

MSMEs Participation in the Global Value Chain: CAREC Region Perspective

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CAREC Region



Afghanistan



Azerbaijan



People's Republic of China



Georgia



Kazakhstan



Kyrgyz Republic



Mongolia



Pakistan



Tajikistan



Turkmenistan



Uzbekistan

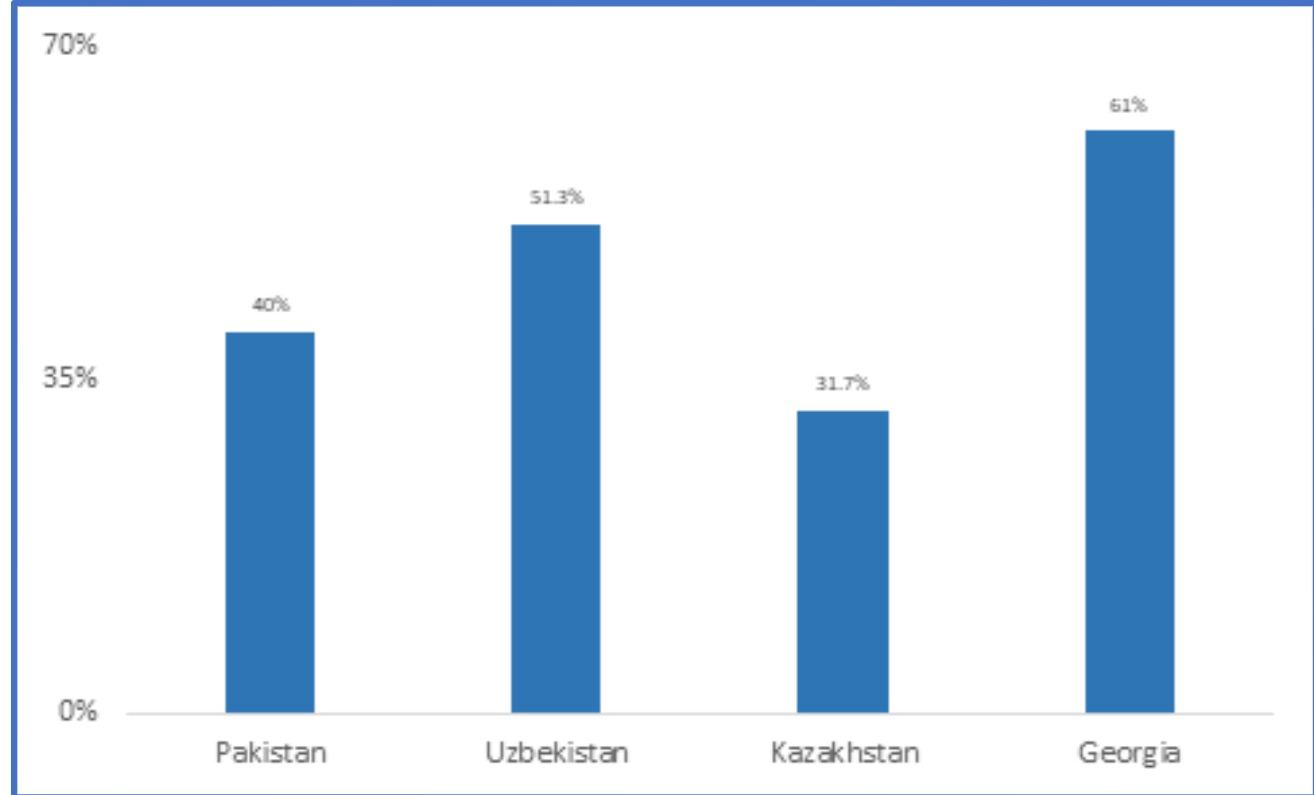
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Introduction

- Micro, Small and Medium Enterprises (MSMEs) GV chains participation is amplified due to the nature of the businesses and structure it contains in the CAREC region.
- The intensity of the GV chains was largely contingent on the MSMEs regional integration, digitalization and trade facilitation.
- In the early phase of the pandemic, geopolitical uncertainties, global recession that would also cause the MSMEs sector GV chains participation substantially.

State of MSMEs

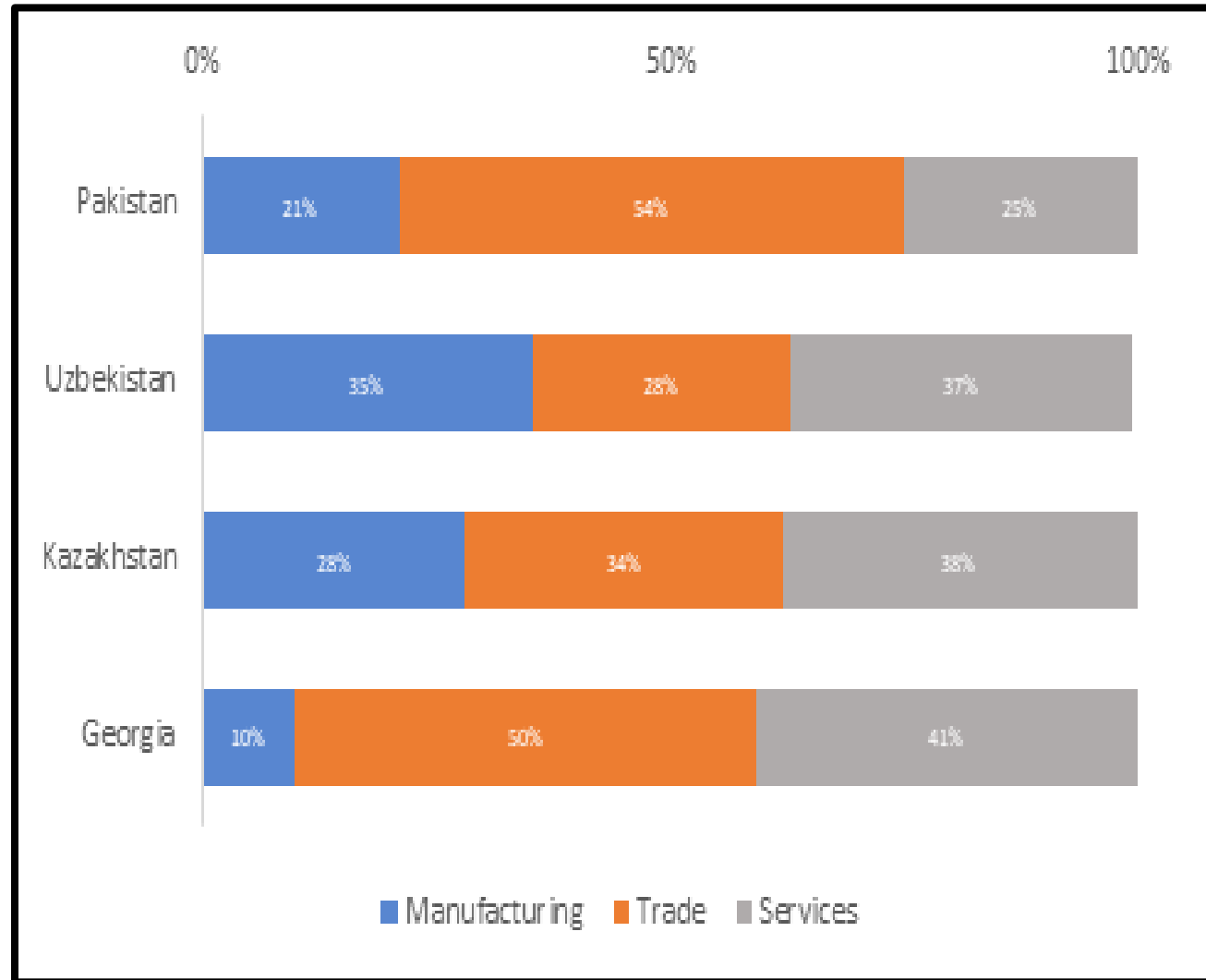
- MSMEs have a substantial share in the economies, almost 90 %, of the registered businesses in four economies.
- The low share of the MSMEs in the GDP indicates that these economies are still dominated by large enterprises, and by strong state owned enterprises.



MSMEs share of GDP

State of MSMEs

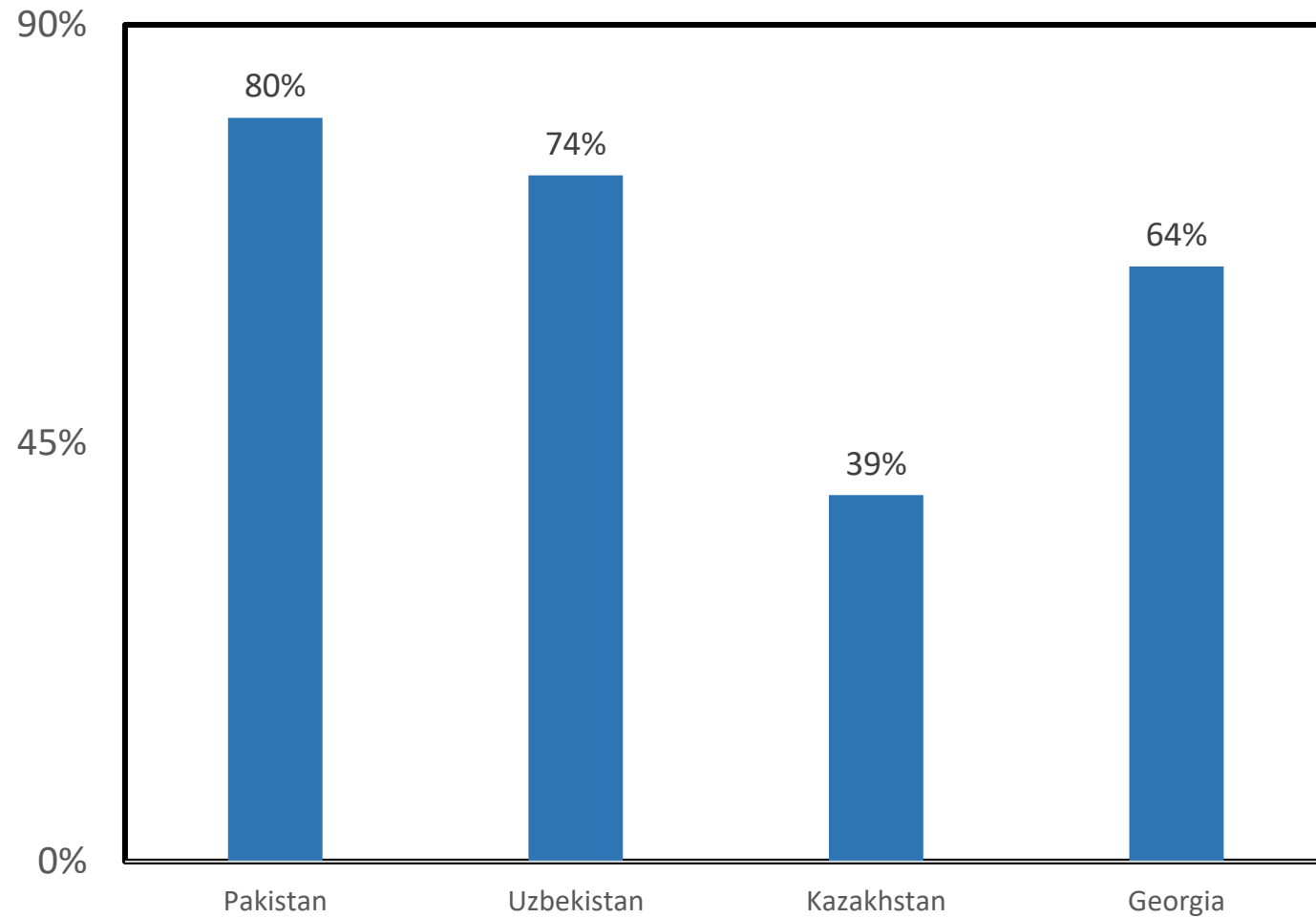
- In terms of sectoral distribution of all MSMEs, manufacturing (including agriculture) is the most prominent in Uzbekistan (35%) and Kazakhstan (28%) reflecting their relatively industrialized status as the manufacturing powerhouses of central Asia.
- The picture in Georgia and Pakistan is more typical of an emerging market economy with the MSME sector dominated by trade and services.



MSMEs sectoral breakdown

State of MSMEs

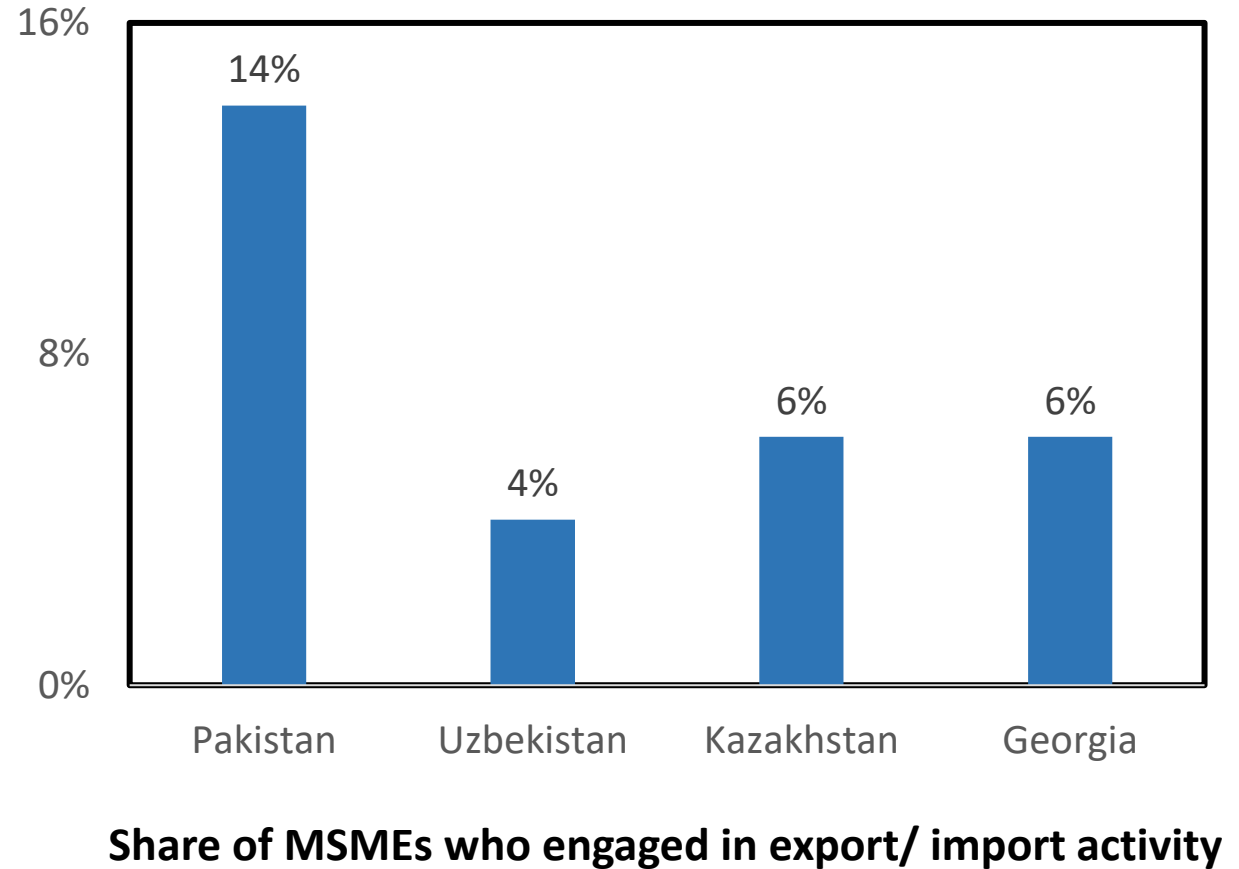
The strong dominance of the large private and state owned enterprises is reflected in MSMEs employment share in total employment; Kazakhstan has the lowest share of 39 %, followed by Uzbekistan 74 %, Georgia 64 % and Pakistan 80 %.



MSMEs share of total employment

State of MSMEs

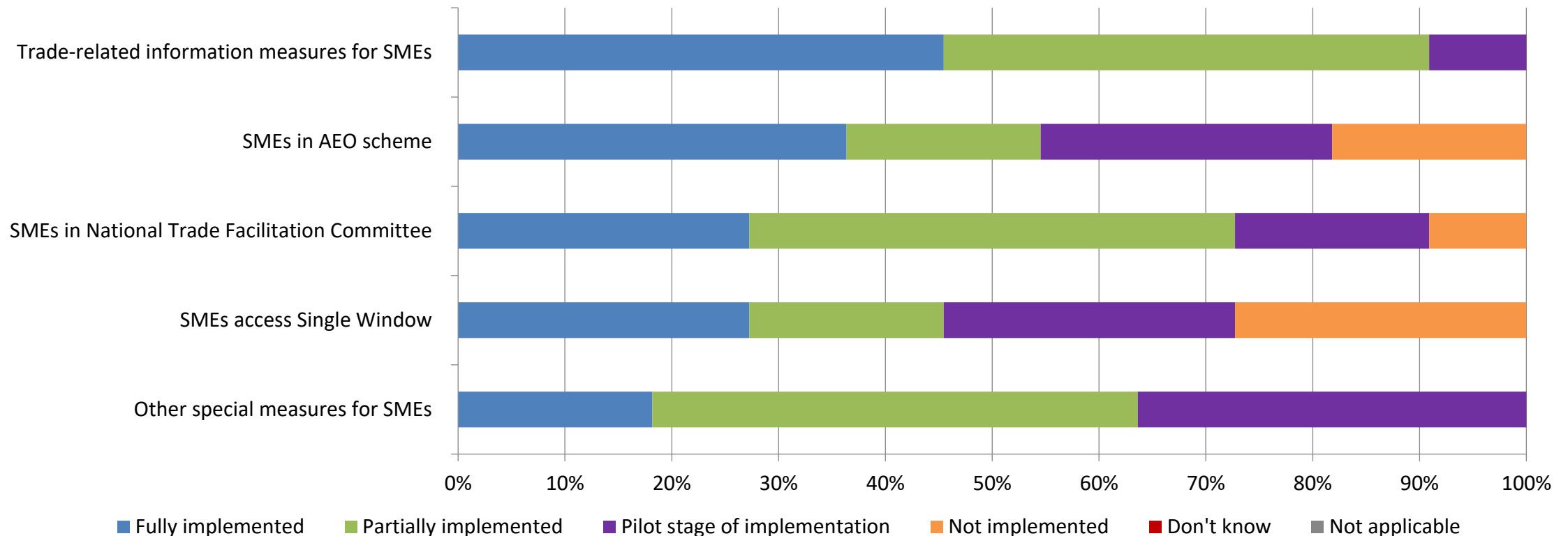
Pakistan has the most significant share (14%) who conduct **import and export operations**, followed by the rest of the economies of around 6 %. It **means that primarily these economies are focusing more on domestic economies (less integrated)**, rather reaching out to the regional and global economies.



Trade facilitation for SMEs

- » CAREC countries exhibit a higher level of implementation on all five measures, compared to the Asia-Pacific region
- » Still, considerable variations in the level of implementation

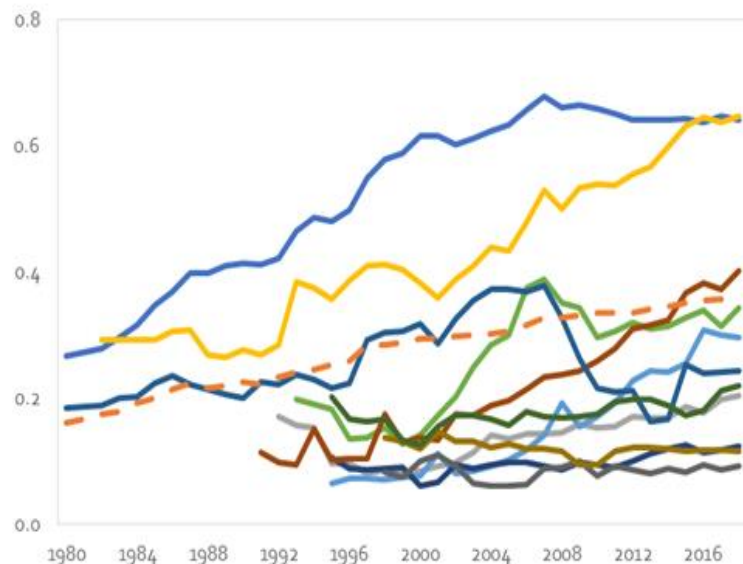
State of implementation of 'trade facilitation for SMEs' in CAREC



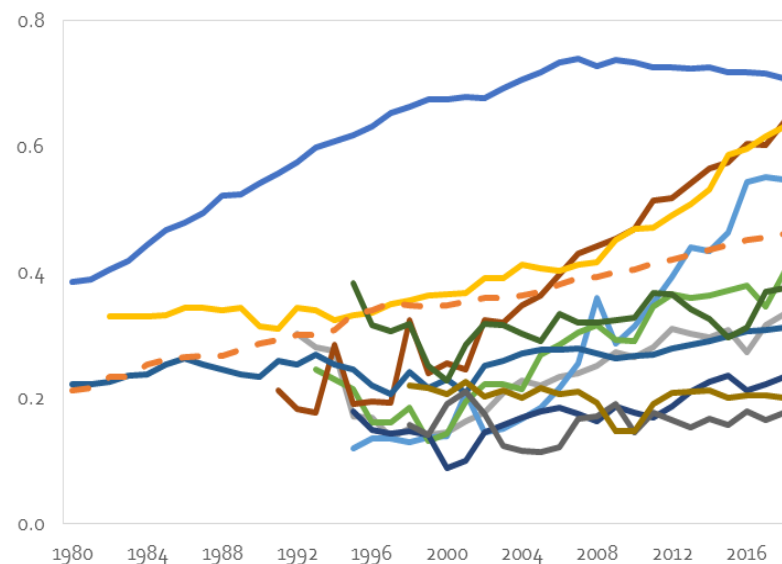
State of Financial Development in the CAREC Region vis-à-vis Advanced Markets

Low Level of Financial Development in CAREC

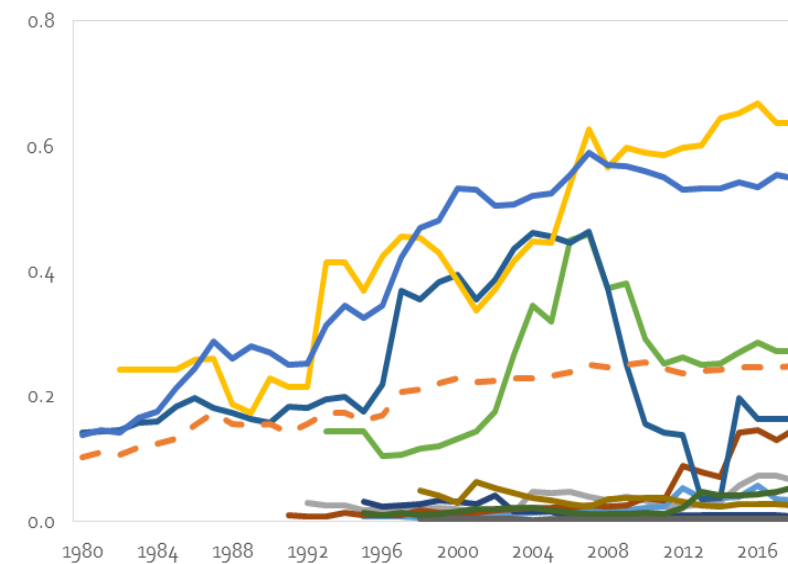
a. Financial Development Index



b. Pillar 1 - Financial Institutions



c. Pillar 2 - Financial Markets



Source: International Monetary Fund. Financial Development Index Database. <https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B> (Accessed November 2020)

Legend:

Azerbaijan	Georgia	Kazakhstan
Kyrgyz Republic	Mongolia	Pakistan
People's Rep. of China	Tajikistan	Turkmenistan
Uzbekistan	Asia and Pacific	Advanced markets

PRC has made great strides during the 2000s leading to its at par status with that of advanced economies.

However, the financial development in other CAREC member countries remain subdued by weak financial market framework, alongside slow improvement of their traditional banking sector.

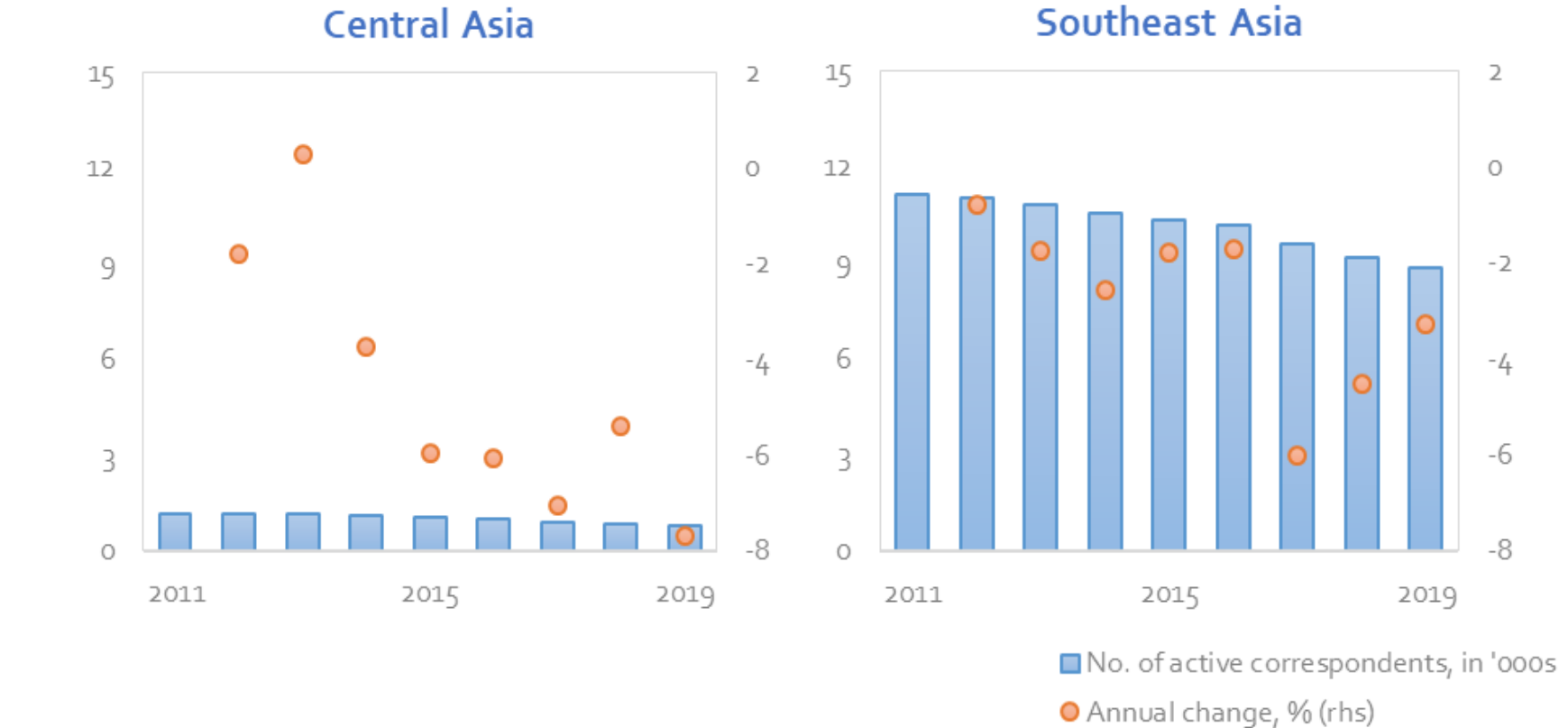
State of Correspondent Banking Landscapes in Selected Asia Subregions, 2011–2019

Sustained Drop in Correspondent Banking Relationships

Correspondent banking, which is essential for international trade activities, is limited in Central Asia relative to regional peers from the Southeast Asia.

It exhibits sustained retreat, reaching 8% in 2019.

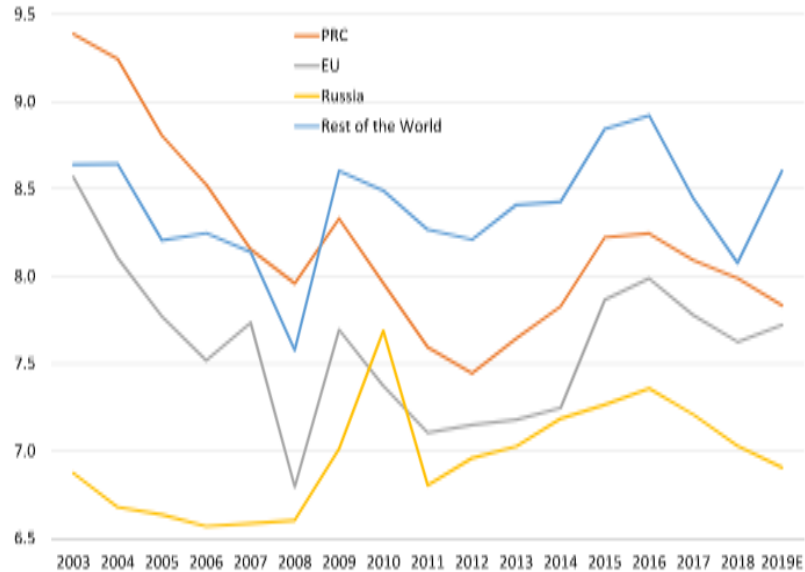
While the retreat of correspondent banks occurs globally, such situation is putting the CAREC region at more disadvantage. Also, it impacts MSMEs GV participation.



This situation risks the potential of many CAREC countries to providing access to safe, low-cost cross-border payment channels. As the IMF (2017) noted, addressing complications from such situation involves strengthened, coordinated, and collective action on the part of public and private stakeholders.

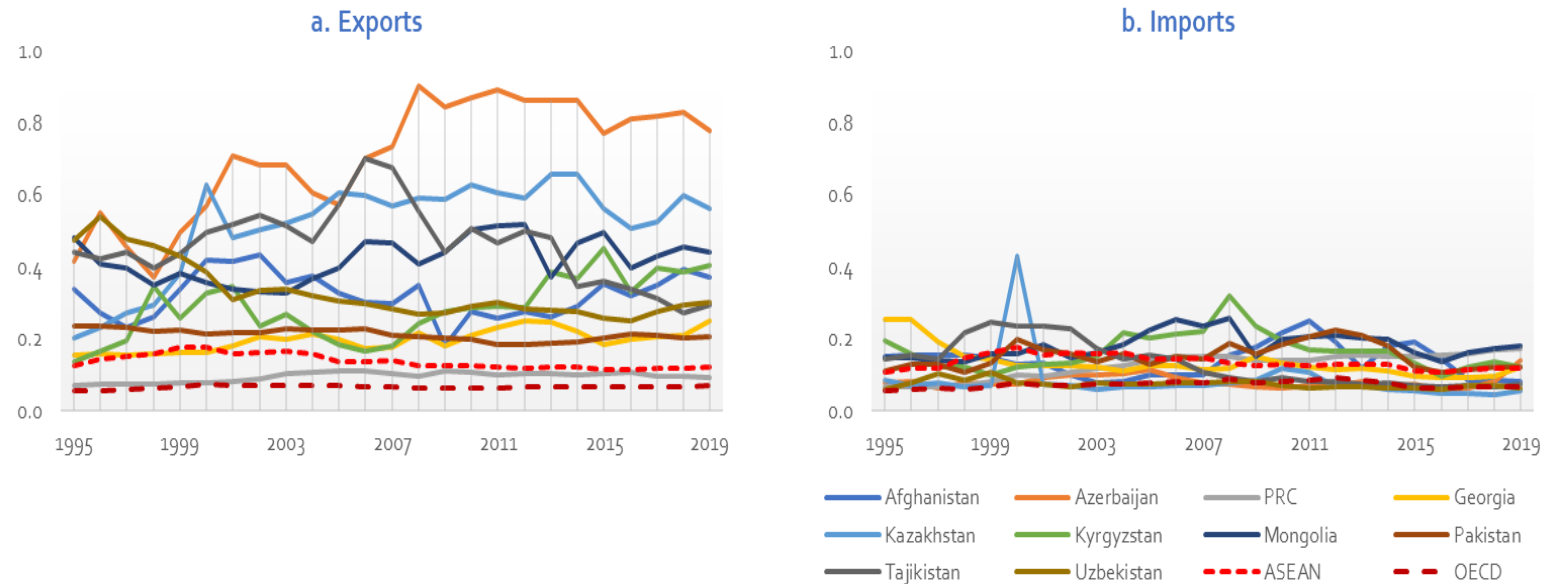
Increasing market diversification; challenge remains with high product concentration of exports

Trade Distance of CAREC (excl. PRC) to Major Partners, 1995–2019



Source: Holzacker, Hans. 2020. Intra-CAREC Trade: Business as Usual or About to Change. CAREC Institute Economic Brief.

Product Concentration Index of (a) Exports and (b) Imports by Selected Economies, 1995–2019



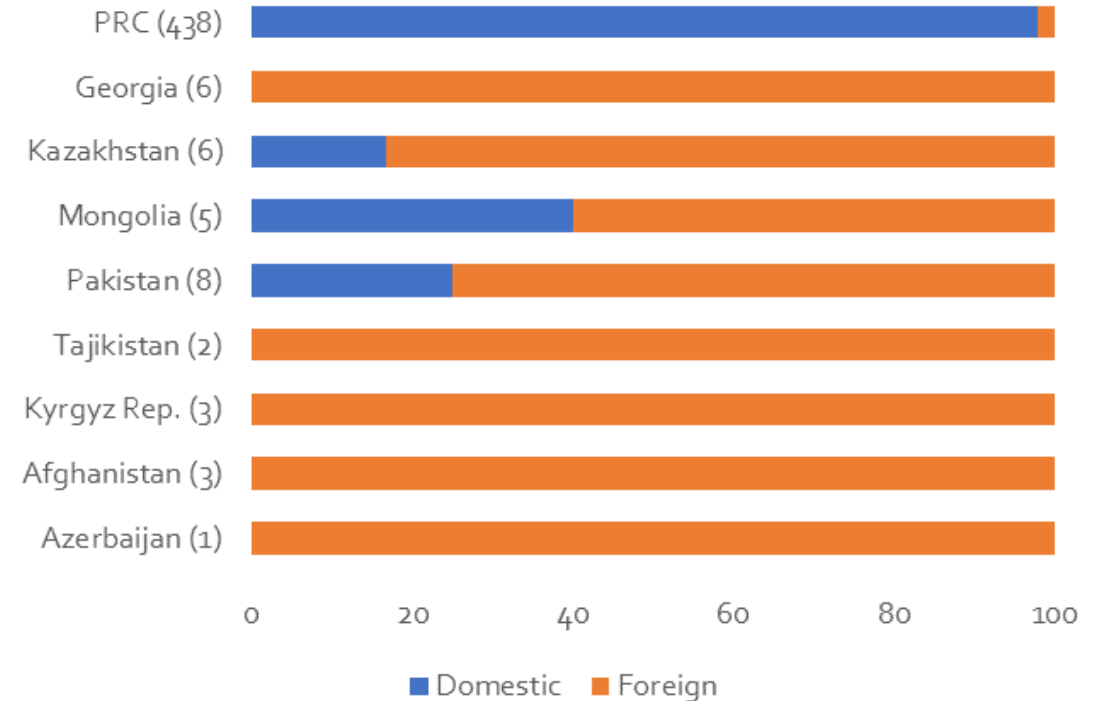
Source: United Nations Conference on Trade and Development. <https://unctadstat.unctad.org/EN/> (Accessed November 2020)

While trade distance gradually shortened allowing for diversification of markets, it remains a challenge for many CAREC members to tackle high product concentration of their exports which also impact MSMEs GV Chains participation.

State of the Fintech Market in the CAREC

- Homegrown or domestic-based alternative finance platforms account for larger proportions of firms especially in countries with fairly developed alternative finance ecosystems (Ziegler and Shneor 2020).
- Other member economies depend heavily on foreign firms, particularly Georgia, Tajikistan, Kyrgyz Republic, Afghanistan, and Azerbaijan.
- The fintech ecosystem in the region remains dominated by the payments segment, such as e-wallets. Innovations leading to the emergence of RegTech, trade processing, Market Place Lending, and crowdsourcing remain in the nascent stage (Davletov et al 2020).

Alternative Finance Firms Operating in CAREC, 2018



PRC = People's Rep. of China

Source: Authors' illustration using information from the CCAF Global Alternative Finance database.

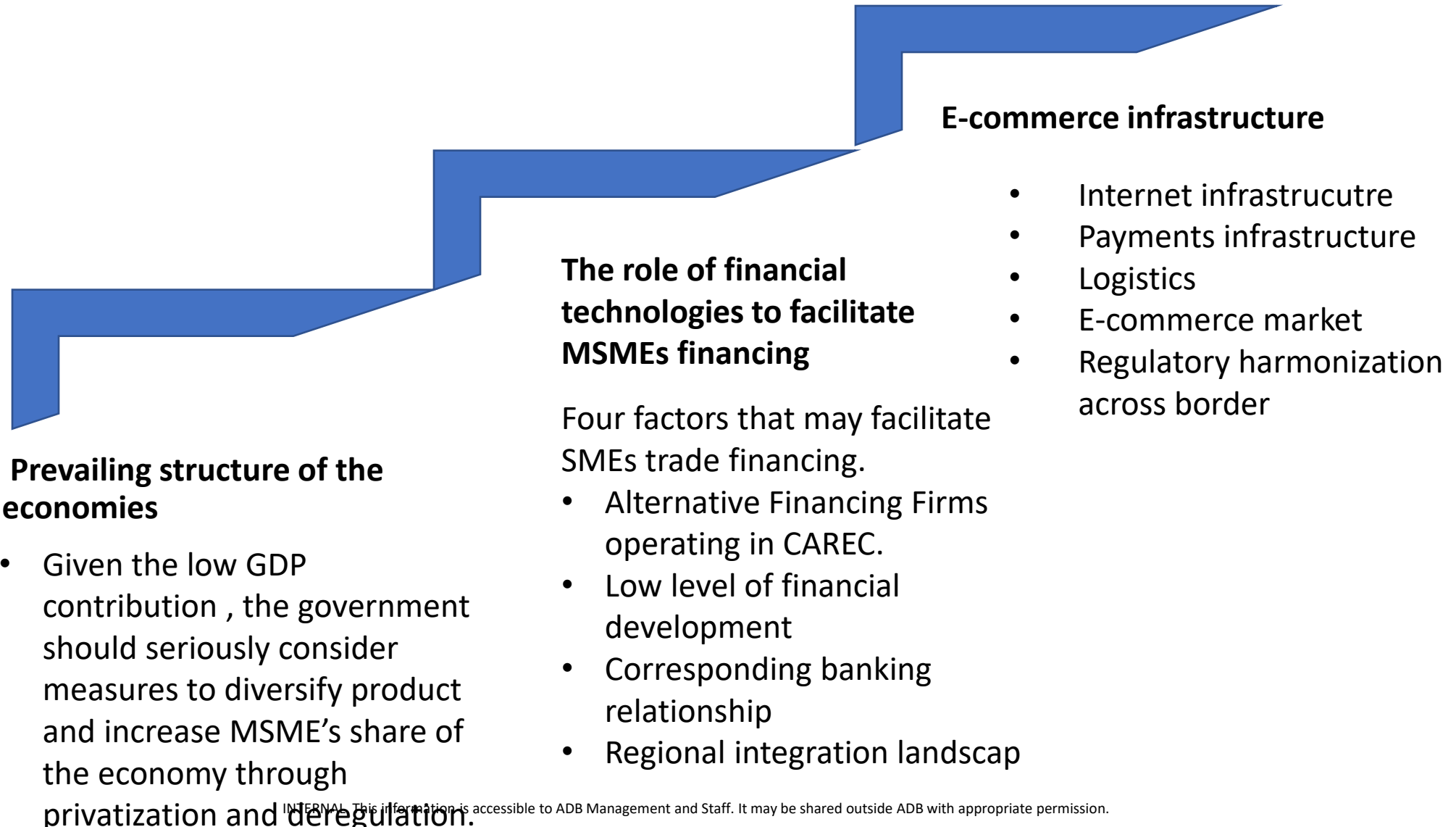
State of Regional Integration Landscape in CAREC and ASEAN



While the CAREC region has made great strides in “infrastructure and connectivity” the region needs more efforts in “regional value chains”, “money and finance”, “trade and investment”, and “institutional and social integration”.

Key to MSMEs participation in the CAREC may involve a great deal of intra-regional efforts.

How to Leverage MSMEs in Global Value Chains?



Thank you !