

## Contributions of Small Business Indirect Exports to U.S. International Trade

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### Abstract

Traditionally, exports are measured by crediting the full value of the finished good to the business that records the cross-border transaction. These are known as direct exports. However, many small businesses also contribute indirectly to international trade by producing intermediate inputs of finished products exported to foreign markets, called indirect exports. As a result, small businesses play a larger role in international trade than indicated by traditional trade statistics.

Using a value-added measurement approach developed by the U.S. International Trade Commission (USITC), this report estimates the contributions small businesses make through indirect exports. Value-added exports measure export value by tracing the value of intermediate goods and services created throughout the domestic supply chain that are components of finished goods. Like previous USITC findings, this study estimates that U.S. small businesses are responsible for approximately 40 percent of value-added exports when indirect exports are also taken into account, higher than their share of gross export value when only direct exports are measured.

### Background

Small businesses represent only about a third of export value when using the traditional direct gross

exports measurement approach.<sup>1</sup> Traditional methods do not capture the important role that suppliers play in producing intermediate inputs of final products that are exported, many of which are small businesses. For example, small auto suppliers produce parts that are assembled in cars by auto manufacturers. When Ford Motor Company sells a car overseas, the full value of the car is recorded as a large business export even though small businesses contributed to the production of the car.

In 2010, the USITC estimated value-added exports using 2007 data to better understand the contributions of small and large businesses to total exports. Building on value-added accounting and input-output (I-O) tables, this report traces intermediate inputs through the domestic supply chain in 2012 and 2014, the latest year of available data for this analysis. Value-added exports consist of three parts: small business value-added exports (direct and indirect), large business value-added exports (direct and indirect), and foreign value-added inputs. Small business value-added exports provide the sum of the contributions of small businesses at each step in the production of exports, either as direct exporters or suppliers to a direct exporter.

<sup>1</sup> Small businesses represent about 33 percent of known export value, and about 28 percent of gross export value (less rest of world adjustments). Gross export value is the total value of exports, known export value is the portion of exports that can be matched to specific companies.

## Key Findings

### Small Businesses Contribute Substantially to Total U.S. Exports

Small businesses both sell their products to customers abroad and produce inputs that are components to products mostly sold by large businesses abroad. As Table 1 shows, in 2014, small businesses contributed about \$100 billion more in value-added exports compared to gross exports, totaling approximately 40 percent of domestic production.

### Small Businesses Participate in Trade Directly and Indirectly

Figure 1 shows the flow of small and large value-added indirect exports to direct gross exports in 2014. Small businesses contributed \$268 billion to large business gross exports in the form of intermediate inputs. Large businesses, on the other hand, provided about \$100 billion in inputs to small business gross exports. 42 percent of small business value-added export production, marked in blue, is subsequently exported by large businesses. Only about 10 percent of large businesses' value-added export production is purchased by small businesses for direct export.

### Small Businesses in Services Industries Play A Special Role

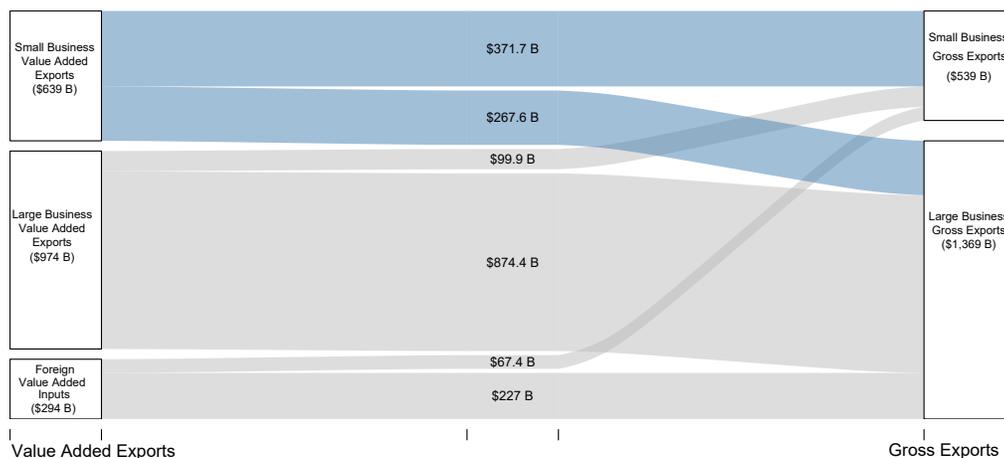
Service industries, such as wholesale and retail, play a larger role in small business exporting than gross export statistics suggest. Gross exports show that small businesses in the manufacturing industry export more goods than small wholesalers and retailers. However, a closer look at value-added exports shows that small business in service industries

provide a significant amount of small business goods export value. This difference exists because small businesses tend to provide relatively more services to large exporters, deflating gross services estimates for small businesses. Concurrently, large manufacturers provide inputs to small exporters which inflate gross manufacturing estimates.

## Conclusion

Small businesses contribute more to international trade than is indicated by their share of direct exports. By carefully tracking the value-added by each step in the supply chain, this analysis confirms previous findings of the USITC that small businesses provide approximately 40 percent of total US export value. This is significantly more than the 28 percent implied by gross export value. Evidence for 2012 and 2014 provide similar results. The difference can be attributed to the sale of intermediate goods and services from small businesses to large exporters and the greater reliance of large exporters on foreign inputs. The analysis also sheds light on the relatively large role that services play in small business value-added exports. By providing value to large exporters in the form of services, small business value-added services make up a larger share of small business exports than small business manufacturing. Based on these findings, future research should examine the underlying forces, such as economies of scale in supply chains, that limit the role of small businesses in gross exports.

Figure 1: Composition of Value-Added and Gross Exports, 2014 (Source: BEA data, author's calculations)



<b>Table 1: 2014 U.S. Exports by Business Size, Gross and Value-Added Measurement</b>				
	<b>Gross Exports</b>		<b>Value-Added Exports</b>	
	Amount (Billions \$)	% of Total	Amount (Billions \$)	% of Total
Small Business Exports	\$539	28%	\$639	40%
Large Business Exports	\$1,369	72%	\$974	60%

Source: BEA I-O data; author's calculations. Note: Total gross export value is greater than total value-added export value because it includes contributions from foreign suppliers. Export value percent shares exclude rest of world adjustments and secondhand goods.

## Scope and Methodology

In 2010, the USITC established a new methodology for estimating indirect exports by small businesses. The report provided estimates for small business value-added indirect exports for 2002 and 2007 (USITC 2010). Small businesses contributed \$382 billion to gross export value and \$481 billion in value-added export value in 2007. Using the USITC approach, this report reproduces the 2007 USITC results and generates new estimates for 2012 and 2014. This report's 2007 estimates are similar, but not identical, to those of the USITC, finding that small businesses produced \$479 billion of value-added exports. The paper also performs sensitivity analysis on its 2014 estimates using alternative small business export shares from the International Trade Administration. While the change in assumptions alters the results somewhat, the overall findings remain unchanged: the value-added contributions of small businesses to exports is larger than small business gross exports.

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