firms:

“Insufficient benefit on tariff reduction has been found as the biggest reason for giving up the FTA usage.” (Malaysia)

“We’re not far from the Mexican border and it costs us more money to ship something to Mexico, than it would for us to ship something in England, just to give you a comparison. So the NAFTA, I’m not sure where it’s going with NAFTA but there is something wrong from there. We do have Mexican customers, they come, they buy from us and by the time they cross it across the border, the cost for them is just extremely outrageous.” (USA)

Many firms identified a range of compliance issues, such as adhering to Rules of Origin, Phytosanitary, Food and Health safety and other conditions, reducing the usability of FTAs in their region. Those who had experienced such challenges in particular markets were frustrated:

“Difficulties on searching appropriate information sources for FTA application, understanding rules of FTAs including ROO, were found as the biggest bottlenecks both for LEs and SMEs, together with implementation stage issue namely time consuming process at COO issuing procedure, time consuming process at comparing candidate FTAs.” (Malaysia)

“It is necessary that trade negotiations and phytosanitary negotiations are conducted together, that they do not isolate us because, when negotiating individually, negotiating power weakens. Regrettably, the Chilean government has not been able to break the barriers to negotiate both things at the same time. It is especially difficult to negotiate phytosanitary aspects with countries like Vietnam, Malaysia, Indonesia.” (Chile)

“The problem is actually Mexican customs themselves. The way they treat computers and electronics, they don’t distinguish between new, used. They just see computer electronics, and that’s the fee that they charge on that product. From what I understand, it could be as high as 40% so you can do the numbers real quick where 40% tax of import fee on any item can really raise the value of that item.” (USA)

In one startling example, access to FTA conditions was lost due to an incidental transshipment, which changed the assessment of the origin of the product from the point of view of the importing economy:

“Got caught out with China FTA - if product is transhipped, lose FTA advantages. We have had some bad experiences with losing shipment, lost US$30,000 on one shipment even though the airfreighted product only touched down, never left the plane. If you’re Fanterra doing it every day, that’s one thing, but it’s really hard if you only do it occasionally.” (New Zealand)
Non-Tariff Measures

Various compliance issues emerged in all focus groups, but non-tariff measures were the major impediment. Respondents discussed ways in which regulations affect exports. Examples range from regulation related to data storage, rules on where that can occur, through to regulation around the transfer of currency (payment) becoming more onerous:

“A lot of small businesses don’t think that way, and so dealing with a lot of the regulatory compliance is a big challenge for them.” (USA)

And compliance paperwork is the same for small and large transactions:

“Regulations are the biggest challenge. All the regulations in different markets can be very different, even as between Australia and New Zealand. Working your way through that regulatory minefield is very difficult.” (Chile)

Food and health safety and biosecurity measures add costs to products and can be a barrier to entry to new markets. However, these barriers, when met, could also provide a competitive advantage compared to rival firms from the home market who were not meeting the same standards:

“I wanted to take part in the international ice cream competition this February. Then, they say because my ice cream is manufactured in Singapore doesn’t follow the UK food regulations, so I can’t take part. I said, “Okay, fine.” Next year, I hired UK producer for me so I can take part in the competition there because you have to take part in international competition, you know, for your ice cream to have the international visibility.” (Singapore)

“My quality standards right now, I got a BRC, which is actually higher than the FS 22000, and that’s a quality standard only three licenses out of Singapore, to which I held my company. That’s benchmark gains higher in Europe and if you want to sell supermarket chains, you must have that. That normally benchmarks you, in terms of quality standards. It keeps you on your toes, in terms of quality and cost.” (Singapore)

Firms are often prevented from exporting a product to a market due to biosecurity measures:

“Today, we have to work more on the subject of trade facilitation and address other issues that become barriers to trade. In the case of phytosanitary barriers, it becomes more relevant an agreement with the Chile’s Agricultural and Livestock Service (SAG) rather than signing a new FTA. These are not trade facilitation agreements.” (Chile)

These situations are frustrating to many firms, so some respond by developing innovative solutions to overcome these non-tariff measures (NTMs) by transhipment and value adding in third markets to meet rules of origin:

“We have started looking at importing into Mongolia and then send through to China. [because Mongolia has access rights to China for the product] You have to be very careful. They are saying [the product category from NZ] will open within the next two years – but we’ve heard that for the last ten years. Maybe there’s a conflict of interest with a local beef jerky plant. I don’t know. We didn’t know for a long time that we were in a different category to “beef”. Maybe they just invented that category…I don’t know.” (New Zealand)

The following examples occurred across New Zealand firms regarding the challenges of gaining access to new markets due to product classification:

“Regulations are a big problem – especially for entry into China. We can’t get into China but it’s the second biggest market for jerky after the US. All local product in China. We have been working with Ministry of Primary Industries (MPI) to try to get access…..They allow frozen beef and recently allowed chilled beef. They say “further processed” is the next cab off the rank but we’ll see. We have been working on it for ten years or more.” (New Zealand)

“Companies [have been] trying to export NZ water to China – [there are] only two categories, tap water or mineral water. But the New Zealand product was artesian water, so didn’t qualify as “mineral”. For two or three years it was going in okay, it was just being ignored that it didn’t fit the standard. But then someone noticed – and there was no artesian water standard. Not having like-for-like.” (New Zealand)

In an education industry context, trade growth feeds back into standard setting and aligning standards between home and host markets. Respondents provided examples of how engaging in international trade is diversifying products and services. These firms are expanding the scope of services through international trade and bringing these new products and services to the home market:

“We’re very carefully controlled, in terms of quality, but TEQSA, Tertiary Education Quality Association, which through its ESOS Act, the education services compliance, ensures that whether we deliver a programme to domestic students or international students, everyone’s getting the same standard, and in fact, if we’re delivering offshore, making sure that those standards are upheld. So, if we go into a partnership with another organisation to deliver education in a third market or in the market of the partnership, then we have to indicate to TEQSA what the systems are that we’ve put in place, and all of the quality control and everything, to ensure that the students are having an equal.” (Australia)

Another education provider in Australia enhanced its local operations due to the compliance requirements of operating in an international market:

“Because ASQA, our regulatory authority, requires us to … we’re allowed to now issue qualifications overseas. So, those files that will be reviewed exactly the same as the qualifications we issue here, and the files will be … So, we have to be compliant, which means that lifts them to a level of compliance that we have to go over and monitor, as well. So, they were all lifted up to Australian standards and that’s what they initially liked about working with us.” (Australia)

5 BRC refers to the British Retail Council which has developed a Global Food Standard. FS 22000 refers to another standards system developed by the Foundation for Food Safety Certification. These standards are compared in a report available at https://www.sgs.com/~/media/Global/Documents/Whitepapers/sgs-global-food-safety-initiative-whitepaper-en-11.aspx
Many firms are also affected by standards other than those set by public authorities. For example, the need for halal certification, demanded by many markets with predominantly Muslim populations, and which is a related food safety standard. Halal standards are not always consistent, so standards accepted for one market may not apply in another:

“We do get impacted around lack of reciprocal recognition for halal certification e.g. Indonesia. We have all the NZ certification but not necessarily reciprocated in other markets so it’s a hassle and cost to get them to come to certify. A huge market that’s untapped in Indonesia. We can’t export without the halal sign-off. Even if a customer wants to buy non-halal, we still can’t export it. Almost all NZ meat is halal. But it’s about the certification and inspection. Malaysia says that we don’t bleed out our animals for long enough. Indonesia says they need to inspect every run but that costs too much.” (New Zealand)

Meeting the expectations of regulatory processes, at least in the context of bilateral agreements, can provide advantages. In Papua New Guinea, the tuna fishing industry has materially benefited from fisheries’ agreements between the PNG Governments and the EU. This had resulted in growth in the domestic industry within PNG and additionally security in the export market in the EU.

“Early in the development of the tuna sector, fishing licenses were issued to Bilateral Access vessel; fish and take the catch with no landing requirements. To increase employment and to value add by local processing and packaging and to develop export markets, the government encouraged the establishment of a local tuna processing sector. Incentives were built into the state agreements and this included “x” number of fishing licenses attached to processing plants and discounted fishing in PNG waters. As an example of one tuna group, around 30% of tuna of the volume of processed tuna is consumed in the domestic market and 70% exported – mainly to the European Union, but also to other destinations. Exports include frozen tuna in its natural state, canned quality tuna and “loins” which are prime pieces of tuna, frozen and packed in boxes and sent mainly to the EU. Government policy in encouraging domestic processing for the export market has resulted in a competitive tuna sector. However, competitiveness in the region is adversely impacted by a number of factors including uncertain utility supplies and high logistical costs in PNG. A significant feature of the tuna industry is that major exports are to the European Community under a fisheries agreement (the Interim Economic Partnership Agreement, IEPA). Other potential markets include Russia and the US. It is estimated that a marginal decrease in US duty would enable PNG competitive access to the US.” (Papua New Guinea)

**Regulation Process**

Managing the regulatory process was an emerging theme surrounding compliance, with most examples relating to customs procedures.

In general, there was a strong perception that tariffs and regulatory issues are part of the process of engaging in international trade, but that the compliance processes are cumbersome:

“There are two challenges definitely that we face globally. The first one is definitely the import, export part of it, the tariffs the duties, the import fees that when a buy?? buys from a different economy, that’s what they have to deal with and we have to deal with as well. Depending on the product that they’re buying, they’ve got to pay duties and taxes on those products. It can be quite cumbersome depending on the market that you’re shipping to. That becomes a little bit of a headache and we do have to rely on our partners when it comes to that part.” (USA)
Respondents identified timeline challenges for customs procedures in international markets. Many exporters experience substantial customs delays for seemingly no reason. This affects the firm’s ability to provide goods to international customers within a reasonable timeframe:

“They shipped a computer to a customer in Saudi Arabia about a year ago, and they’re still trying to return it. So it’s out in the Middle East somewhere, so it’s been out there for about a year. A lot of it was Saudi Arabia, their customs and duties which was an issue. So it wasn’t really an issue on our part but it can be a nightmare if you will, but I’ll tell you this, in the international market particularly with used computers and electronics, their warranties for example they’re a lot more accepting of material particularly if it is defective.” (USA)

Respondents discussed how process improvements could arise by developing single window procedures, enabling easier movement of goods through customs channels. However, firms are uncertain whether achieving a smooth single window customs clearance system is possible.

“The single window actually enhancing the power of the person who manages it. So, previously, there had been a lot of people who had their fingers on the process. You put them all in one place, the person who manages that place becomes the kingmaker...” (Singapore)

Managing compliance with the system or process is time consuming and bureaucratic, however even in cases where paperwork is completed customs clearance can be rejected due to comparatively minor errors:

“Conceptually, it [single window] works perfectly. And the system is so beautiful, ... But at the end of the day, it is a man who makes it work. And a man who interprets. And every rule is meant to be broken. How he interprets it is, when you say it is a comma, no I think it is a dot. And it is supposed to be a semi-colon. But it is for the men to interpret... We know after a while which economies customs can be really picky about certain things. And it’s across the globe.” (Singapore)

One respondent provided an interesting perspective on moving to a single window model. While doing so is expected to reduce the compliance costs, this change also places customs decision-making in fewer hands. The respondent’s experience in this circumstance was not positive, observing that:

“Single-window thing – not resolved in my lifetime.” (Singapore)

Respondents said many tariff and regulatory requirements could be better managed by upgrading FTAs, and their implementation. The Malaysian focus group noting particular trade-related constraints facing the electrical and electronic industry:

“Insufficient tariff reduction benefits from existing FTAs and not to be able to fulfil RVC based on current partial accumulation rule. On investment element, E&E industry had more experience to be requested to follow specific Performance Requirements and domestic regulations which are inconsistent with ratified treaties.” (Malaysia)

MARKETS

Market factors have both pull and push effects on companies engaging in international trade.

Push Forces

Pressure within domestic markets drives participation in international trade. For example, the need to innovate in response to competition is a critical success factor for many firms. They learn from that experience in the home market and then take their domestic innovations, including new business models, into international markets, later deciding to innovate further. An Australian respondent from the service sector observing the consequence of this process:

“There’s a really interesting culture of perhaps sometimes the most effective innovators are not always the institutions which would traditionally be seen as perhaps the highest standing institutions. Because quite often those who are not operating at that level are finding the competition much more extreme, and therefore they’re having to innovate even more.” (Australia)
Another prompt to look to international markets might be a domestic crisis:

“The business originally was purely domestic, serving a couple companies. The crisis pushed him [the owner]. Going international became a consequence of another strategy decision that was when he decided he was going to pursue higher – people do computers, people who build mobile phones, the tablets. When he made the decision he wanted to do that, those customers of ours in the portfolio when they come to Singapore, whether to use the distribution centre or to do, as an example, manufacturing here, they were thinking about the region. So they started off that way and through the negotiation and sales process, it became that we need a regional network to support the business for us to win the business.” (Singapore)

In some cases, inbound foreign investment is the push factor, providing a competitive advantage for local firms supplying unique products in international trade. This situation was reported as a success factor by a number of respondents, for example:

“(The) strategy (of foreign investors) is to ensure supplies, and in this sense, Chile can provide some stability, not so much in quantity, but in quality.” (Chile)

A New Zealand firm was acquired by a US firm and subsequently experienced substantial international growth that may not have been possible without the FDI:

“We are owned by [an] USA [based parent company].... they bought us out in 2008. Quite a number of opportunities to set up in other markets (e.g. in China, Africa etc.) – in joint ventures, where there are problems with access. [Our NZ subsidiary company] looks after the rest of the world outside of the US. They have bought a number of companies in South America (but just manufacture bulk jerky at low cost – packed in the US). For markets like China, in many ways our advantage for a food product is the “made in New Zealand”. We have the capacity to make it here. Shipping cost is not a huge factor for our product. Better to add the value here. Could make it more cheaply in China but consumer perceptions are key even if we used NZ meat to do it, it wouldn’t be the same. Food is something where they trust “NZ” food and distrust “Chinese” food.” (New Zealand)

In Chile there was a similar experience in the value of FDI expanding international trade:

“In the case of the wine industry, for years foreign companies have been coming to partner with local producers. Miguel Torres started investing here. In the case of Asian investors, their strategy is to ensure supplies, and in this sense, Chile can provide some stability, not so much in quantity, but in quality. In the case of China, where investors may not own land, it becomes a great incentive to buy it here to ensure some stability.” (Chile)

Respondents observed value in benchmarking performance in domestic and international markets. Firms became aware of future international trade opportunities, and identified international competitors who could, in future, present domestic market threats:

“You have to because you just have to keep benchmarking yourself and you benchmark across the globe because you sell across the globe. [In] different markets, you know roughly what the benchmarks are. It’s not just about cost, it’s also about products, new products, new innovations, comparative, because if you export, you are always challenged with new demands internationally.” (Singapore)

While noting the positive attributes developed in the domestic market, which drive performance and then engagement in international trade, respondents expressed concerns about some constraints in executing the international strategy. One of these was an increasing protectionist mentality, but respondents also wondered if that view provided cover for other more business-oriented motivations for importer customers to ‘go local’:

“For me, my issues have been also in terms of the fact that protectionist mentality is increasing right now. A lot of them right now use...distance and lead time as a reason and they want local suppliers to be the main source. You can actually not necessary be not much more expensive, but they just want it local. Sometimes it’s also a matter of them having the ease of the fact that the volatilities of the market prevents them from having too long a planning stage, or the fact that they just don’t want to plan. So they just want to have the ease of, “Okay, I pick up the phone. I want it at my door tomorrow.” And that makes their life at work easier. So, it’s a function of the protectionist mentality and, at the same time, the easier work culture.” (Singapore)

Pull Forces

Respondents perceive international trade as essential to business growth. They develop new international markets to build economies of scale, and drive productivity. Firms are looking to international markets to build total sales and gain productive scale in their home market. They may also seek to address a declining domestic market scale or share due to other environmental factors. An example of this pull factor of international trade is succinctly expressed in the Japanese focus group:

“The Japanese market is relatively limited with a shrinking and aging population, so without a global market, our company could not have grown as much as we have achieved so far.” (Japan)

Chile provided another example:

“Chile has certain conditions that spontaneously lead to the decision to export, such as products of high quality (not only wines but fruits and, also food) and a very small domestic market. It would be unthinkable to have an industry of this size if it wasn’t for the exports. Three quarters of these products are exported and a quarter is sold in Chile. But if we speak about the fine product, the one that builds brands, we are talking about 90% exports.” (Chile)

Firms identified opportunities in China as a driver of international trade. Exporting to China provided substantial benefits in developing the volume of production and gaining economies of scale. But one respondent said that access to the China market is not without risk:

“The opportunities in China are just so much more significant than they are in other more emerging markets, so we’ve got to balance that idea of diversification with the need to generate volume.” (Australia)
Market opportunities could be due to cultural differences in distant international markets. In China, for example, there is a demand for chicken feet, which is viewed as a waste product in other markets. Consequently, the Chinese market has pulled firms into international trade and increased productivity:

“The ‘80s crisis left us with idle capacity. We started exporting to Japan and after that we found that (chicken) breast had a better price overseas so we started exporting to Hong Kong and other [economies], especially China. When we found that China was the only [economy] in the world that would demand claws we exported everything we could to China.” (Chile)

Product innovation to develop new markets by understanding key cultural factors was also identified by respondents. This example from New Zealand demonstrates that innovating for key international markets could provide large niche opportunities:

“Our biggest success is recent – a new bar that is being sold through Walmart. Traditionally it was beef jerky that was consumed in the US – but now bars are working really well. Only a couple of months ago we started shipping, now producing 24/7. Protein bar format (but it’s meat) – soft-style re-formed beef jerky. Hitting another part of the market (consumers of protein bar). Going like wildfire. [We] brought in a new guy in the US who did research and said bars were the way to go – he asked us to develop something (we have been doing bars for a while). The US is the most mature jerky market in the world. A bar is not as old-fashioned and a bit more convenient.” (New Zealand)

Providing cheaper goods is a fundamental factor driving trade flows. But careful consideration of pricing strategy is critical for success. Some markets look for cheaper product prices, while others are prepared to pay premium prices for products perceived to be of high quality:

“Why does a consumer want to buy overseas? Cost. They want cheaper goods. However, if you’re trying to sell to China, people in China who want to buy from America don’t care about price. They want authenticity, they want quality, and that’s where it gets really confusing for a small business because they are looking at all the markets that they want to go into and they say, “Do I have a good price offering,” or, “Is it shipping time? How transparent can I be on my website?” (USA)

In Australia using international trade to grow the firm, in that case in the services sector, is noted. Firms engaged in education delivery depend on international trade to build scale within domestic facilities.

“International students allow us to grow in a way that we couldn’t possibly grow. The international students are not taking domestic students’ places in any sense. The international students allow institutions to grow in ways that they couldn’t possibly have imagined before. I mean, the domestic pool particularly in South Australia is relatively capped, and it’s sitting pretty flat at the moment, and will be, apart from a short demographic spike that’s coming fairly soon. The numbers are not changing very rapidly. So, taking advantage of an international export market allows you to give out and expand, and the sky’s the limit, really.” (Australia)

A number of respondents talked about the association of trade with technology transfer and with investment in offshore markets, in the context of complex and networked production systems:

“20% of our product is sold domestically and 80% in the global market. We have an assembly plant in Vietnam with limited local procurement due to technical difficulties. Key components are still produced in industrially more advanced economies such as Japan and Chinese Taipei.” (Japan)

Technology transfer to host countries to facilitate international trade growth and provide benefits to both the host and home markets is shown through the following example:

“Steel was the main imported material in the past, but we now procure all the raw material and components from both domestic and foreign suppliers who can best serve our needs. The procurement process is carried out by both global procurement department and local factory depending on various circumstances. We are mindful of proprietary nature of our product lines, but at the same time, we feel it important to transfer technologies to the host economy so that both can prosper.” (Japan)

Firms benefit from long-term investment strategies to access international markets but they can start slowly. SMEs often have difficulties finding the right partner for investment and many firms identified government agency support to facilitate these relationships. International business has caused them to think more about how they do their business and how they communicate and change it:

“We very quickly saturated the New Zealand market (Auckland, Wellington, Christchurch – then all done!). So needed to look offshore for markets. We couldn’t break into Asia. I was going to Malaysia for six years before I got a contract. We just weren’t known for industrial products. After we had done some work in North America, were able to show our credentials. Then China, Japan and a few other markets.” (New Zealand)

A similar experience was found in Chile:

“18 years ago, we started exporting kitchen equipment to Europe. Then we started designing products in Italy for the Chilean market to finally start producing in China, which is much cheaper. Today we import 50 40-foot containers per month from China with our own brand. We bring directly to Chile and Peru and export to the US, Argentina, Paraguay and Mexico.” (Chile)

Respondents said existing customers could pull them offshore by creating new opportunities. In New Zealand, customers were seeking to operate in a lean and highly productive environment and were willing to contract out services. This created a potential export opportunity for those willing to provide the services, either stand-alone or bundled with a product:

“[Customers] want service contracts but we don’t really have the people to do it. E.g. only two in the US. That’s why we have detailed service manuals. People don’t want to pay for it separately – they expect it as part of the package. We don’t really buy in services – actually we’ve been bringing them in-house over the last 12 months because we haven’t got what we wanted from external service providers. I think a lot of others have had the same experience.” (New Zealand)
AN INTEGRATED FRAMEWORK
The dynamic interactions of the four firm-level factors informing trade participation decisions and the two core external factors driving international trade success are summarised in a framework, which is illustrated below then explained more fully underneath.

While our report’s focus is on trade participation, our respondents indicate that their trading activities sit generally within a complex portfolio of investment flows (in and out of their businesses), people movements and data flows. We therefore use ‘trade’ as a shorthand for this package of activities.

We could start at any point within the system of interactions. For simplicity, the catalyst is an organisational decision to engage internationally, so we start in the middle row of Figure 1 on the left hand side.

As a result of this decision to engage in trade, a firm may identify that it requires further capabilities, so it invests in developing these (see Firm Capabilities, listed in the first box). This might involve, for example, developing a new technology strategy, working with financial service providers on new payment systems, building people skills in the business or tracking down information on international markets.

Participating in trade also involves compliance. Compliance elements are listed in the middle box, which also interact with, and feed back to, Firm Capabilities in the first box. For example, some of the enhancements (e.g. improvements to information and technology capabilities) in the first box are a direct result of ensuring compliance to FTAs and NTMs, or ensuring a more effective process in adhering to regulation (shown in the link from Firm Capabilities to Compliance).

Building capabilities is associated with improving the business (the left hand downward arrow) reinforcing the decision to participate in trade (the left hand upward arrow).

Market push forces and pull forces are critical to trade participation decisions. These are presented in the right hand box (Market Factors). A competitive domestic market might see the investment in new methods of finance, or new technology, giving the organisation a competitive advantage in the domestic market and also pushing the firm offshore (the right hand upward arrow). Similarly, developing international markets builds economies of scale and leads to investment in new firm capabilities that, together with new business models, builds capabilities (the right hand downward arrow).

Working from right to left, push and pull market forces also influence national policy and regulation (i.e. compliance), which triggers business decisions about which capabilities to invest in and, ultimately, effects decisions related to trade.

Participating in trade (the top level box) is driven by, and is a driver of, firm capabilities, including via its market pull effects. Business improvement (the bottom level box) is driven by participation in trade, including by meeting the issues of compliance, but also in building the capability to do business offshore.
CONCLUDING REMARKS
Participation in trade offers a number of benefits to the firms involved. There are immediate benefits in terms of the gains from competitiveness in offshore markets, reflected in price differences between home and offshore markets, for instance, or from access to markets offshore that do not exist at home. There are also long-term impacts – the positive effects of trade participation on productivity and the links, through various channels, of trade and innovation.

While more productive firms are more likely to engage in trade in the first place, trade offers advantages (of scale and ideas about new ways of doing business) that add to productivity. Trade also offers opportunities for exporters to become importers (of services that are offshore or intermediate products in value chains) further adding to their productivity.

Innovation both supports trade participation and the experience of trade drives innovation. There is a virtuous circle between the two. Competition at home and the experience of world markets are drivers of innovation. Another important theme is the effort via innovation to escape the impediments associated with applying policy in international markets. Much of the innovation discussed related to information technology and data sharing among networked enterprises involved in trade. Successful exporters have an explicit technology strategy. Many firms approach participation in trade via a bundle of activities that continue to evolve. Their strategy may involve providing goods and services alongside the movement of people, transferring technology and investment flows, either inbound to their business or offshore into their target markets. Many respondents stressed the role of in-bound foreign investment as a push factor in trade. Others noted their own use of offshore investment to support their trade strategy. The value of options for people movement, even in a digital age, was a talking point. Different firms in various sectors apply different combinations of these modes of activity. Their customer offering also evolves over time, with various combinations of products and services.

One of the main motivations for this project was to identify the drivers of inclusiveness in trade, in particular, the participation of smaller firms. The material here points to forces in different directions. Matters of compliance weigh more heavily on smaller firms and limit their participation in trade. At the same time, new technologies are providing firms of that type with new opportunities and channels for engaging in trade. Most respondents were very positive about the latter, though noting an emerging set of regulatory issues are associated with storing and using data, which underpin these technologies.

With respect to priorities for policy and for designing trade agreements, respondents focus on policy implementation. Areas of main interest are customs procedures, managing regulation (in relation to data, food safety and currency payments, for example), visa and immigration systems, and meeting the conditions for access to the terms of FTAs. Their concerns include the time taken and the uncertainty involved. Respondents recognise that tariffs, regulatory differences and rules on people movement or FDI are all part of the international trading environment. Narrowing those taxes or gaps in regimes is an advantage, but their immediate focus is often the manner in which policy is applied.

Success in trade also depends on the competitiveness of the local services sector. The relationship between success in trade and the efficient provision of services, like transport and logistics, is a familiar point. Of interest is the extent of reference among our respondents to the contribution of financial services to export success, in providing trade finance and a bundle of other value-adding contributions. Constraints associated with access to skilled staff was a regular talking point, and some respondents linked the situation they faced to providing education services in their home economy. All of these sectors (transport, finance, education) are areas worth considering in roadmaps for reforming services policy across the APEC membership.

Another policy implication refers to data management. Comments were regularly received about the increasing value of data, and data sharing, in managing international trade. Respondents are designing technology strategies to meet trading partners’ expectations. But there was a concern that regulation of data management and storage would impede the application of strategy in this area. Using new information technology is also the main positive force towards greater participation in trade by smaller enterprises, so a critical element in the inclusiveness agenda.
Finally, respondents’ information points to a critical issue in policy reform strategy. The latter tends to take place in specific fields (or ‘verticals’) such as tariffs, NTMs, regulation or investment rules. This is done to capture the benefits of dealing with a tightly-related set of issues in policy reform and specifying international commitments. Business operates with a portfolio of activities (in a ‘horizontal’ manner), bringing together flows of goods, services, people, capital and data to implement their international strategies. It seems that business could respond to the presentation of a particular series or bundle of vertical initiatives, just as they adapt to compliance issues.

Trade agreements also generally cover a range of these vertical issues at one time, the choice of the elements including a number of factors. But the path to success, the impacts of trade participation and building the business sector constituency for trade will be shorter, greater and quicker, respectively, with the right sequence and bundle of vertical measures. The ‘right answer’ will also most likely continue to evolve as technology changes and business models evolve. Consideration of this issue is a topic for further work and one in which business sector input will be critical.
APPENDIX: RESEARCH METHOD
RESEARCH APPROACH

We used an inductive approach (Eisenhardt 1989; Glaser and Strauss 1967) to investigate organisational decision-making with respect to export and import strategies within the firm. We apply what is called the Gioia methodology (Gioia et al. 2013), where concepts are developed from actual experiences (e.g., through focus groups and interviews). Constructs or theories are not imposed on informants as an a priori explanation for their experience. This ensures that the concepts captured reflect the experiences of the individuals in terms that are meaningful for the respondents and the approach leads to, and supports, scientific theorizing about those experiences (Gioia et al. 2013).

DATA COLLECTION

Our exploratory, qualitative study involved examining transcripts from discussion forums, focus groups, and interviews and systematically reviewing written reports and documents. Respondents were all directly involved in import and/or export trade decisions for their respective organisations for their own purposes (i.e., trading companies were not included) and a wide range of business sectors, and organisations of various sizes were represented. Focus groups were conducted in Australia, Chile, Japan, New Zealand, Papua New Guinea, Philippines, and Singapore with between two and 10 people in each group. Further, transcripts from two panel forums, with eight panellists and five interview extracts in the United States were also considered. Documented reports from Malaysia and Australia, constituting over 80 pages were also considered in the analysis. Some informants agreed to participate only if their contributions were confidential, so all informants were made anonymous.

Consistent with the recommendations of Gioia et al. (2013), focus groups were used to gain the perspective of the experiences of organisational decision-making. A number of concepts or themes were then identified, but for each of the identified concepts, the data analysis revealed corroborating evidence from other sources. A protocol for the interviews was developed and the focus groups were conducted in a structured manner. All respondents were asked to explain the decision-making process related to import and export decisions within the organisation, the factors that influence their decision, their ways of engaging in exporting and importing, and their future intentions. Avenues of exploration and consideration were also discussed around these key topic areas.

DATA ANALYSIS

The data collected was subjected to thematic analysis to identify and examine the themes emerging from the data. Documents and transcriptions of the focus groups were imported and managed electronically within NVivo software. The focus group transcripts were reviewed to become familiar with the data and determine distinct and shared patterns among various respondents. The focus group transcripts were coded to identify different factors influencing import and export trade decisions, and their relative influence as recounted by our informants (Glaser and Strauss 1967). Similar codes were collated into first-order categories, and iterative comparisons between the newly-analysed transcripts and the previously-coded data were considered to develop a codebook that could be used to code all the interviews (Strauss and Corbin 1998; Gioia et al., 2013).

APPENDIX: RESEARCH METHOD

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Examples of sectors included are Higher Education, TVET Education, Accounting Services, Logistics Services, Banking and Finance, Travel Services, Computer Manufacturing (and some services), Food Manufacturing and Agricultural Product Trading, Aquaculture, Wine Production, Jewellery Manufacturing, Electrical and Electronic Manufacturing, Cosmetics and Mining and Mineral Trading.
We systematically examined the first-order categories to uncover relationships between and among categories, then organised them into second-order themes. While first-order categories emerge from informant observations, second-order themes arose from explicit consideration of existing theory to determine whether the emerging themes suggest concepts that describe and explain the observed phenomenon. This process is similar to ‘axial coding’ (Strauss and Corbin 1998) and provides a qualitatively rigorous demonstration of the links between the data and the induction of the identified concepts (Gioia et al. 2013).

Two authors developed the codebook in consultation with each other. When interpretations of informant terms differed, the data was revisited, the authors engaged in discussions, and arrived at a consensus. Finally, to test our reconstruction of what we observed and assess whether the conclusions reached were plausible, we presented our findings and copies of a report to leading international trade policy advisers to verify the accuracy of our interpretation and representation of factors influencing export and import trade decisions.

LITERATURE REVIEW

This work was conducted alongside a review of relevant research literature, which is based on data for APEC economies, referring to the experience of individual firms and their participation in trade. The data can assist in responding to questions about the characteristics of firms who participate in international commerce (both exporting and importing) and those who do not. The association of participating in international commerce with other factors, such as the demand for skilled and unskilled labour, connections with productivity growth and willingness to innovate can also be extracted from the data and research available. A companion paper to this report reviews this research literature (Simangunsong and others, 2019).

REFERENCES


