

# FOREIGN ECONOMIC ACTIVITIES OF SMALL BUSINESSES IN GLOBALIZING WORLD ECONOMY

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## Abstract

Currently, international economic relations are under severe transformations related to new economic challenges of the XXI century. Critical role is played by the processes of globalization and the formation of post-industrial society. The technical base of production is rapidly improving. The optimization of branch and territorial structures of national economies are in the process. Among these changes are happening and the process of intensive development of small business: expanding its sphere of operation and a range of functions performed by them. Small business is a sector of the economy, which alone or in conjunction with large firms and state-owned organizations participates directly in shaping and promoting positive social and economic processes, largely determine the shape and trends in developed countries for coming decades.

The aim of the research is to study the current state and problems of foreign economic activity of small business in Ukraine in the context of globalization, as well as determining the prospects of its development, involving into account international experience and national identity management.

*Keywords:* foreign economic activity, small business, globalization, world economy.

*JEL Classification:* F14, F16, F23.

## Introduction

Currently, international economic relations are under severe transformations related to new economic challenges of the XXI century. Critical role is played by the processes of globalization and the formation of post-industrial society. The technical base of production is rapidly improving. The optimization of branch and territorial structures of national economies are in the process. Among these changes are happening and the process of intensive development of small business: expanding its sphere of operation and a range of functions performed by them. Small business is a sector of the economy, which alone or in conjunction with large firms and state-owned organizations participates directly in shaping and promoting positive social and economic processes, largely determine the shape and trends in developed countries for coming decades.

## Rationale

The aim of the research is to study the current state and problems of foreign economic activity of small business in Ukraine in the context of globalization, as well as determining the prospects of its development, involving into account international experience and national identity management.

Theoretical and methodological basis of the thesis consists of modern economic theory of the internationalization of enterprises, scientific works of domestic and foreign scientists on this problem. The basic method of research is the systematic approach. Methods of synthesis, comparative, economic and statistical analysis, sociological research are used in the research. Database of research data is an international and national statistics, Ukraine's legislation. In the paper data from periodicals, scientific publications and materials of conferences is used.

In world practice, there are the following basic forms of stimulation of small businesses:

- direct funding (grants, loans), which reach 50% of the cost of creating of the new products and technologies (France, USA).
- provision of loans, without interest payment (Sweden).
- subsidies (in almost all developed countries).
- establishment of fund innovations taking into account the possible risks (UK, Germany, France, Switzerland, the Netherlands).
- reduced state fees for individual inventors (Austria, Germany, USA).
- prolong the payment of fees or exemption from them, if the invention relates to energy saving (Austria).
- free record keeping at the request of individual inventors, patent attorneys free services, exemption from payment of fees (the Netherlands, Germany).

However, there are significant differences in the European (continental) and the Anglo-Saxon (American) model of small business development. If the French state supports small businesses providing guarantees up to 65% of loans, in the U.S. prefer to provide assistance to most innovative enterprises. In particular, the federal government finances 35% R&D expenditure of SMBs in the form of tax incentives and through government contracts. At the state level and local governments operate programs that support innovative SMBs to the specific needs of the territory. In addition, the state finances through a business venture created with the participation of the state in the small business investment companies (SBICs) that have a tax and financial incentives and government guarantees for credits (up to 75%), provided to small firms. According to experts, the share of small and medium-sized firms account for 20 - 30% of all new products, while their share in the cost of innovation is only 4-5% (Makogon, 2009).

The global economic crisis at the end of the first decade of the XXI century found expression in a wide range of socio-economic phenomena. The small business sector was the most difficult situation, due mainly to a sharp and deep decrease in demand and deteriorating credit conditions. In different countries the decline in sales of small businesses varies considerably depending on the economic development and integration of these countries in foreign trade. During the crisis, many European countries have adopted measures to support small businesses, to help it to survive through difficult times:

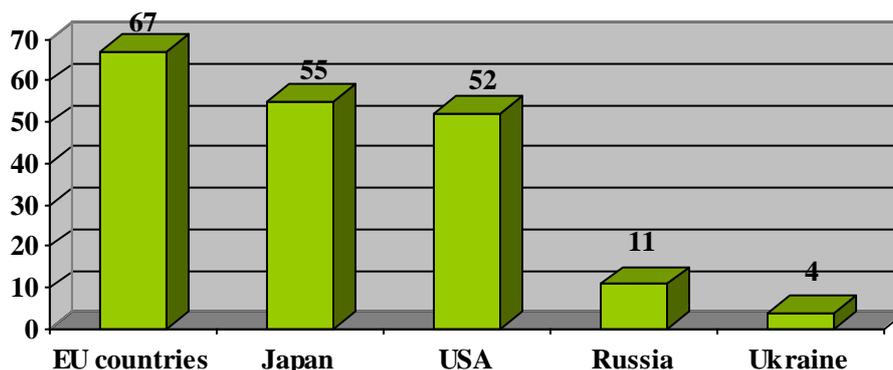
- The provision of soft loans, the use of leasing, franchising, subcontracting
- Provide (for low or free) advisory services and scientific and technical information
- Develop and implement a "strategic development plans," taking into account the specific socio-economic characteristics of the region: economic development, specialization in industrial and agricultural production, historical, cultural and ethnic features of the territory
- Helping the unemployed to build their own business
- Creation of fair competition in tax minimization

Shrinkage of the consumer market and a decline in sales, along with a decrease in liquidity of the enterprises and very grim prospects for the future, have a depressing effect on the small business sector. And, as mentioned above, the position of small business is largely exacerbated by the deterioration of terms of access to short-term and long-term lending. Polls are showed that among entrepreneurs waiting for further reductions in business activity will lead to further deterioration of the small business sector in 2011. This is due to the following key factors:

- increasing of the number of deferred payments, leading to steadily increasing shortage of working capital and, consequently, reduce the liquidity
- increasing the number of outstanding commitments (non-payment, failure of delivery dates, etc.), leads to an increase in the number of bankruptcies and an overall reduction in business in the SMB sector
- lack of financial resources and the growing unmet need in the credits.

Confronting the worsening conditions of access to credit, small business sector enterprises are seeking alternative ways of financing, such as the mobilization of its own reserves for self-financing, reduction of investment and innovation projects, and even their termination. The bulk of small businesses can be very effective use of financial resources, but access is difficult, especially in the context of the global crisis, and it is a major obstacle to the creation of new small business units, to their survival and further development. Particularly active in seeking additional sources for a comprehensive resource providing small businesses are often involved in the implementation of investment and innovation projects. This is due to the realization that after the crisis, the results of investment in production modernization and innovation projects will be an important means of achieving economic success in a globalized economy based on knowledge of the latest scientific and technological achievements.

Despite progress in recent years, positive results, Ukraine lags behind the developed countries, where, as a rule, the majority of the working population is employed in small businesses, and the contribution of small businesses in the country's GDP is at least 60% (in Ukraine - 4%) .



**Figure 1.** The share of small enterprises in Ukraine's GDP, %  
(Yankovskiy, 2010 and State statistical service, 2011)

It should be noted that the advantage of developed countries, which is fixed by globalization, is that a high percentage of GDP, provided by small and medium-sized businesses, is balanced by the purchasing power of consumers, who are employees of a large business. In Ukraine, displaced from their jobs, many employees of industrial, scientific, educational and other systems solve the problem of existence by emigrating abroad. Today, a growing number of experts have come to believe that the rate of de-industrialization of the country (or the decay rate of non-competitive industries) is too much higher than the birth rate of production in small and medium-sized businesses, which can lead to increased social tension in society and the loss of entire segments of the Ukrainian industry. In this regard, the development of small and medium-sized businesses need to be considered in the context of the overall development of industrial policy in Ukraine. In other words, it is necessary to equalize the rate of elimination of consequences of hyper-industrialization and the creation of new jobs in small and medium businesses.

Also, large national differences, particularly on indicators of foreign economic activity. According to the OECD, in developed countries, about a quarter of small industrial companies get 10- 40% of revenues from international operations. Their exports account for 25-35% of world exports of goods and the export orientation of the SMBs of developed countries continues to grow, outpacing export growth of the largest companies in the 2-2.2%. In West SMBs proportion of products sold abroad, ranging from 20 to 47% (in Ukraine - 3.5%), and engineering industries of Japan and the United States this share is equal to 30 and 40%. As many SMBs work under subcontracts, their indirect participation in foreign operations is much higher, most are for Japan. For example, only the export of goods, the share of small companies in the U.S. accounts for about 20% of the total volume of commodity products sold by American business in the global market. In countries such as the Netherlands, Belgium, Germany, Japan, it reaches in some years 35-40%. Many SMBs of Japan, France and other countries from 20 to 50% of their output are exported. (Makogon, 2011)

Foreign-economic activity of Ukraine is attracting increasing attention. And it is natural, because Ukraine is one of the first places in the world in terms of the ratio of foreign trade to GDP. Foreign trade turnover of Ukraine is almost equal to its GDP, and this means that a weighty share of Ukrainian business are connected with foreign trade operations. However, in Ukraine created conditions for the functioning of small businesses, such as the export of their products is less profitable than sales of products in the domestic market. In terms of economic interests of Ukraine, the active participation of small enterprises in foreign trade and other forms of foreign economic relations can be a source of increasing foreign exchange earnings, to address a number of economic problems. The presence on the world market will allow them to implement to improve the production of modern technology, engage in various forms of business cooperation with foreign firms to attract foreign capital. In 2009 only 10% of small and medium-sized enterprises 20% of Ukraine's export operations carried out. The share of large firms exporting their products and services to more than 50% [4].

**Table 1.** Experts estimate of the proportion of small businesses participating in the export of Ukrainian enterprises of goods and services for 2005-2010 (*Makogon, 2011*)

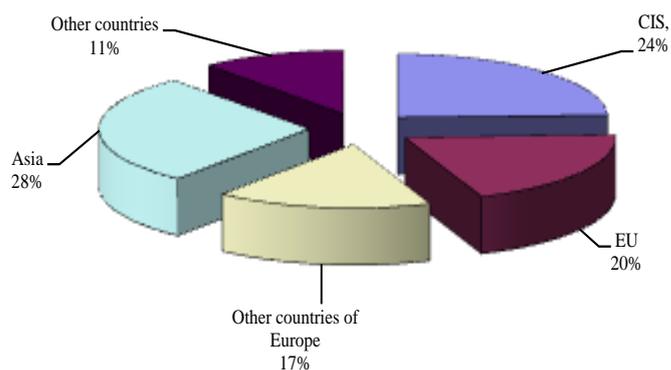
Indicators	2005	2006	2007	2008	2009	2010
Share of small enterprises in total sales	6,60	5,30	5,50	4,76	4,39	4,48
Share of small enterprises in the total number of enterprises	85,7	85,6	85,7	85,3	85,1	84,2
Exports of goods and services	27,31	37,97	40,36	45,87	58,36	78,70
Exports of small businesses	1545,0	1722,8	1902,5	1861,6	2180,2	2968,6
Share of small enterprises in total exports	5,66	4,54	4,71	4,06	3,74	3,77

Based on the analysis of literary sources, the entrepreneurs survey results of Chamber of Commerce and Industry of Ukraine can say that of all forms of internationalization of the business environment of Ukraine the most typical are:

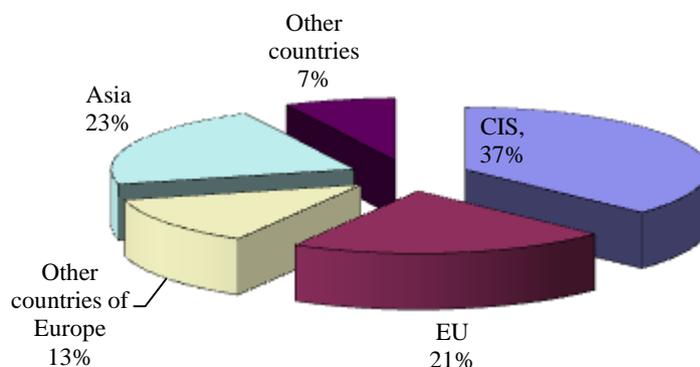
- Export-import transactions (household goods, consumer goods);
- Contract and cooperative partnership, in particular, licensing agreements and franchising;
- Services (consulting, buying real estate, travel);
- Attraction of foreign direct investment.

Other forms of internationalization of the business - first of all establishing of their own offices abroad - are absent.

Thus, based on expert judgment, we can say that the geography of Ukraine's SMBs export in 2010 is distributed as follows: CIS (24.4%), EU (19.7%), other European countries (16.6%), Asia(28.2%).

**Figure 2.** Exports of small enterprises in Ukraine in 2010, % (*State statistical service, 2011*)

Import of small businesses is on the same geographical areas as exports, but is distributed as follows: CIS (37%), EU (21%), other European countries (13%), Asia (22%).

**Figure 3.** Imports of small enterprises in Ukraine in 2010, % (*State statistical service, 2011*)

In the commodity structure of exports of small businesses, agricultural products and food industry are about 10%. A large proportion of both their imports and exports is the share of light industry: clothing, footwear. If in the whole structure of Ukrainian exports are the main items - pig iron, rolled metal, pipes, chemical fertilizers, the small businesses in the sector of foreign trade plays only the role of intermediaries, or commercial structures created for large industrial plants.

An important condition for the development of international co-operation of small businesses is a good level of awareness of the potential partnership. Local entrepreneurs are poorly informed about the prospects that they can be implemented with the help of various international organizations.

### Conclusions

In the framework of the existing traditional approach to the essence of the world economy as its main subjects are the transnational corporations. However, the globalization of small businesses in the context of its participation in the innovation process, due to the accumulation of human capital makes it possible to regard the place of small businesses in the world economy as a full participant in global economic processes, along with traditional subjects and place it in the innovative model of global economic development. The process of globalization and technological change, determine innovation as a development vector of the world economy, which in practice is realized in the framework of national economic development that leads to the objective of diversification of small businesses in the area of innovation, adopted to their foreign trade activities: development of post-industrial areas - trade in services, research activities, international franchise, international leasing, attracting foreign capital in joint ventures, etc. There is an urgent need to develop adequate trends of globalization and internationalization of small business tools, the selection of priority species and forms of foreign trade for the innovative nature of small businesses that can be used in the administrative structures of a particular region to implement procedures for the formation of regional development programs for small businesses in the area of foreign economic activity.

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