

V. SUPPORTING GREATER MEKONG SUBREGION ENTERPRISE PARTICIPATION IN GLOBAL VALUE CHAINS THROUGH SUBREGIONAL COOPERATION

A. Overview

In view of the challenges, accessing international markets through participation in global value chains by SMEs in the Subregion is likely to require a range of supporting initiatives involving collaboration among the private sector, Governments and donors. Some of the needed initiatives are domestic or “behind the border”, while others require cross-border cooperation for strengthening subregional value chain linkages in GMS. The focus here is on an agenda for subregional cooperation. However, it should be noted that these two types of activities are generally related: effective, cross-border initiatives must be anchored in effective domestic policies and actions. For example, to develop efficient subregional logistics services critical for cross-border production linkages requires developing efficient domestic logistics systems in each of the participating economies. At the same time, subregional cooperation can accelerate necessary domestic actions. For example, cross-border trade facilitation agreements, essential for intra-industry flow of parts/components in particular industry value chains can speed up the implementation of domestic trade-related reforms.

B. Building on existing GMS cooperation

GMS cooperation related to accessing global markets currently is focused primarily on basic infrastructure, in particular transport and on trade facilitation.²⁵ While this may not be sufficient to link enterprises to global markets in a range of global value chains, it provides strong foundations for introducing GVC-related initiatives into existing GMS cooperation. Extending the focus on infrastructure to logistics systems and introducing a value chain-based perspective to cooperation in trade facilitation are then necessary building blocks for a wider GMS agenda.

1. Strengthening logistics systems

An enterprise’s – and an economy’s – competitiveness is determined not only by its productive capacity, but also by its ability to bring goods to markets at the lowest possible cost and under conditions required by customers such as meeting standards. As trade increasingly involves components and semi-finished goods rather than raw materials or finished merchandise, logistics systems are frequently a critical element of global value chains: the glue that holds together such chains. Delivering a product in the right quality

²⁵ See for example the ADB-facilitated GMS Programme.

and quantity and on time is a critical requirement within the framework of GVCs. In this context, basic transport infrastructure is no longer sufficient for competitive success. Firms, especially those integrated into global value chains, require not only low transport costs, but also a host of increasingly sophisticated logistics needs: short transit times, reliable delivery schedules, careful handling of goods, certification of product quality and security from theft and damage. An efficient logistics system includes factors such as efficient, multimodal transport infrastructure; competitive carriers; competent transport intermediaries; fast, efficient and transparent cross-border procedures; and modern information and communication technology. Therefore, in strengthening logistics systems within and among the GMS countries, the hardware (physical infrastructure, including inter-modal linkages) and the software (institutional framework, rules and regulations, pricing and coordination to ensure optimum capacity utilization) is a critical requirement for the participation of SMEs in global value chains. It also provides an important, if demanding area for subregional cooperation in GMS. The range of issues involved includes the following:

1. Well-functioning, multimodal transport industry;
2. Knowledgeable importers and exporters with the capability to use multimodal transport services and international commercial terms;
3. Affordable and standardized information systems – domestic and cross-border – including electronic processing of trade-related information and document flows, accessible to both large and small firms;
4. Efficient cross-border procedures;
5. Effective carrier liability insurance regimes to cover exporter risks, harmonized among modes of transport;
6. Unified (national) policymaking and institutions for overseeing trade logistics issues among multiple ministries and departments, guided by an integrated policy framework for trade and multimodal transport;
7. Addressing the problem of small-lot shipments by facilitating the consolidation of small-freight loads through collective action by SMEs,²⁶ involving domestic and foreign partners skilled in international trade.

2. GVC-related trade facilitation

Global value chains require assured and timely imports of inputs, components and sub-assemblies, as well as exports of intermediate products to the next nodes in the value chain or network. Therefore, domestic trade regimes and import/export systems and procedures must facilitate such intra-industry trade, in particular GVCs, if firms in the

²⁶ An important problem facing SMEs in a trading environment of low-volume traffic in parts of the Greater Mekong Subregion is inadequate consolidation services. This constrains the ability of SMEs and new exporters to ship in smaller lots that could be consolidated into a “less than container load” service, forcing them to ship in full container load shipments. This, in turn, forces SMEs and new exporters to find large buyers and spend a long time in production to fill orders.

economy are to be able to participate in international markets through such chains and networks. For example, in the context of specific global value chains, if there are cumbersome import and export procedures – rules, regulations and delays – high import clearance charges on key inputs and high export clearance charges on outputs to the next nodes in the GVC concerned, it will be difficult for local firms to participate effectively in that GVC and to attract global suppliers. Therefore, a key challenge involves identifying or “mapping” the following for particular GVCs within and among the GMS economies:

- Tariff structures with respect to the import of needed inputs (components and sub-assemblies) and the export of outputs;
- Administrative procedures (e.g., identification of key constraints) with respect to imports/exports in the value chain;
- Import/export customs clearance procedures associated with key activities (and inputs/outputs) in the value chain.

C. Agenda for action: GVC-focused GMS cooperation

Subregional cooperation in logistics and trade facilitation are necessary but not sufficient to support SMEs in GMS to access international markets through participation in global value chains. More is required and subregional cooperation can play a more effective role than is currently the case. Such cooperation in GMS may focus on strengthening specific GVC-related linkages across borders, or on addressing common constraints and shared opportunities on a multi-country basis. The proposed initiatives include: (a) “mapping” value chains within the framework of a GMS GVC Working Group; (b) holding subregional training workshops on specific GVCs; (c) establishing GVC-related ICT training and resource centres; (d) building SME supplier clusters across borders; (e) building vertical linkages in specific GVCs; and (f) fostering subregional cooperation in certification.

1. “Mapping” value chains within the framework of a GMS GVC working group

Issue: There may be significant opportunities for cooperation on a subregional basis with respect to specific industry value chains of particular relevance to GMS countries. Therefore, a basic challenge is to identify such joint opportunities and related constraints, including “soft” constraints, such as domestic and cross-border trade rules and regulations relevant to particular industry value chains, and “hard” constraints, such as cross-border logistics systems. However, identifying specific industry value chains of shared interest and associated GVC-specific constraints requires comprehensive analysis or “mapping” of particular industry value chains and the institutional capacity to use the resulting information for joint decision-making. Therefore, it is important to have in place an institutional mechanism that allows the GMS countries to jointly identify and address GVC-related opportunities, priorities and constraints, and to facilitate coordination both within and between countries on necessary actions.

Initiative: Given the above, it is recommended that an analysis be carried out of selected industry value chains of potential joint interest to GMS countries.²⁷ In order to guide this work and to ensure effective follow-up, a *GMS GVC working group* should be established at the level of senior officials²⁸ closely linked to the private sector through the GMS Business Forum composed of the chambers of commerce (or their equivalent) in the GMS economies. Building on existing GMS initiatives in areas such as infrastructure and trade facilitation, this working group would oversee the formulation and implementation of a coherent GMS value chain programme aimed at specific, jointly selected products and markets.

2. Holding subregional training workshops on specific GVCs

Issue: SMEs in GMS have generally limited understanding of the structure, dynamics and requirements of GVCs, as well as of the potential opportunities they provide to local firms. A “generic GVC familiarization workshop” is not likely to be effective; workshops need to be directly relevant to participating SMEs, offering clear potential payoffs, preferably over a relatively short time horizon.

Initiative: Given the above, training workshops should focus on particular industry value chains and on specific needs within such GVCs. To ensure credibility, they should be conducted jointly with global buyers or established institutions in the selected GVCs (e.g., Carrefour or Tesco in fresh fruit and vegetables; IKEA on wood furniture; the Penang Skills Development Centre in electronics and ICT) in partnership with industry associations/ chambers of commerce in the GMS economies. The workshops should be “subregional” in nature, relevant to a number of the GMS economies. A two-level approach should be taken, with the first type of workshop, a “GVC familiarization workshop” for SMEs focusing on the general structure and dynamics of particular GVCs and the requirements for producers to be suppliers to these value chains. This should then be followed by more focused workshops addressing specific topics of particular operational relevance in the selected GVC, where upgrading of SME knowledge and skills are essential. For example, workshops could address issues for specific GVCs, such as design, standards and certification, technology acquisition and sharing, packaging, shipping and logistics, branding and labelling, channels and distribution.

3. Establishing GVC-related ICT training and resource centres

Issue: Enterprises within particular GVCs and associated production networks are generally coordinated by computer-based information and management systems that integrate geographically dispersed tasks (e.g., in agribusiness networks led by global retailers such as Carrefour and Tesco; apparel and garment networks coordinated by

²⁷ A given industry value chain need not involve all GMS economies. However, by selecting two or three such industry value chains for attention the interests of all the GMS economies may be accommodated.

²⁸ This is similar to the existing GMS working groups in areas such as transport, energy, trade and investment.

global suppliers such as Li & Fung; electronics and ICT networks coordinated by lead firms such as Cisco or global suppliers such as Flextronics). Familiarity with special-purpose ICT systems is therefore essential for effective SME participation as suppliers in GVCs. Such systems can also play an important role in linking enterprises to each other for sharing key information and task-related communication, strengthening enterprise clusters. In general, at this stage SMEs in GMS have limited appreciation of the role of ICT in business development and often face significant constraints on accessing key information that addresses specific needs they may have, e.g., potential buyers for their products and working with e-business systems of global buyers in their GVC.

Initiative: A GVC-specific information systems training programme may be initiated, related to market information and business “e-communication” training, focusing on particular industry value chains, e.g., “e-business” requirements of organic fruit and vegetable GVC. Instead of traditional ad hoc ICT training courses, it may be more effective to utilize or establish an “information intermediary institution” that offers integrated ICT services for SMEs in particular GVCs in specified locations, including outside major cities. Such an institution would offer the hosting of ICT-related training facilities and programmes focused on the selected GVC, and information and related advisory services with respect to the given GVC. The host agencies could include provincial chambers of commerce and local industry associations. This initiative could build on the experience of UNIDO’s BISnet and “One-Stop-Shop”, which have been implemented in a number of countries, including Pakistan and Sri Lanka and are in progress in China.

4. Building SME supplier clusters across borders

Issue: As noted previously, it is too costly, time-consuming and risky for global buyers to deal individually with many small suppliers. They prefer to deal with a small number of core suppliers. Therefore an important challenge for SMEs is cooperation – the formation of alliances, groups or clusters – to reduce the transaction costs to global buyers and producers sourcing from small enterprises. As previously noted, such inter-firm cooperation can also be important for the collective efficiencies necessary for SMEs to compete on global markets. In general, cluster development has been approached primarily as a domestic issue, involving the cooperation of groups of local SMEs within the same country. However, cooperation in GMS provides potential opportunities for cross-border cluster development or linkages.

Initiative: There are a number of “joint economic zones/industrial estates” in preparation or under discussion involving key border points in GMS, e.g., Thailand/Myanmar, Thailand/Lao People’s Democratic Republic and Viet Nam/Cambodia. Development of these may be approached from the outset as supporting cross-border clusters of suppliers for particular GVCs, e.g., automotive parts, garments, agroindustry. This can help to enhance the attractiveness of GMS to foreign investors in terms of a “single subregional production base”. Such initiatives require close cooperation among the relevant Governments of the GMS economies in creating “cross-border economic zones” or linkages – in terms of coordinating/harmonizing rules, procedures and regulations in the context of specific GVCs.

5. Building vertical linkages in selected GVCs

Issue: Linking domestic SME producers to global buyers/suppliers is a basic objective of GVC-related initiatives. Furthermore, in many GVCs these vertical relationships are the key mechanisms through which SMEs learn about changing product-market requirements: they are a key channel through which GVC-related strategic business development services are delivered. However, given their constraints, it is challenging for SMEs to build such vertical industry linkages on their own.

Initiative: Existing experience with GMS “business matchmaking” and “trade fairs” may be used to develop “GVC business matching/fairs” for specific industry value chains of shared interest. This may build on and be linked to general “GMS familiarization tours” by global buyers and investors that have been organized by the ADB-facilitated GMS Programme in the past, but focused on particular GVCs. It can also be linked to the development of SME supplier clusters, both domestic and cross-border.

6. Fostering Subregional cooperation in certification

Issue: Access to global markets through GVCs depends increasingly on meeting global standards, confirmed through a *credible* certification of inputs (e.g., sourcing of wood for furniture), products (e.g., safety and health standards) and production processes (e.g., labour standards). Global buyers generally look to source from certified companies as an indication that minimum required capabilities are present. Where testing and inspection are not carried out by the GVC buyer, suppliers must be able to prove the reliability of their inspection procedures, test data and conformity with international standards.

Initiative: Focusing on specific GVCs, GMS cooperation could involve strengthening selected GVC-related certification bodies, and establishing or supporting a process of GVC-related certification by an independent body. An effective example of the latter in GMS is the ILO monitoring and inspection of Cambodian garment manufacturers that has been a key factor in Cambodian producers as successful suppliers in the apparel GVC. Given resource and technical constraints on some GMS countries, such certification bodies or initiatives could be established in selected countries, but with a subregional mandate. In general, support for the certification for SMEs can form part of the GMS industrial promotion strategy at both the country and subregional levels.