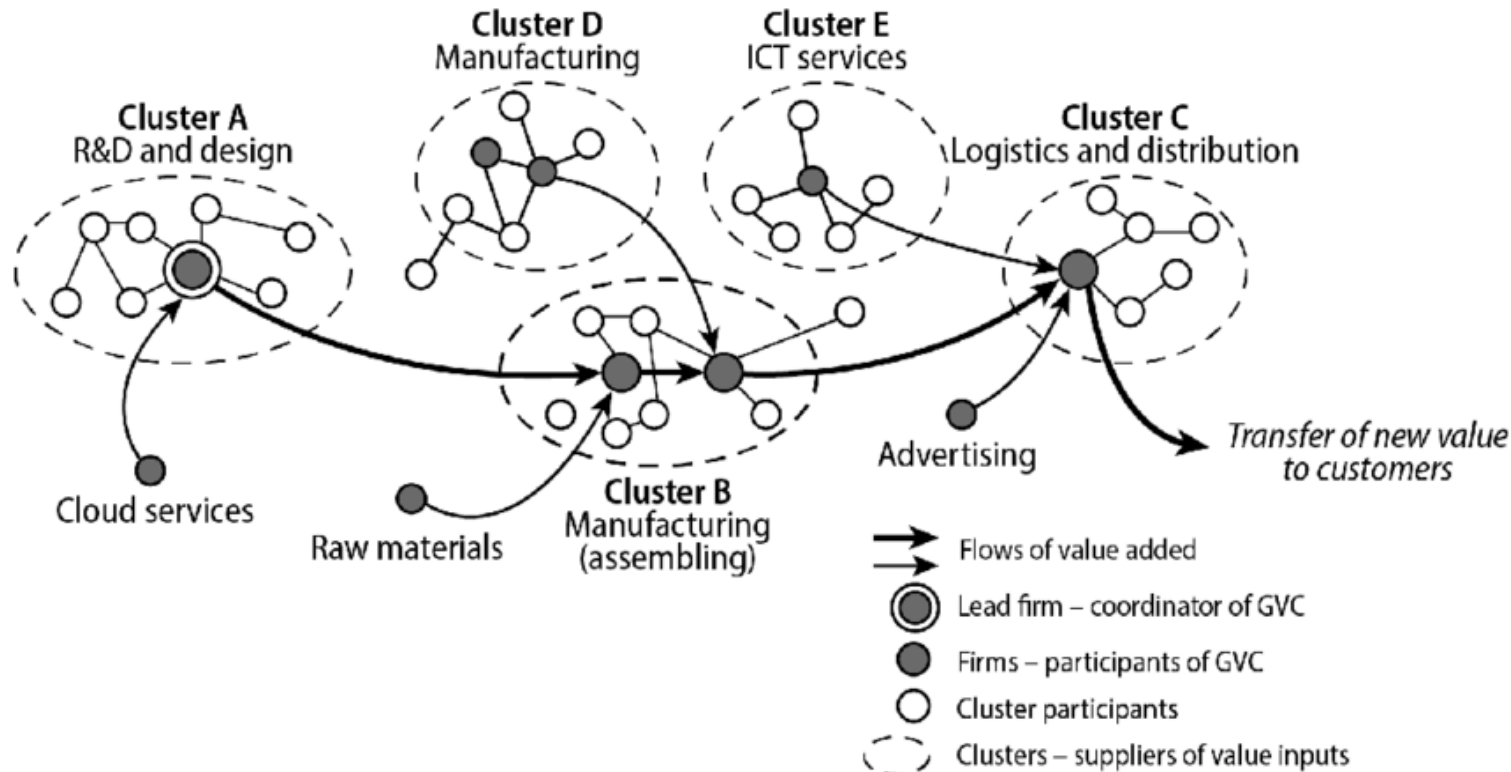


# Challenges and Opportunities for MSMEs in Global Value Chains

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# The Global Value Chain Model of Production

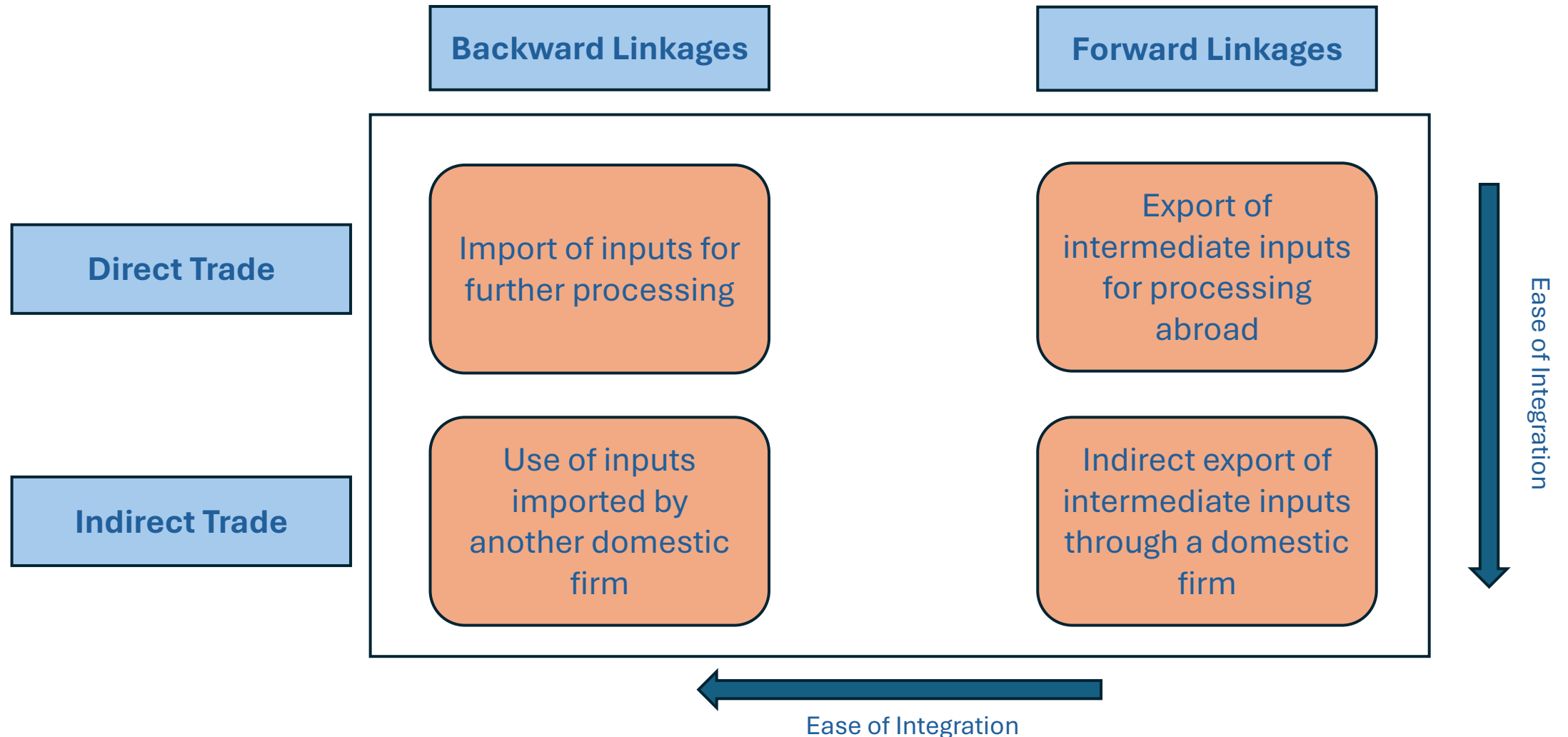


- Dispersal of the activities needed to produce a good/service across borders
- Accompanied by a finer division of labor
  - Production process split into a set of narrow tasks / activities

# Benefits of Global Value Chains for Development

- Allow easier entry into the global economy
  - No need to develop capabilities to undertake all stages of the production process
  - Instead, identify specific niches in which have (or can develop) comparative advantage
- Makes industrialization easier (...but less meaningful?)
- Allows access to advanced technology and inputs
- A source of economic growth and productivity improvements

# How MSMEs Integrate into Global Value Chains



# Opportunities for MSMEs in GVCs

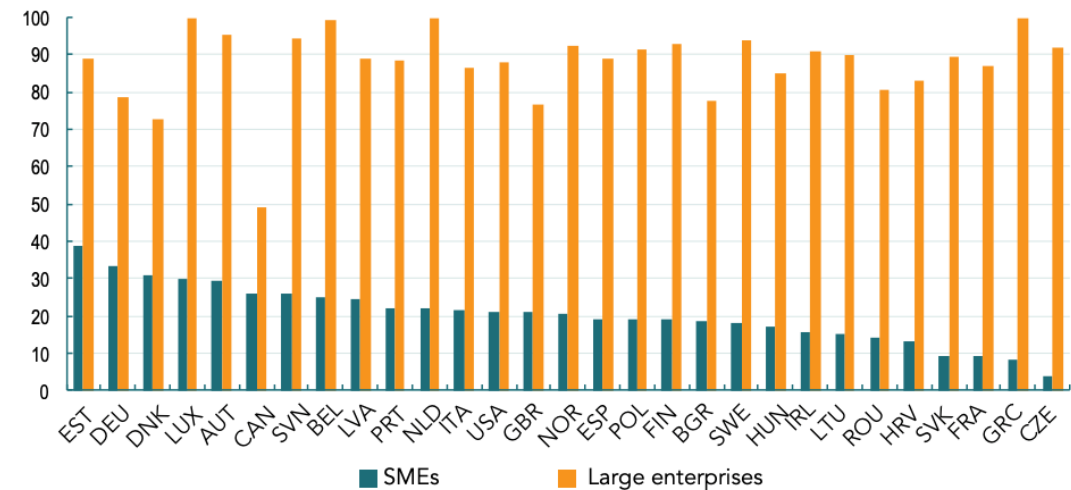
- Can specialize in niche markets and narrow activities that GVCs create
- Can participate in the global economy without paying fixed costs of trading
  - Through indirect trading, relying upon intermediary role of direct traders
- Increased efficiency, productivity, and competitiveness
  - Increase technical capacity, greater utilization of production capacity, exploit economies of scale
  - Access to knowledge, technology, and cheaper and more sophisticated inputs
  - Export of more complex and higher value-added products
- Improved networks and links to MNEs
  - Can enhance credibility, brand value and recognition, help with finance, foreign contacts / investors

# Risks for MSMEs in Global Value Chains

- Risk of supply chain disruptions (e.g., COVID-19, geopolitical tensions)
  - Increased volatility and vulnerability to shocks
  - But less susceptible to country-specific shocks
    - From both a buyer and supplier perspective
- Resilience building of GVC lead firms
  - Reshoring, nearshoring, friendshoring
  - Consolidating number of suppliers
- Asymmetric power
  - The governance of GVCs is often quasi-hierarchical (Gereffi et al. 2005)
    - Power lies with lead firms in GVCs (usually MNEs)
    - Can result in limited value capture and learning for MSMEs

# Representation of MSMEs in Global Value Chains

- MSMEs account for >80% of firms in any given country (WTO 2016)
  - And 60-70% of global employment (IFC 2013)
- But are less well represented in international trade and GVCs
  - In developed countries, SMEs tend to account for 30-40% of exports (OECD 2018)
  - But concentrated among a small share of SMEs
    - In Europe, only 5%-40% of MSMEs export (vs 80% for large firms)
  - And strong differences between micro, small, and medium sized enterprises
    - Medium sized look more like large firms



Industrial firms engaged in exports (2015)

# Representation of MSMEs in Global Value Chains

- In developing economies, MSMEs account for around 45% of GDP (WTO 2016)
  - But exports represent just 7.6% of manufacturing sales (vs 14.1% for large firms)
- Exports of intermediates by MSMEs are over-represented in export baskets, however
  - In Thailand, 16% of MSME exports are sold for further processing compared with just 6% for large firms (Lopez Gonzalez 2017)
- Particularly in services sectors
  - In Vietnam, the share of MSME exports for further processing increases from 5% for manufacturing to 26% for services (Lopez Gonzalez 2017)



# Challenges for MSMEs in Global Value Chains

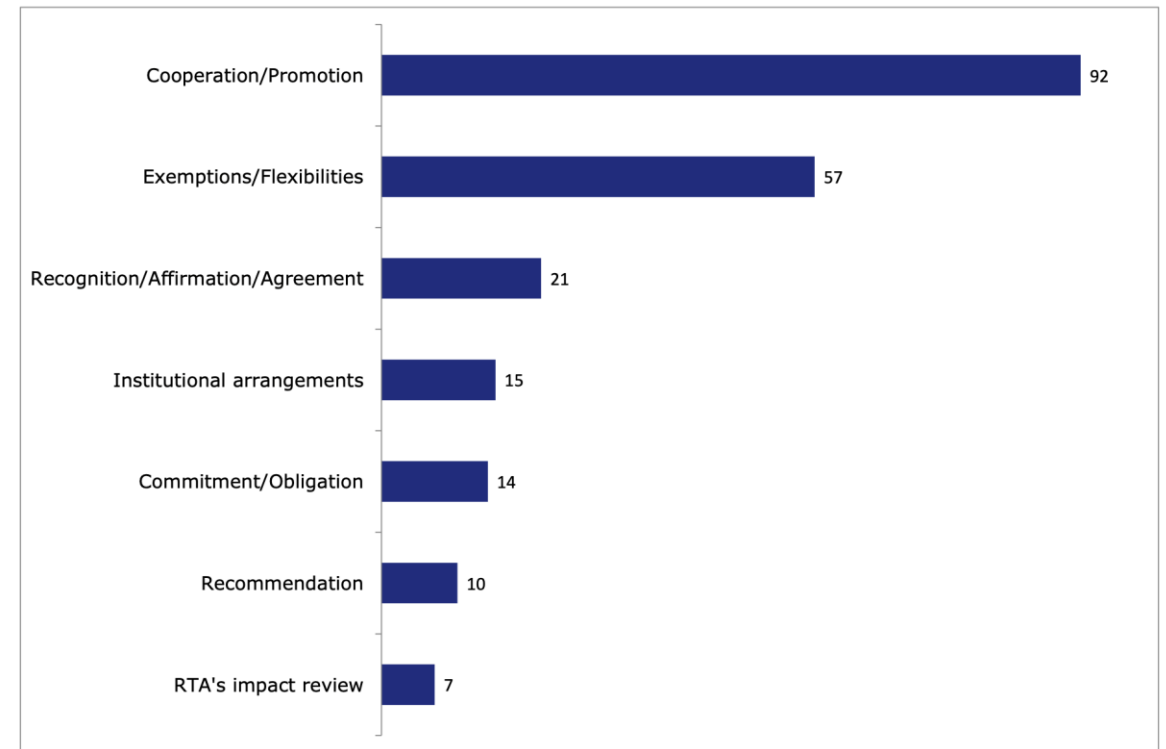
- The list of challenges MSMEs face in entering GVCs is extensive:
  - Access to finance
  - Lack of capabilities, skills, managerial competences, and technology
  - Difficulties in meeting international standards
  - Low production levels limits competitiveness
  - Unable to meet the fixed costs associated with trading internationally (Melitz 2003)
  - Identifying foreign business opportunities, maintaining control over foreign middlemen, and accessing export distribution channels (OECD 2008)

# Trade Agreements as Facilitators of MSMEs in Global Value Chains

- Several policies are often suggested to increase participation of MSMEs in GVCs
  - Capability building
  - Technology diffusion and adoption
  - Development of industrial clusters (e.g., to encourage economies of scale)
  - ...
- Trade agreements and the contents of those agreements can also be an important means of assisting MSMEs in entering GVCs
  - By lowering trade barriers and trade costs for all firms
  - By specific provisions targeting the additional barriers that MSMEs face

# Trade Agreements Increasingly Consider MSMEs

- Provisions on MSMEs
  - 136 of 270 (49%) trade agreements in force in 2016 had provisions specifically related to MSMEs
  - Acknowledges that trade agreements can benefit established manufacturers and retailers, but need not help MSMEs and can increase the level of competition they face (OECD 2008)
  - Two main provisions
    - Promoting co-operation on SMEs
    - Exempting SMEs from certain obligations of trade agreements

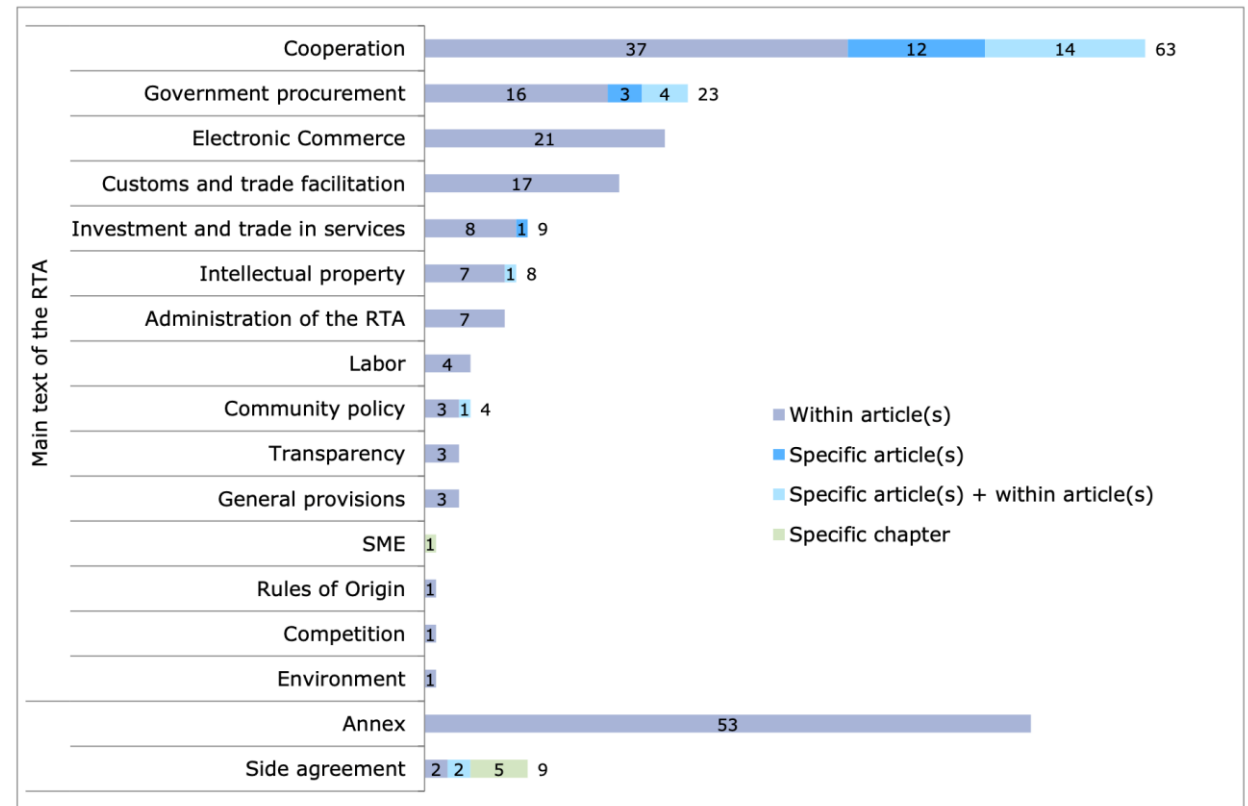


Note: Total number of RTAs with at least one SMEs-related provision belonging to the respective category.  
Source: Computations based on WTO RTA database.

# Trade Agreements Increasingly Consider MSMEs

- Other provisions targeting MSMEs
  - Intellectual Property Rights
    - Insufficient IPR protection in foreign markets harms MSMEs (OECD 2008)
    - Reducing incentives to innovate
  - Trade facilitation targeting MSMEs
  - Investment in trade in services

Provisions referring to SMEs



Source: Computations based on WTO RTA database.

# Digital Provisions in Trade Agreements

- Provisions related to digitalization and e-commerce can be an important means of facilitating MSMEs in GVCs
  - The use of ICT-technologies and related services have contributed to overcome SME isolation and ease small firms' access to international markets
  - The diffusion and adoption of ICT technologies by SMEs has been shown to extend their network of business partners and reach new customers with greater ease and at lower costs (OECD 2000)
  - ICT technologies create new entrepreneurial possibilities for MSMEs, with new niches for the supply of novel products and services emerging where small firms can position themselves
  - Buyer driven e-market places are often central in MSMEs integrating into GVCs, enabling them to increase their global exposure and to secure contracts that they otherwise may not had received (OECD 2008)

# But do Asian Trade Agreements Support MSMEs in GVCs?

- In a fragmenting geopolitical environment, trade agreements provide a means of creating certainty regarding trade relations
- Yet, trade agreements signed between Asian economies and between Asian and non-Asian economies tend to be:
  - Smaller
  - Shallower (less liberalizing)
  - Narrower (including fewer provisions)
- The expansion and deepening of Asian trade agreements can be a means of enhancing the ability of MSMEs to enter and succeed in Global Value Chains