

Role of PTAs for Promoting MSMEs' Integration in GVCs

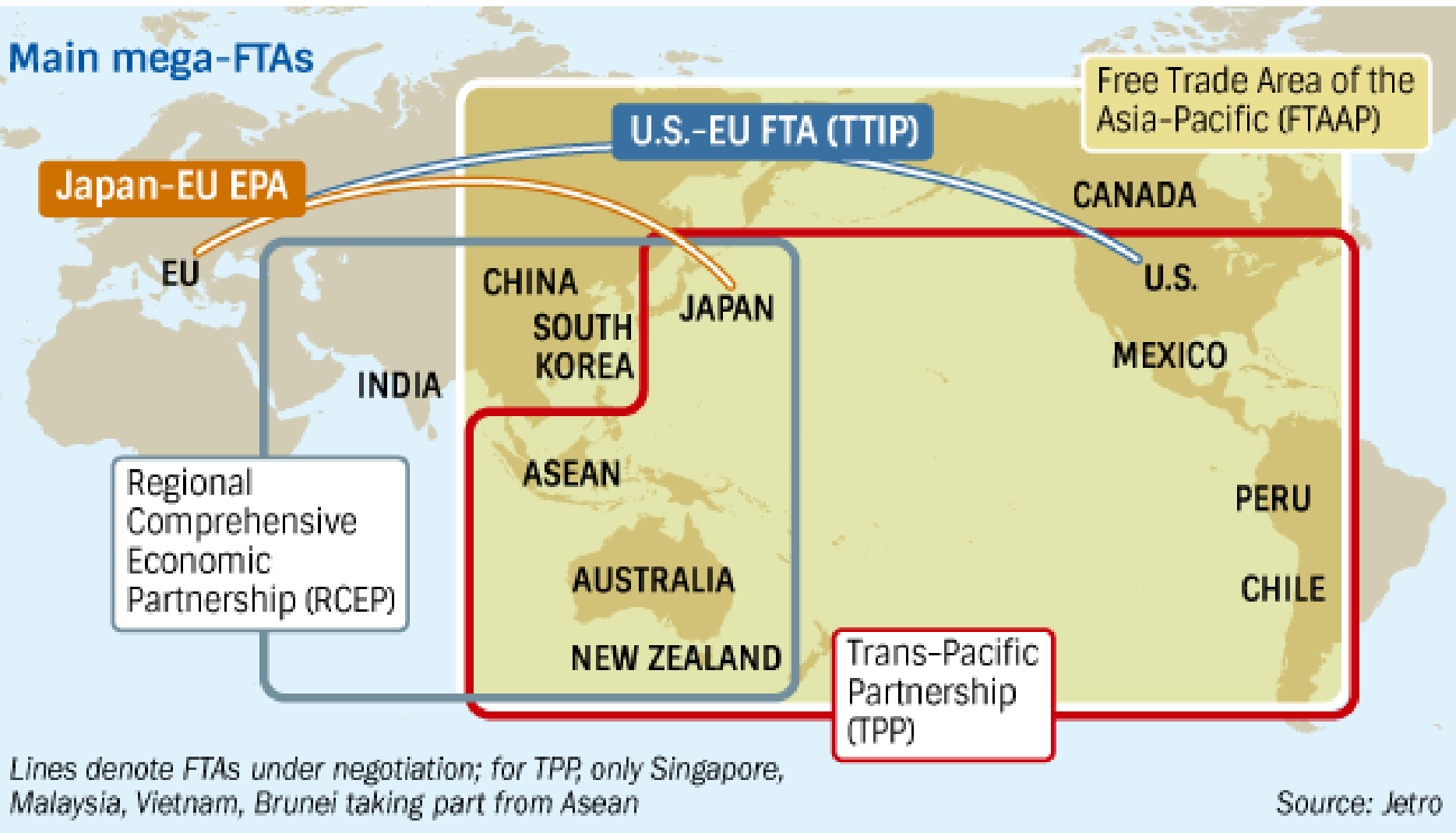
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Regional Dialogue on
“ENHANCING THE CONTRIBUTION OF PREFERENTIAL TRADE AGREEMENTS
TO INCLUSIVE AND EQUITABLE TRADE”
UNCC, Bangkok, Thailand, 22 June 2017

Topics

- Opportunities and challenges for **MSMEs** in the context of economic integration through **RTAs**
- Policies to facilitate MSMEs' integration into **GVCs** effectively
- ASEAN/**CLMV** cases (thus talking about **AEC**)

Mega-RTAs in the future



Stages of economic integration

1. Reduction in trade barriers

- Preferential trading area (PTA)
- Free trade agreement/area (FTA)

TPP, RCEP

FTAAP

NAFTA

2. Customs union

3. Common market

Mercosur

AEC

4. Economic union

5. Monetary union

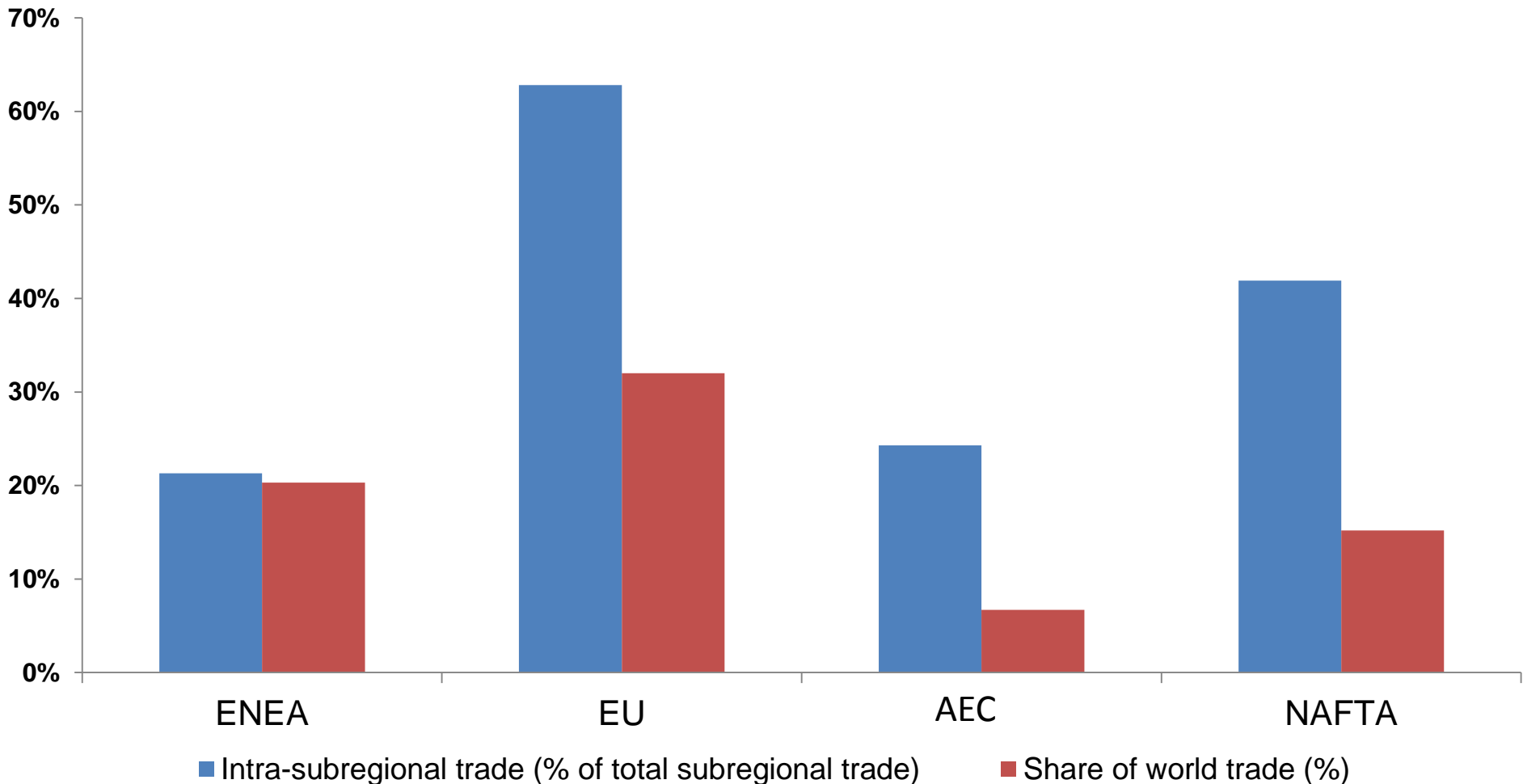
EU

6. Fiscal union

7. Complete economic integration

Deeper Integration

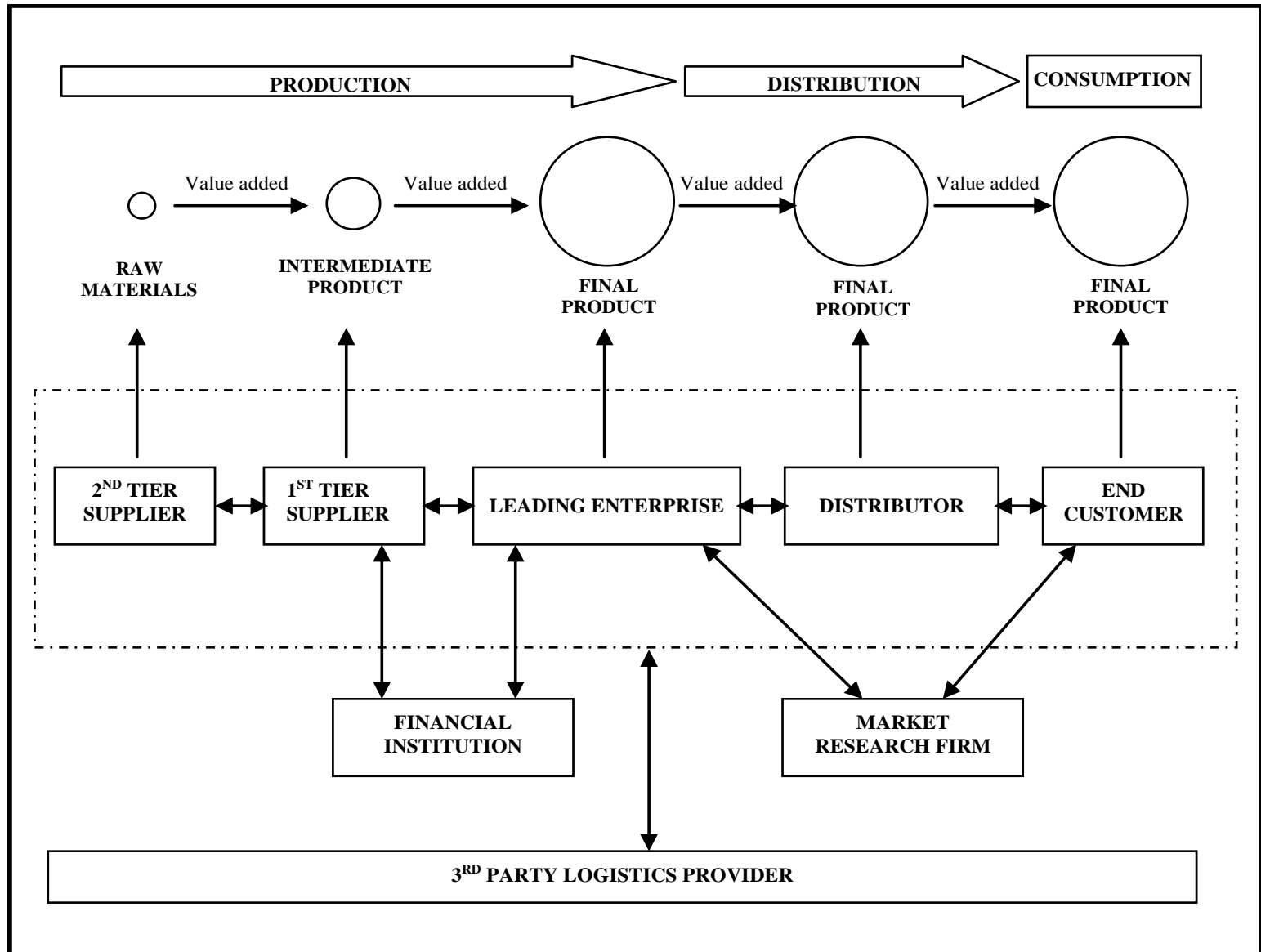
Trade shares of selected RTAs, 2014



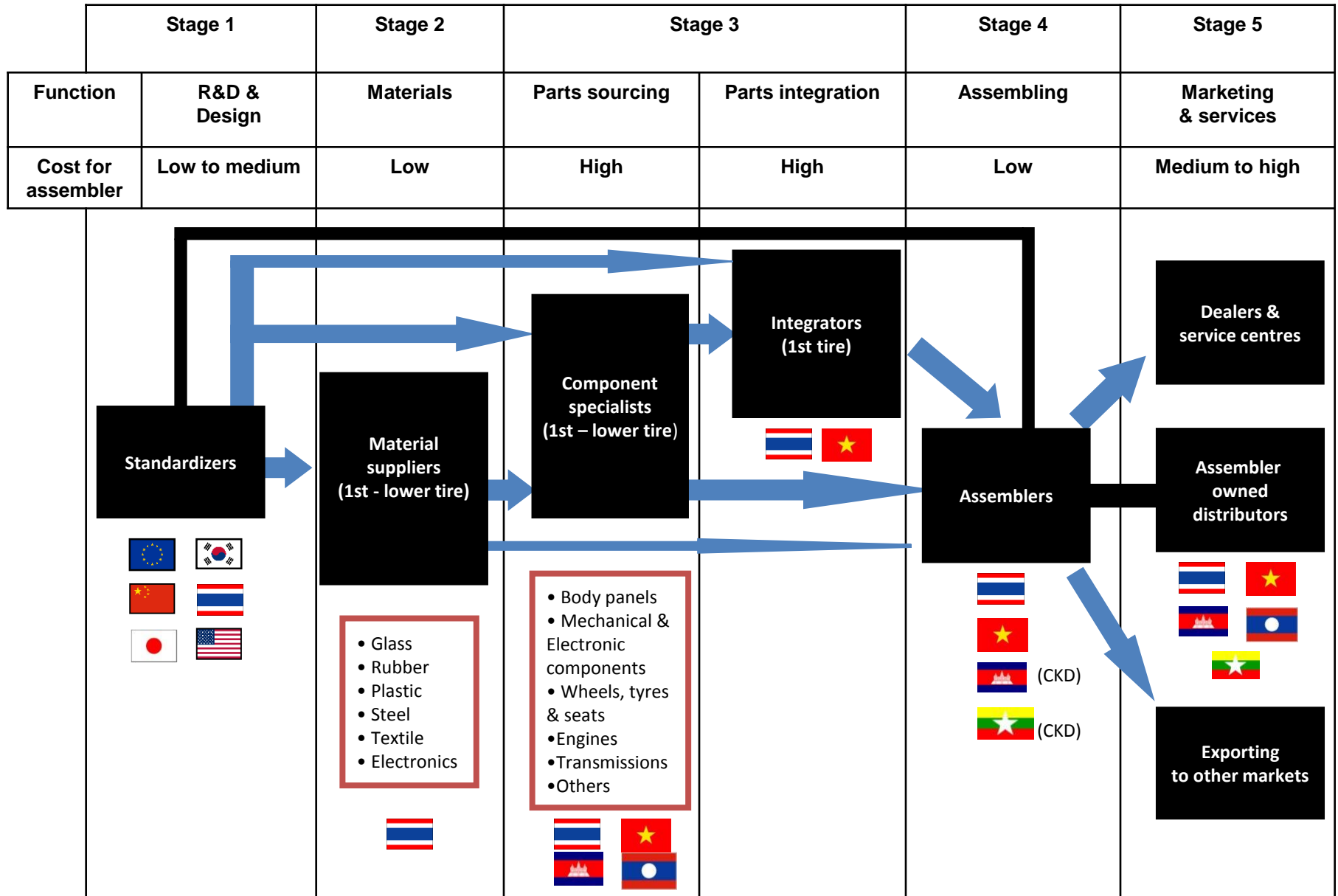
What is a global value chain?

- A sequence of all functional activities required in the process of value creation involving more than one country (UNCTAD, 2013)
- Cross-border trade in intermediate goods and services that are incorporated within the production process of goods and services for final consumption
- About 60 per cent of global trade under GVCs (UNCTAD, 2013)
- Production fragmentation
- Sector-specific characteristics
- Led by multinationals

A simplified GVC

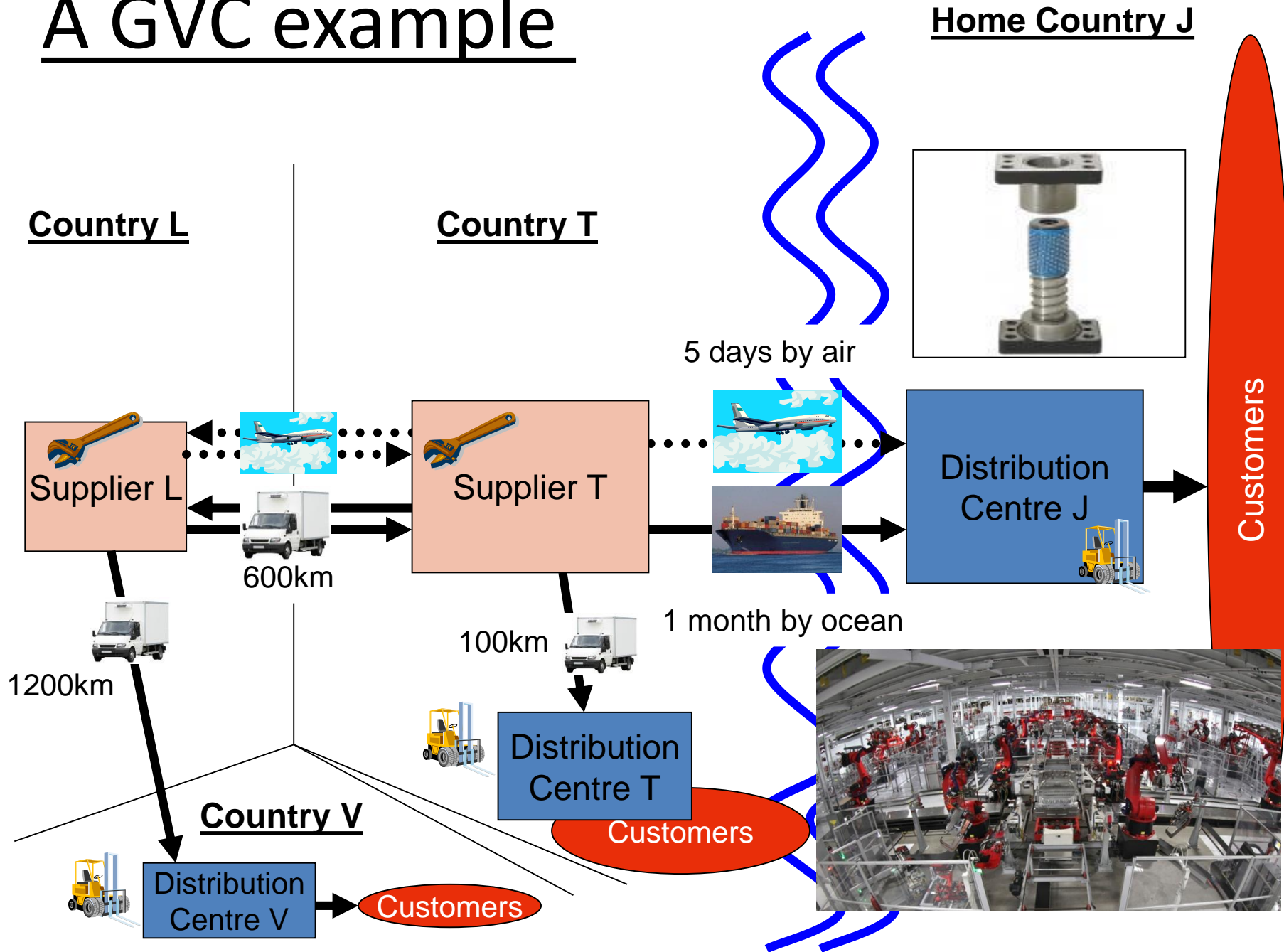


Simplified auto value chains

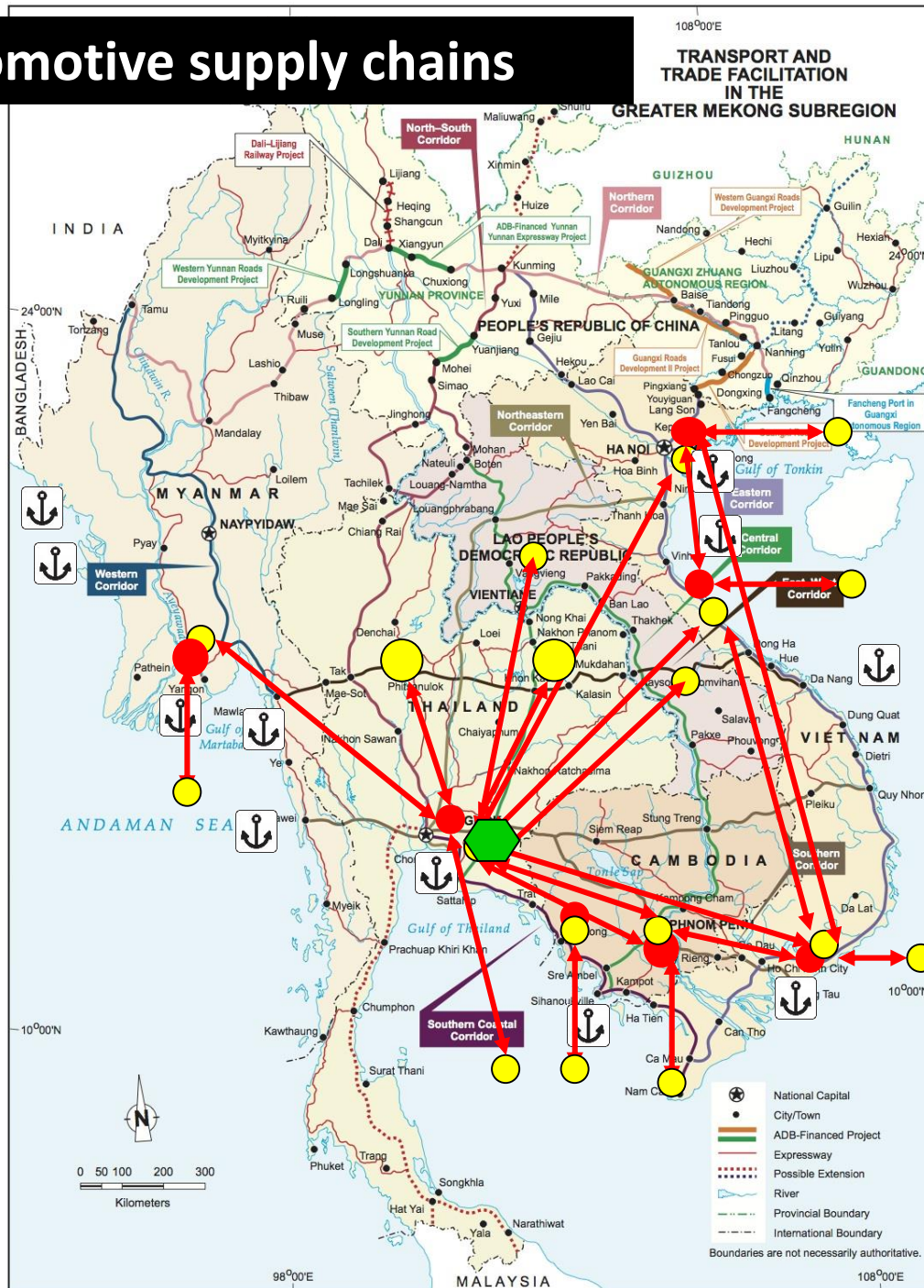


Note: Logistics costs are included in each function.

A GVC example



Automotive supply chains



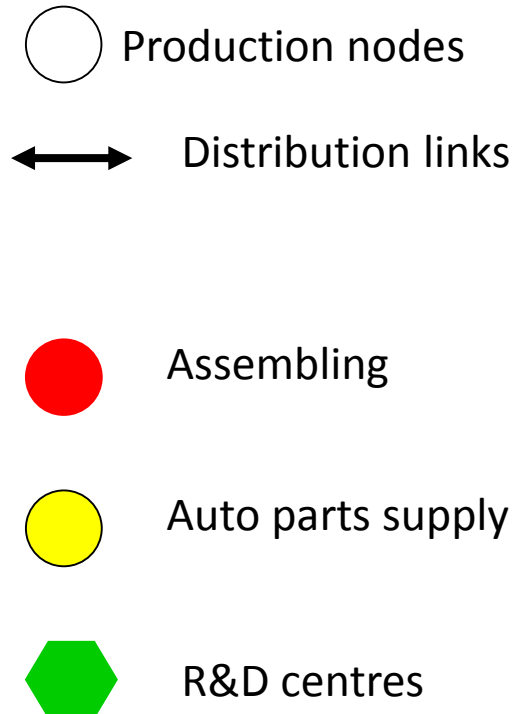
1960s

1970s-80s

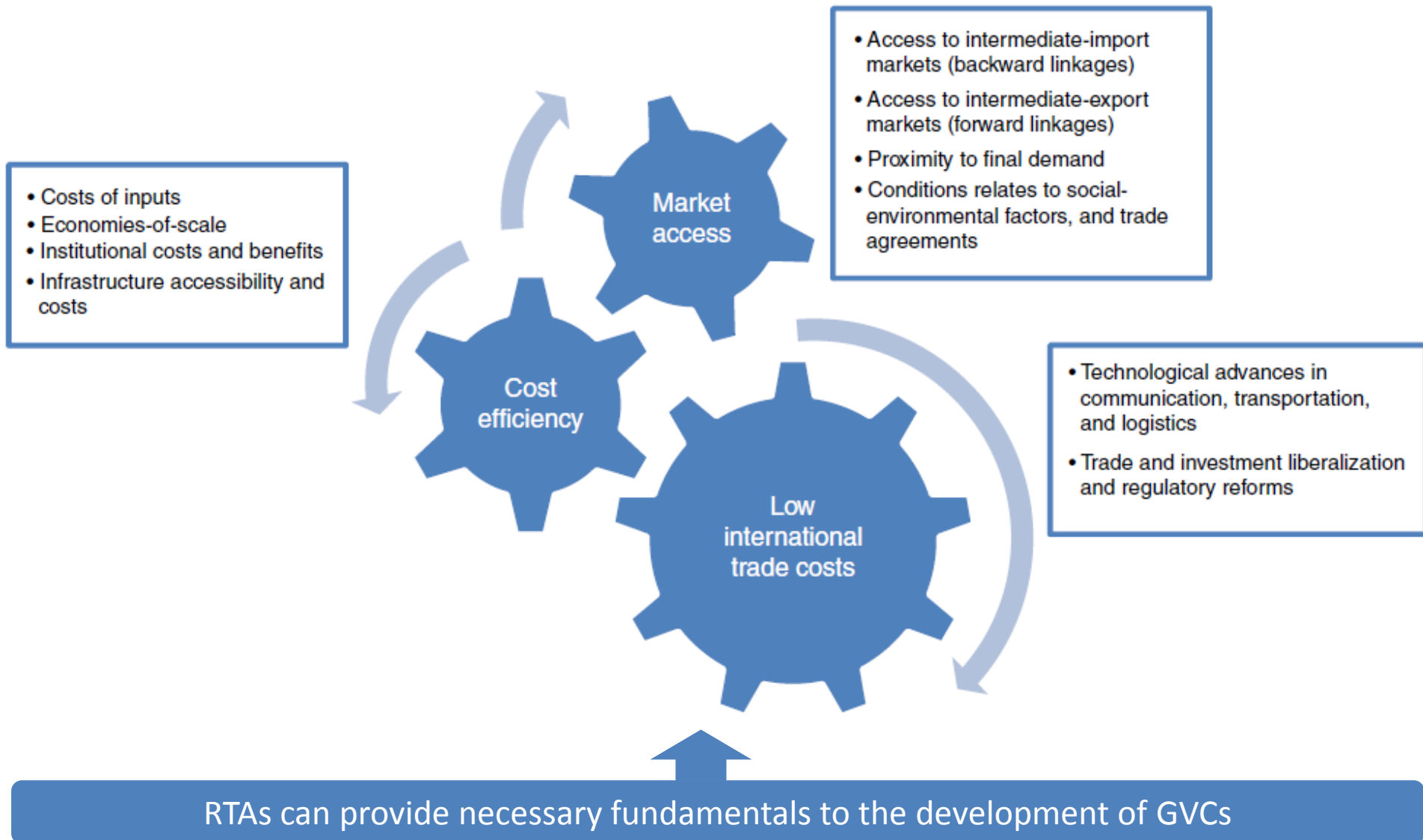
1990s

2000s

2010s



Main factors driving GVCs



Intraregional exports of GVC products by country income level groups, 2013

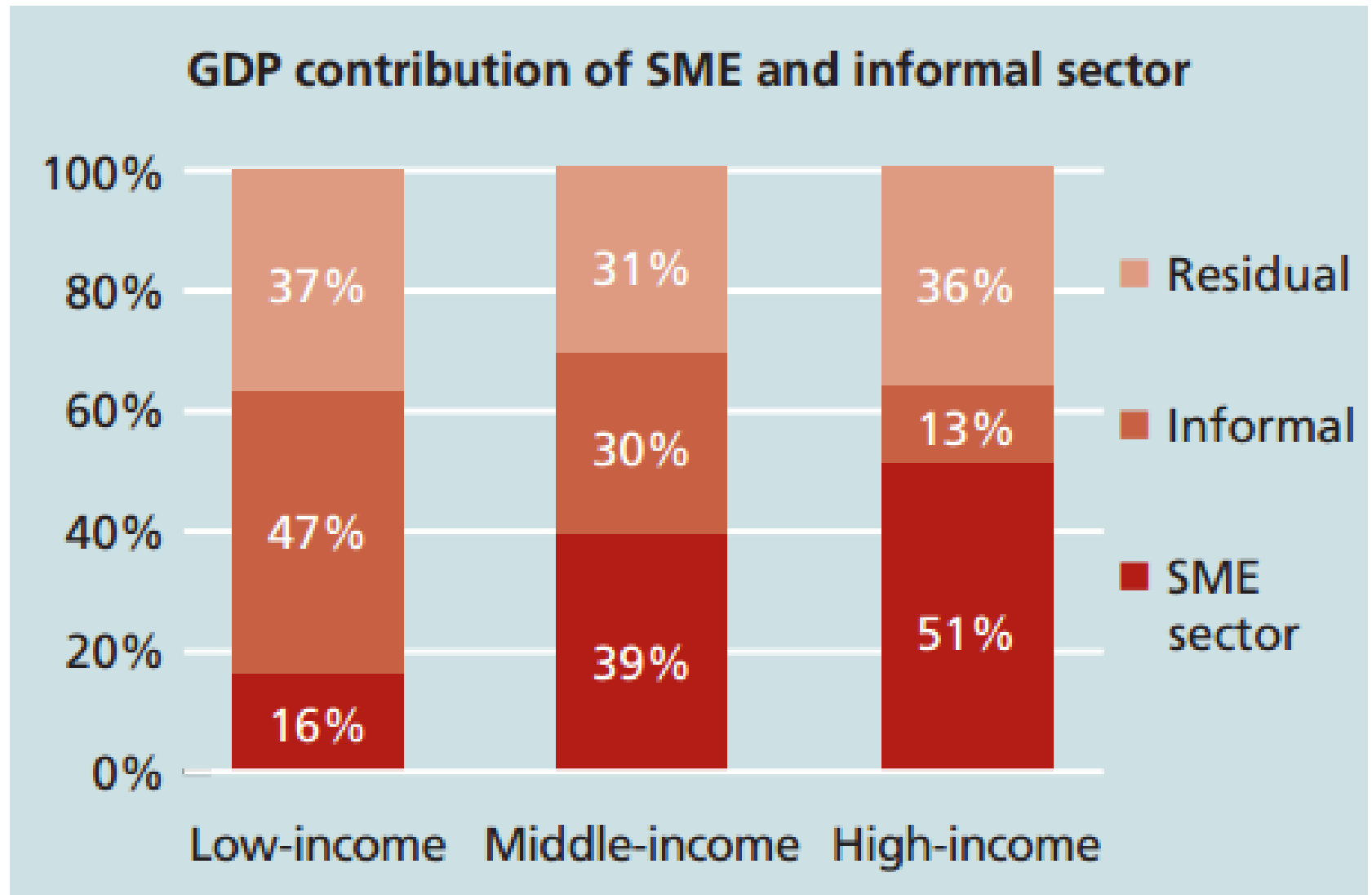
(Percentage of intraregional exports)

Importer exporter	Final goods				Intermediate goods			
	High	Upper-middle	Lower-middle	Low	High	Upper-middle	Lower-middle	Low
<i>High income</i>	45.1	40.6	12.6	1.6	26.9	53.0	19.0	1.0
Changes from 1995 (percentage points)	-30.0	23.3	6.2	0.6	-25.6	15.6	10.1	-0.1
<i>Upper-middle income</i>	74.4	11.7	11.8	2.1	58.0	18.9	18.0	5.1
Changes from 1995 (percentage points)	-20.3	9.1	9.8	1.5	-22.4	7.2	11.8	3.4
<i>Lower-middle income</i>	43.7	36.6	16.1	3.6	30.0	46.0	14.4	9.7
Changes from 1995 (percentage points)	-39.1	27.2	10.4	1.6	-38.1	24.5	8.5	5.1
<i>Low income</i>	50.6	32.9	16.4	0.0	12.7	66.2	20.4	0.7
Changes from 1995 (percentage points)	-10.6	23.3	-10.3	-2.4	-42.7	58.1	-9.4	-6.1

Who are MSMEs?

- More than 99.9% of entire business/commercial entities in a nation
 - Micro, small and medium, as well as those in the informal sector
 - Typically less than 250-300 employees
 - All sectors
 - Diversified needs
- Niche market and smaller production
 - Lack of economies of scale
- Resource and capacity constraints
 - Supply, human resources, technology
 - Finance

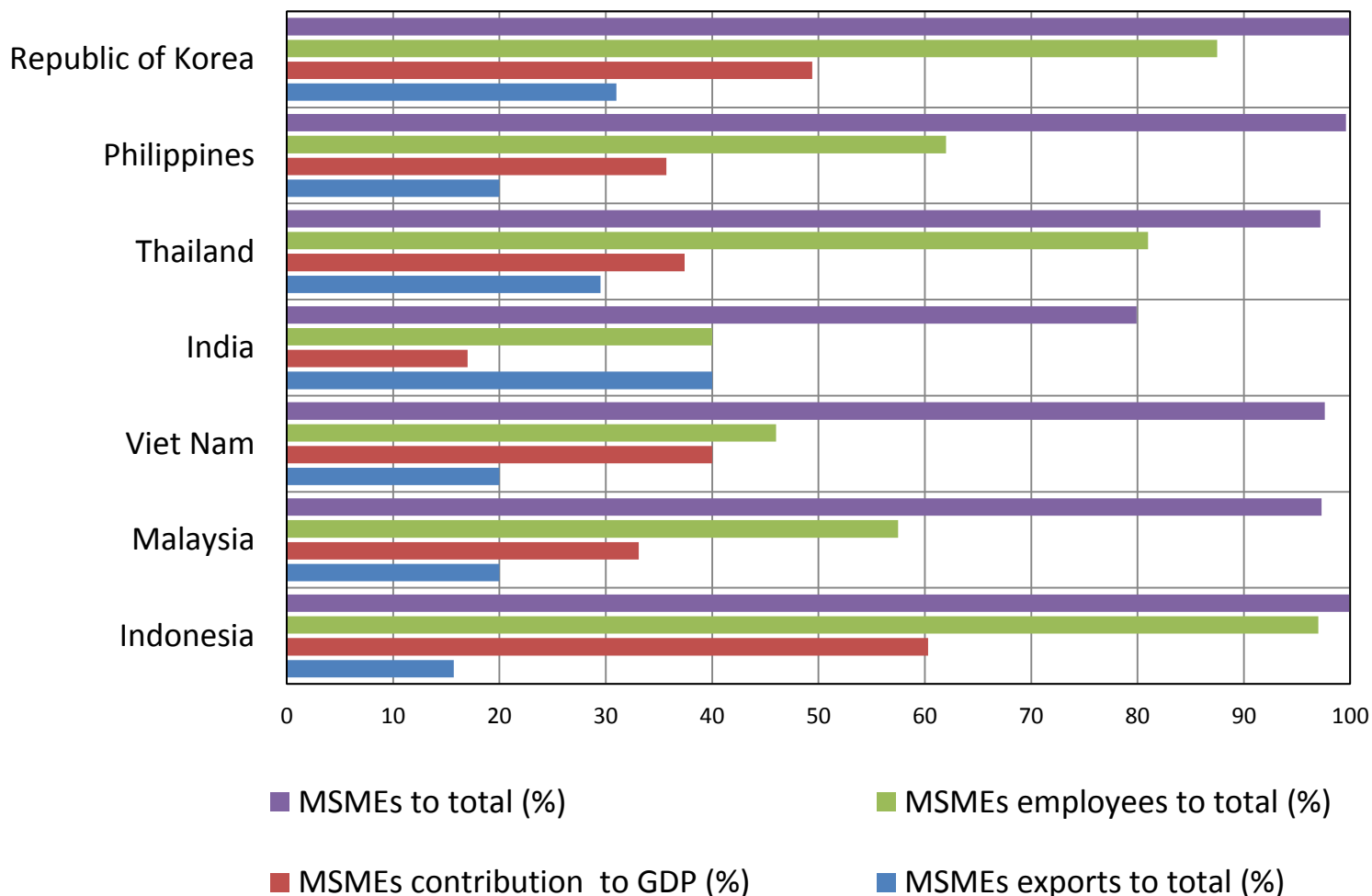
GDP Contribution of SMEs



Source: Ayyagari, Beck and Demirgüç-Kunt, 2003.

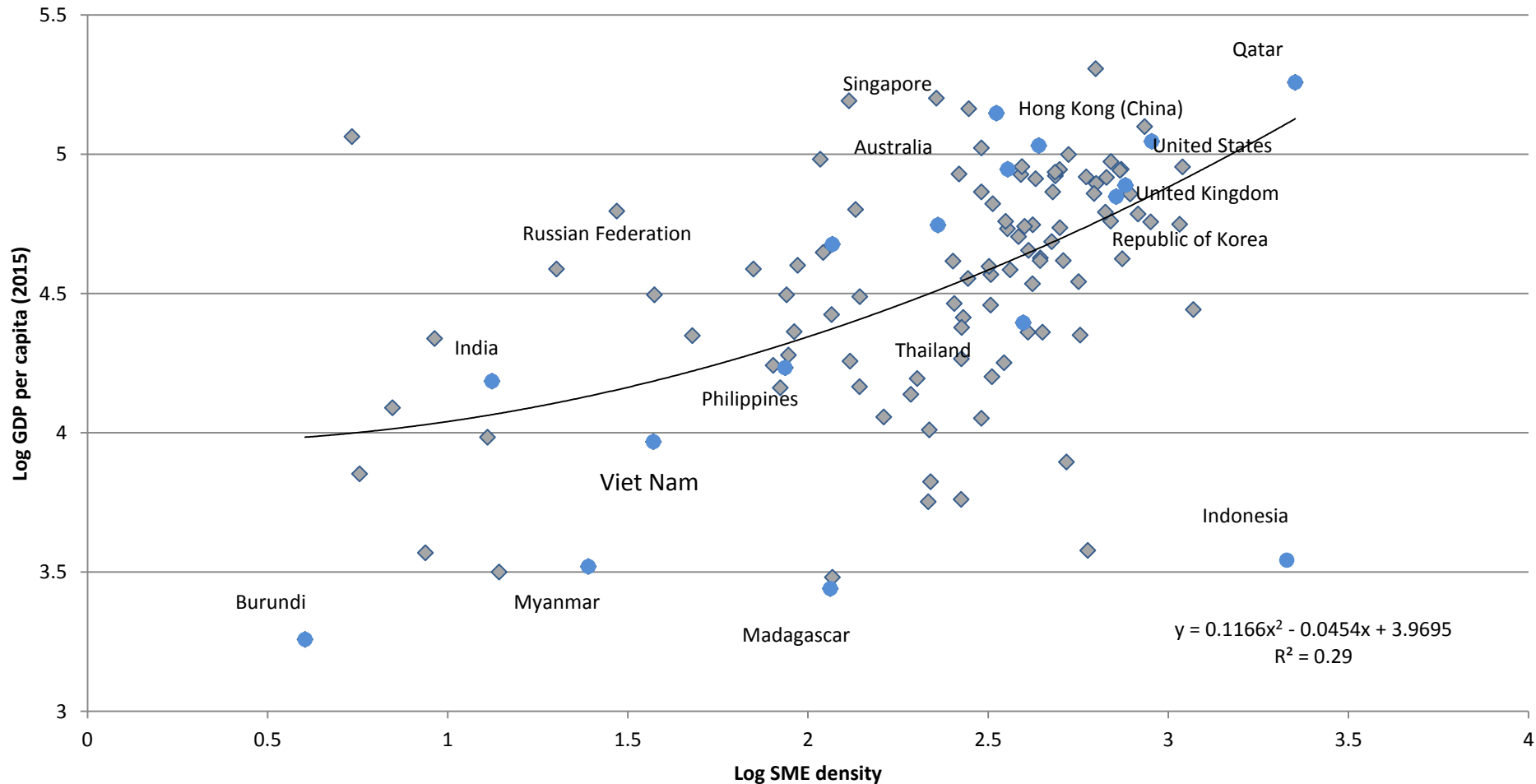
Note: "Residual" includes large enterprises and public sector.

MSME contribution to economic activity by country



Sources: ADB (2015); Department of Trade and Industry of the Philippines (2014); Ministry of Planning and Investment of Vietnam (2014).

MSME density versus national productivity



Sources: Chu (2015); SMEAJ (2015); Ping (2014); SME Finance Forum (2016); World Bank (2016).

RTAs: Challenges and Opportunities I

- Provide more opportunities to (a) relatively larger businesses and (b) businesses based in the relatively wealthier countries
- Provide significant potential for MSMEs who can offer better quality, cost and delivery
- Intensify competition for MSMEs with the inflows of foreign-made goods and services
- Put pressure on upgrading product quality or decreasing prices through R&D activities, technological advancement and innovation

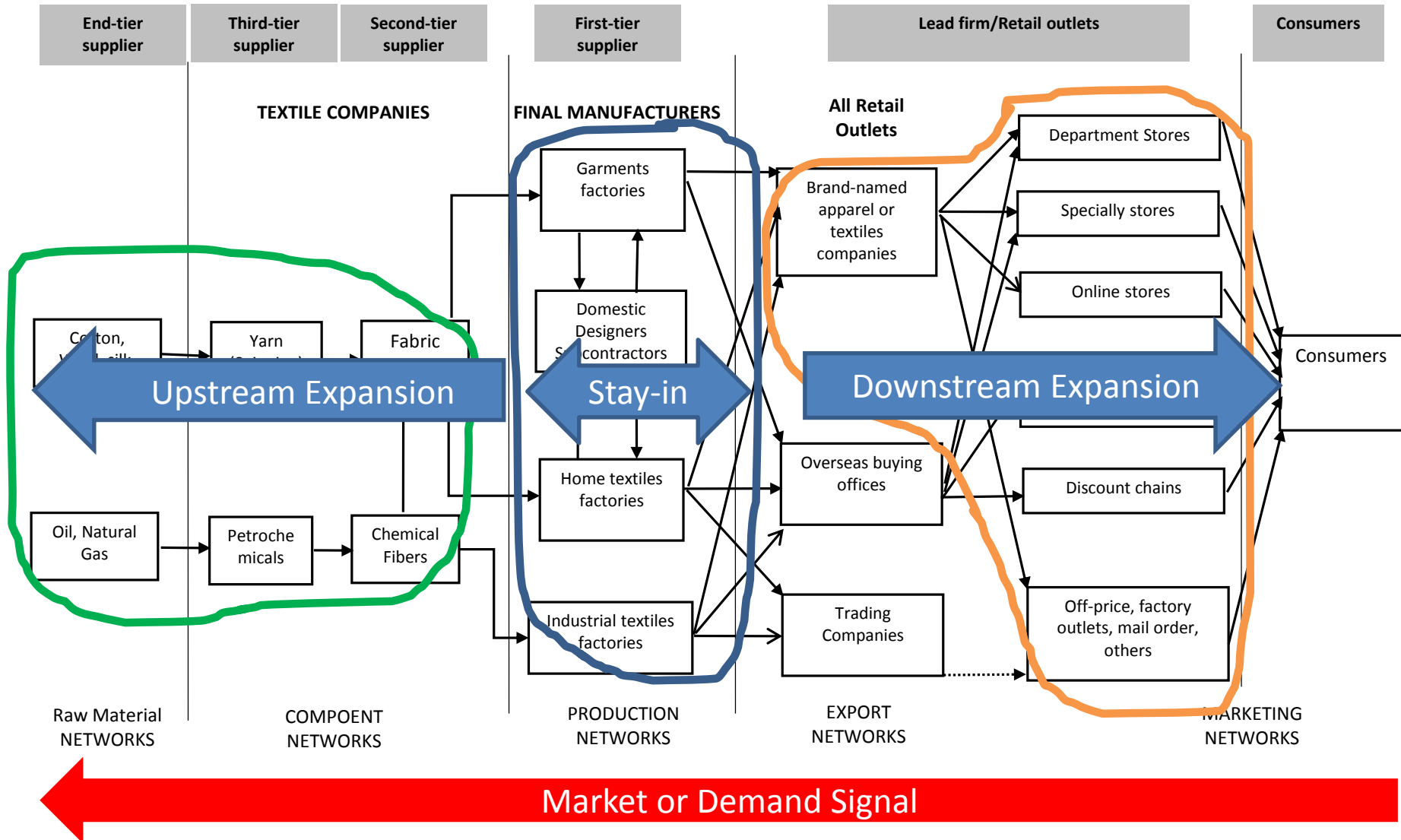
RTAs: Challenges and Opportunities II

- Combined with infrastructure improvements in energy, ICT, and transport, enable MSMEs to have cheaper, more reliable access to the goods and services
- Create upward pressure on wages (as well as lands and other services) as the region becomes more fully integrated
- Enhance the ability of MSMEs to get money from banks or other financial institutions as the financial sector is likely to have a much improved capacity to loan out money

Benefits of GVCs for local SMEs

- Bolster productivity of participating enterprises, including SMEs
- Provide opportunities for creation of high(er)-skilled and better paid jobs
- Require different styles of engagement with GVCs for different development levels
 - Limited opportunities in low-income economies to benefit from technology dissemination and skills upgrading whose firms specialize in tasks that rely on low-wage/unskilled labour
 - Knowledge-intensive tasks of GVCs in high-income economies

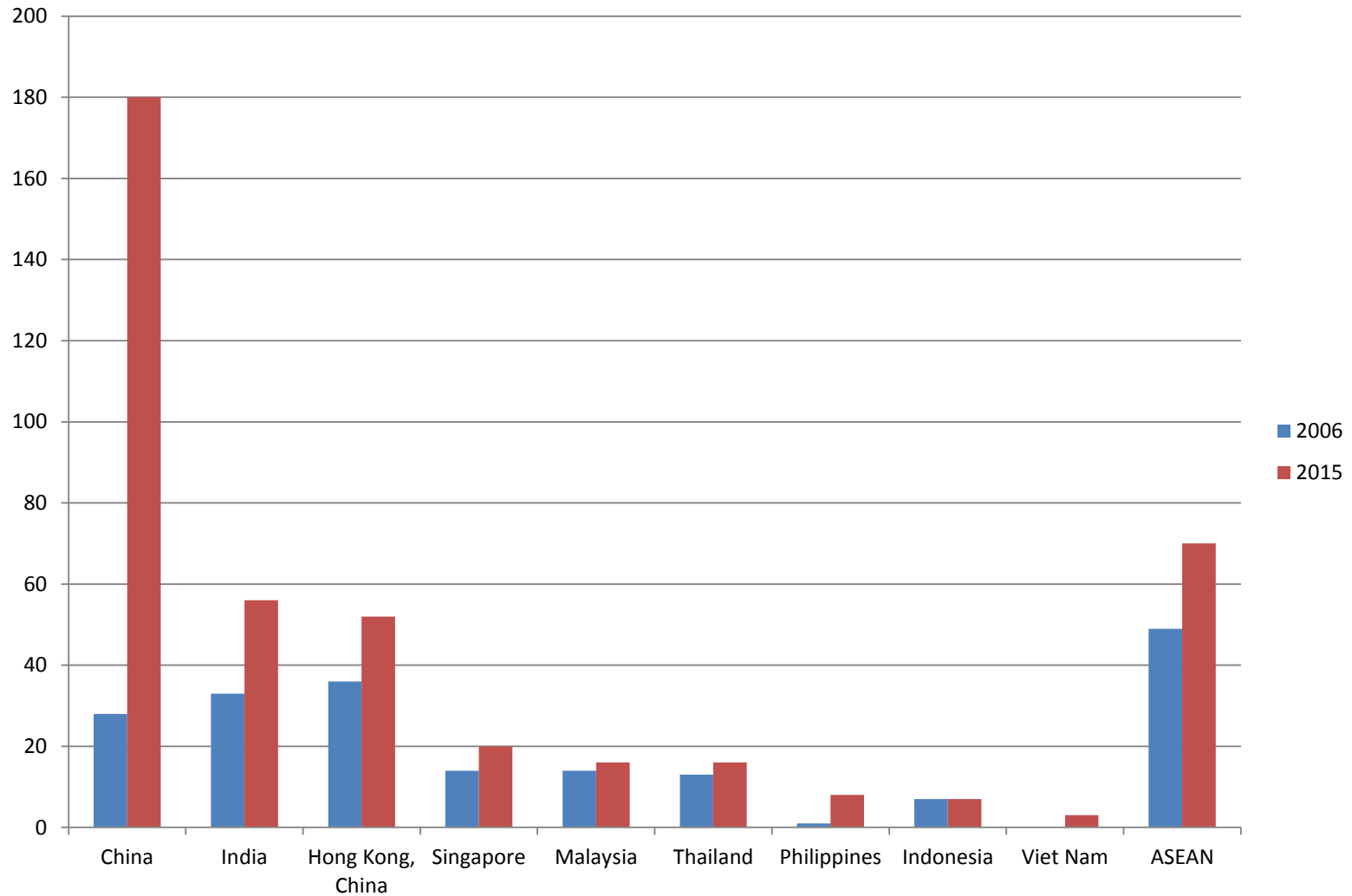
Three major strategies



Upgrading of SMEs in GVCs

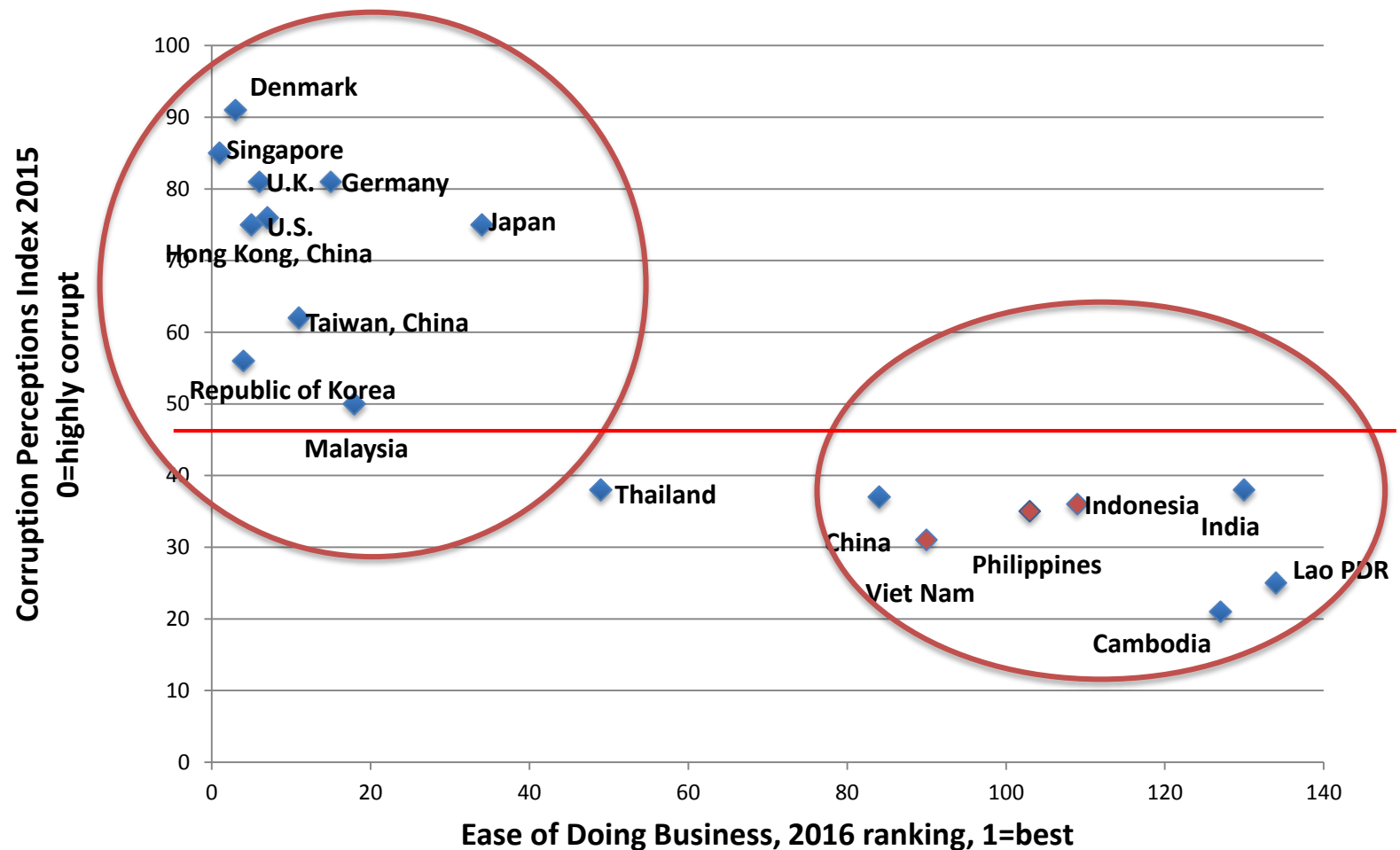
- Process upgrading
 - Transforming inputs into outputs more efficiently by recognizing the production system or introducing superior technology
- Product upgrading
 - Moving into more sophisticated product lines in terms of increased unit values
- Functional upgrading
 - Acquiring new, superior functions in the chain, such as design or marketing
- Intersectoral upgrading
 - Applying the competences acquired in a particular function to move into a new sector

Global Enterprises in Emerging Asia

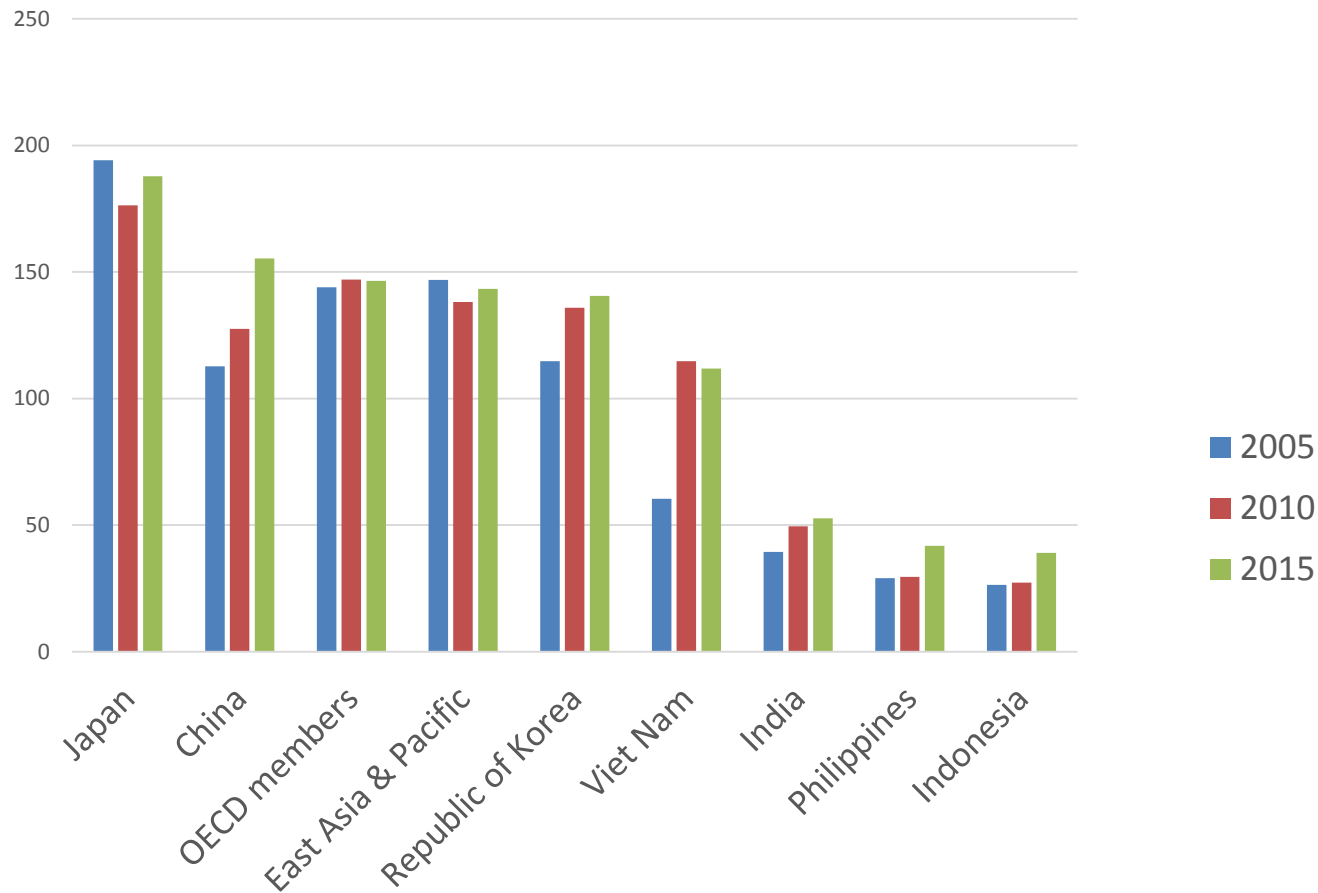


Source: Compiled based on the dataset of the Forbes Global 2000 (2015).

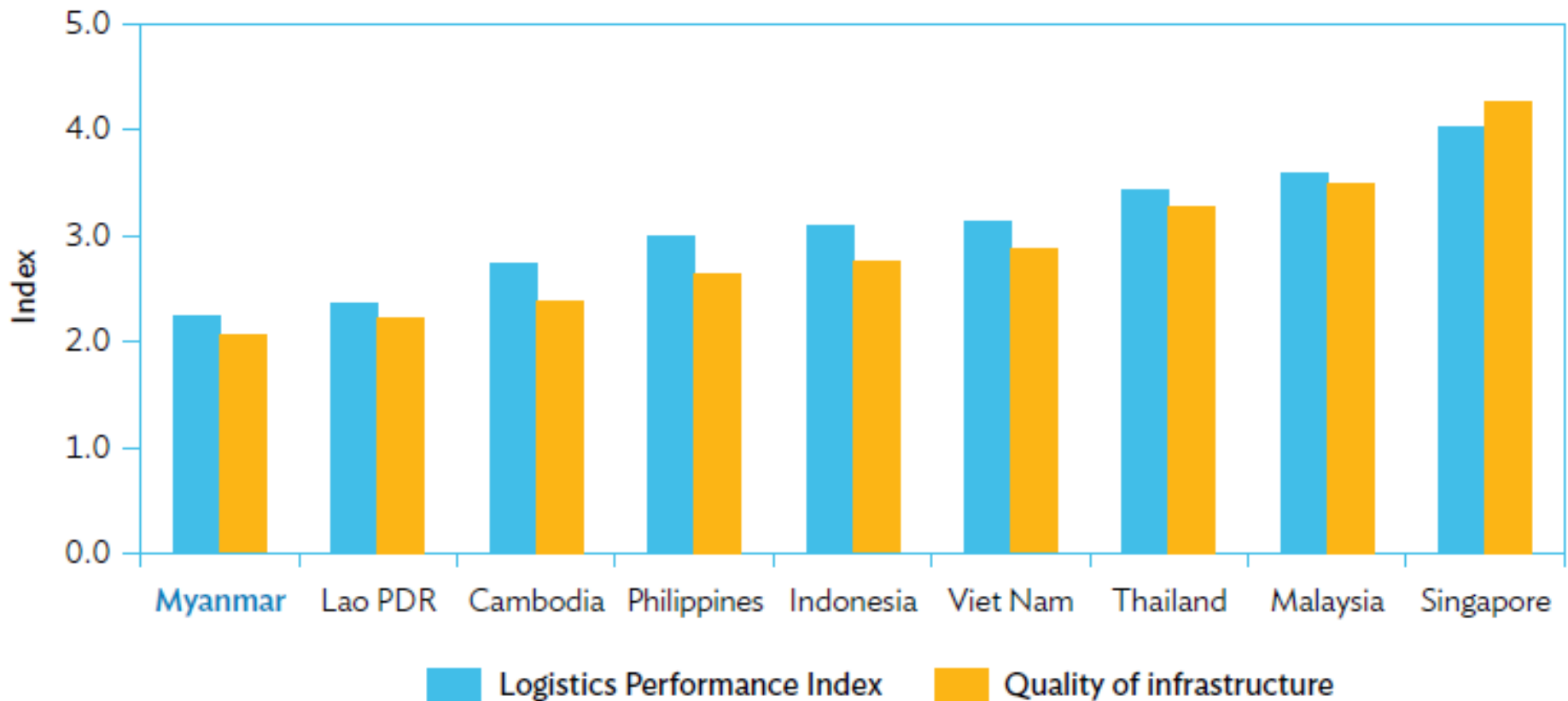
Ease of doing business and corruption perceptions



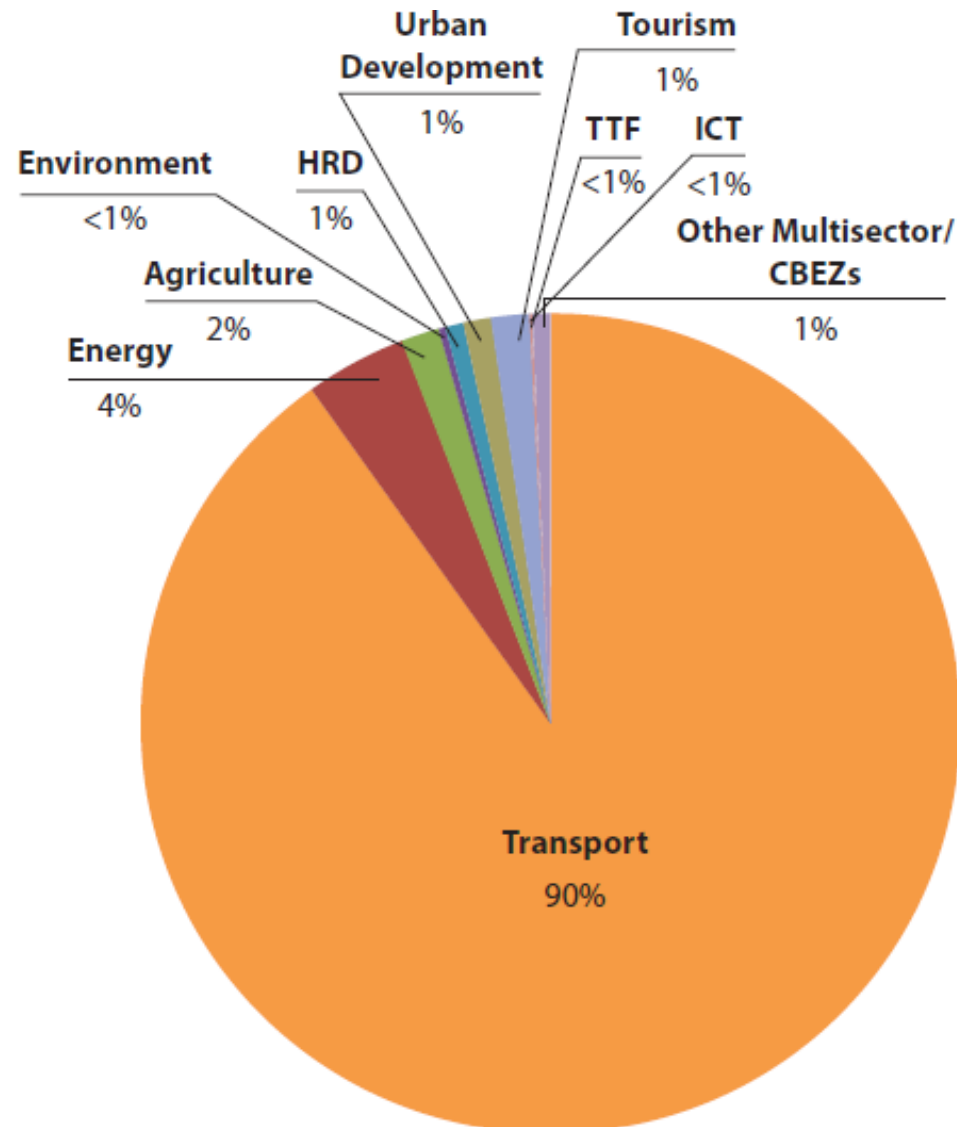
Credit to business, percentage of GDP



Logistics performance and quality of infrastructure, 2014

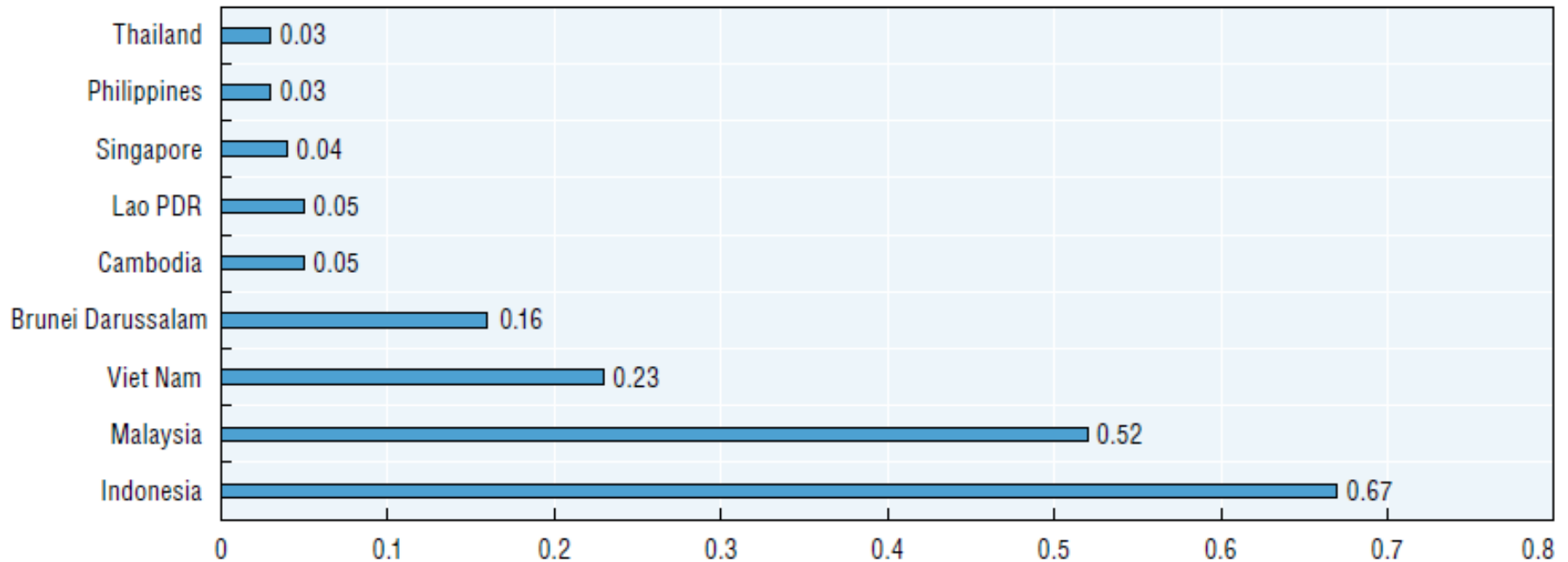


Public Investment Projects in CLMTV (by cost)

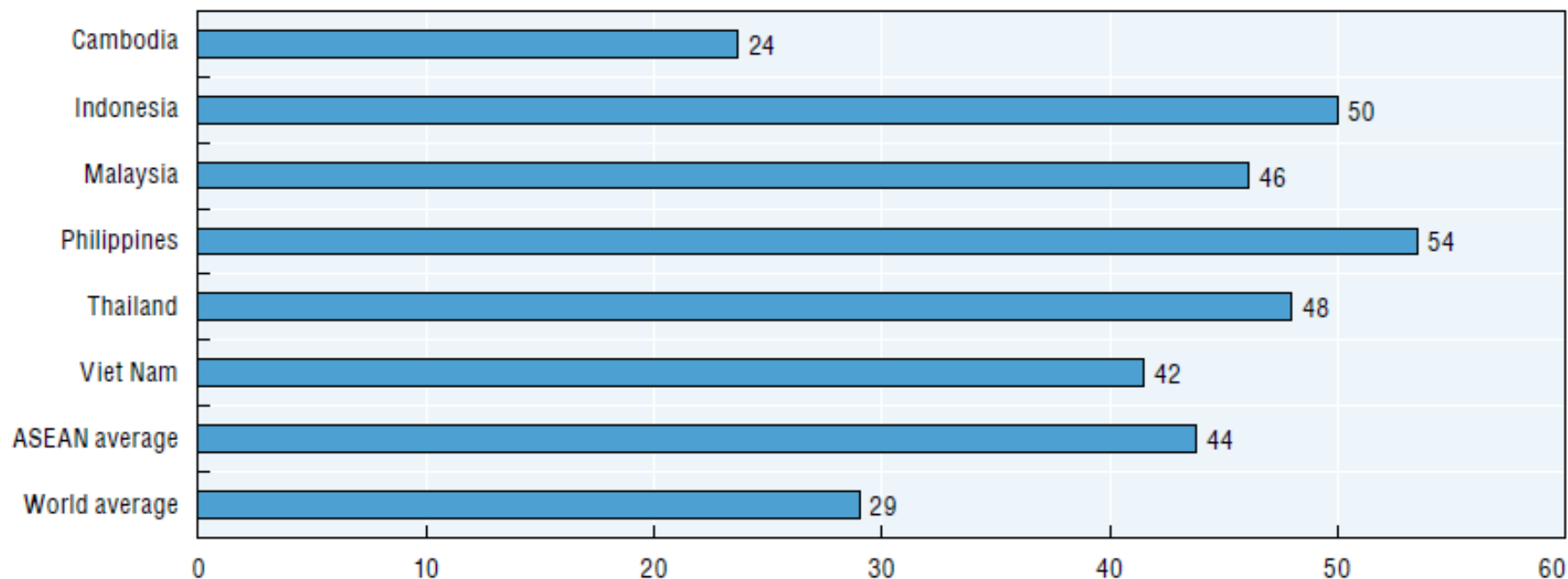


Source: ADB (2015)

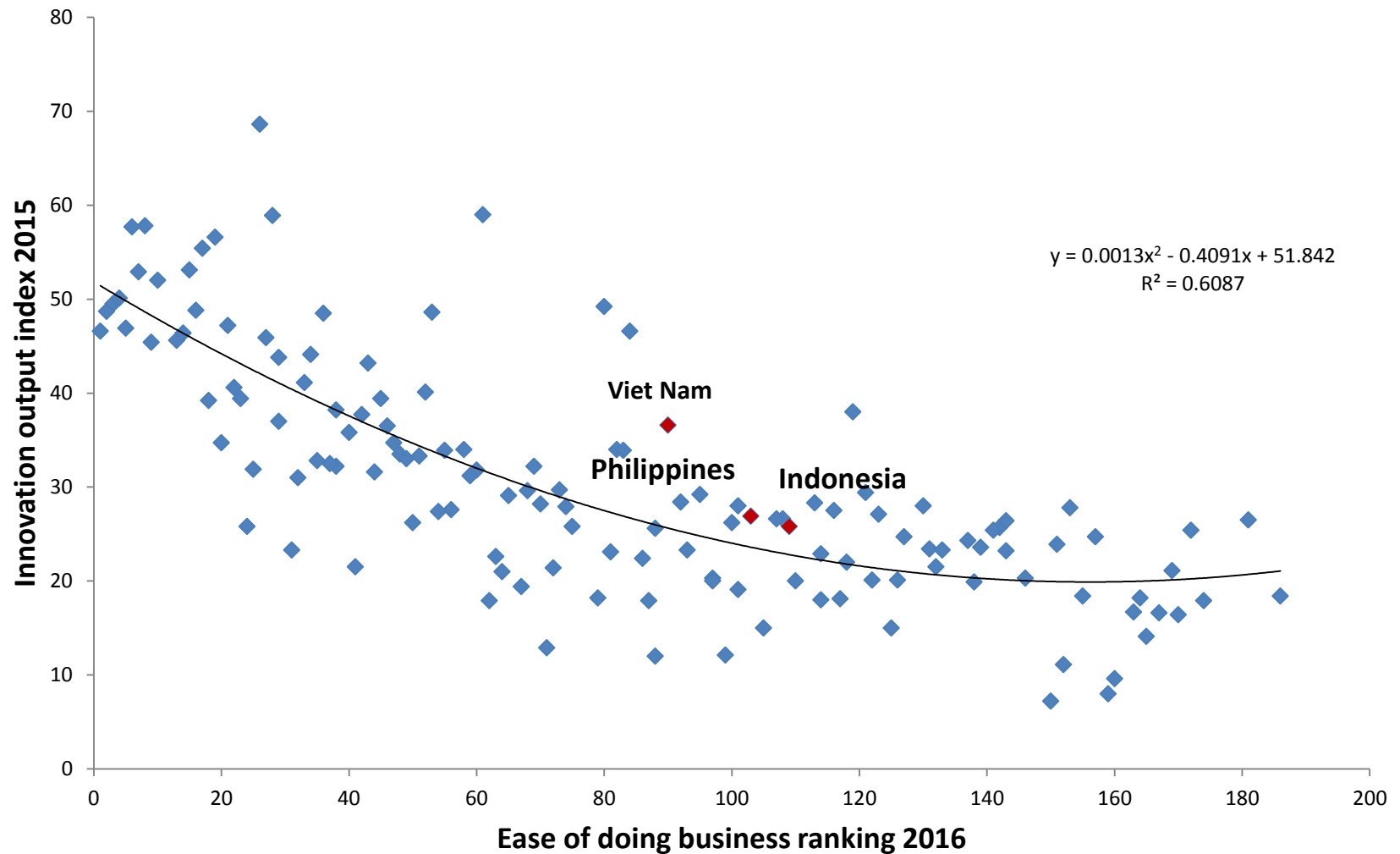
Core Non-tariff measure Restrictiveness Index in ASEAN, 2009



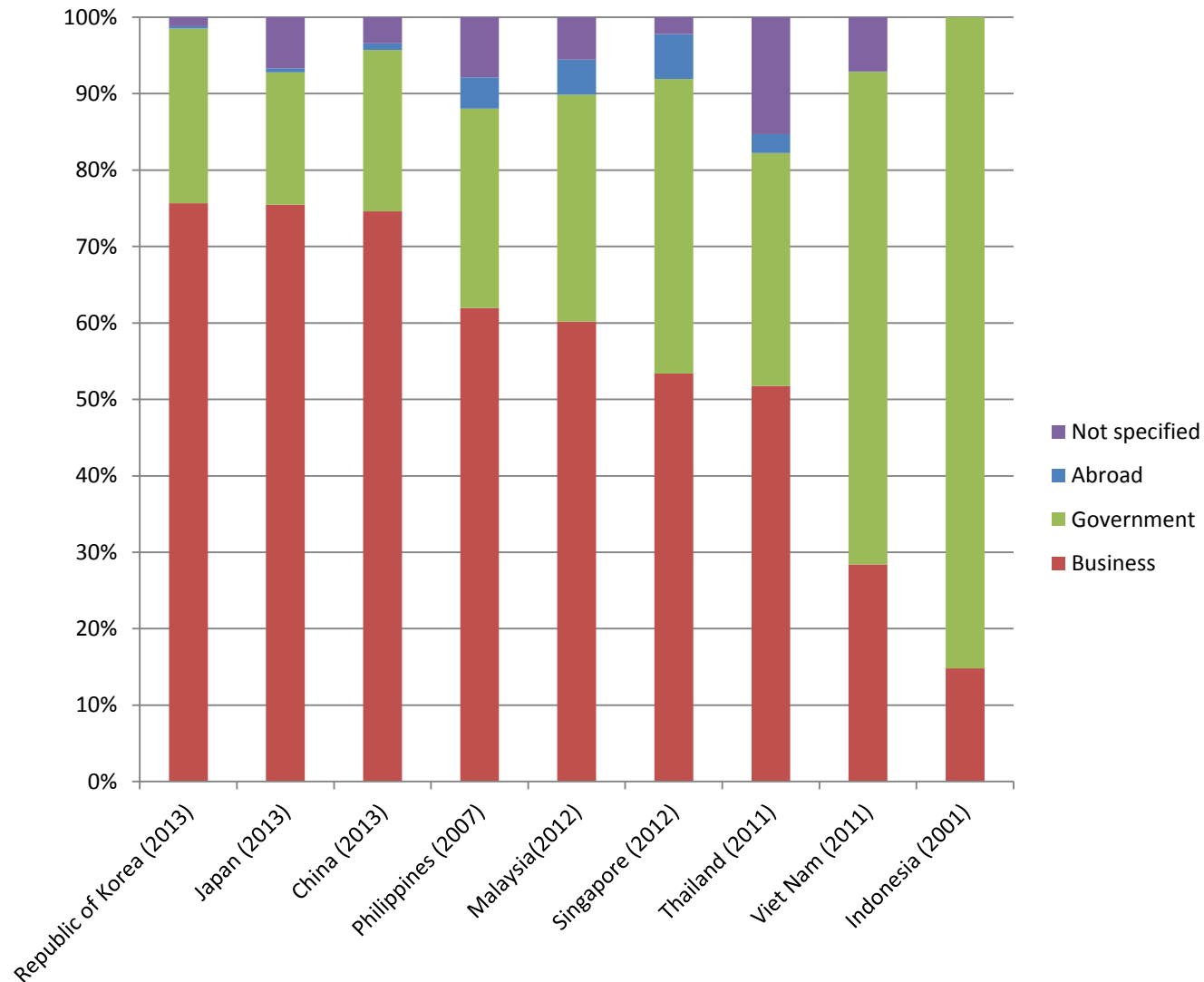
Overall Services Trade Restrictiveness Index in ASEAN, 2008-11



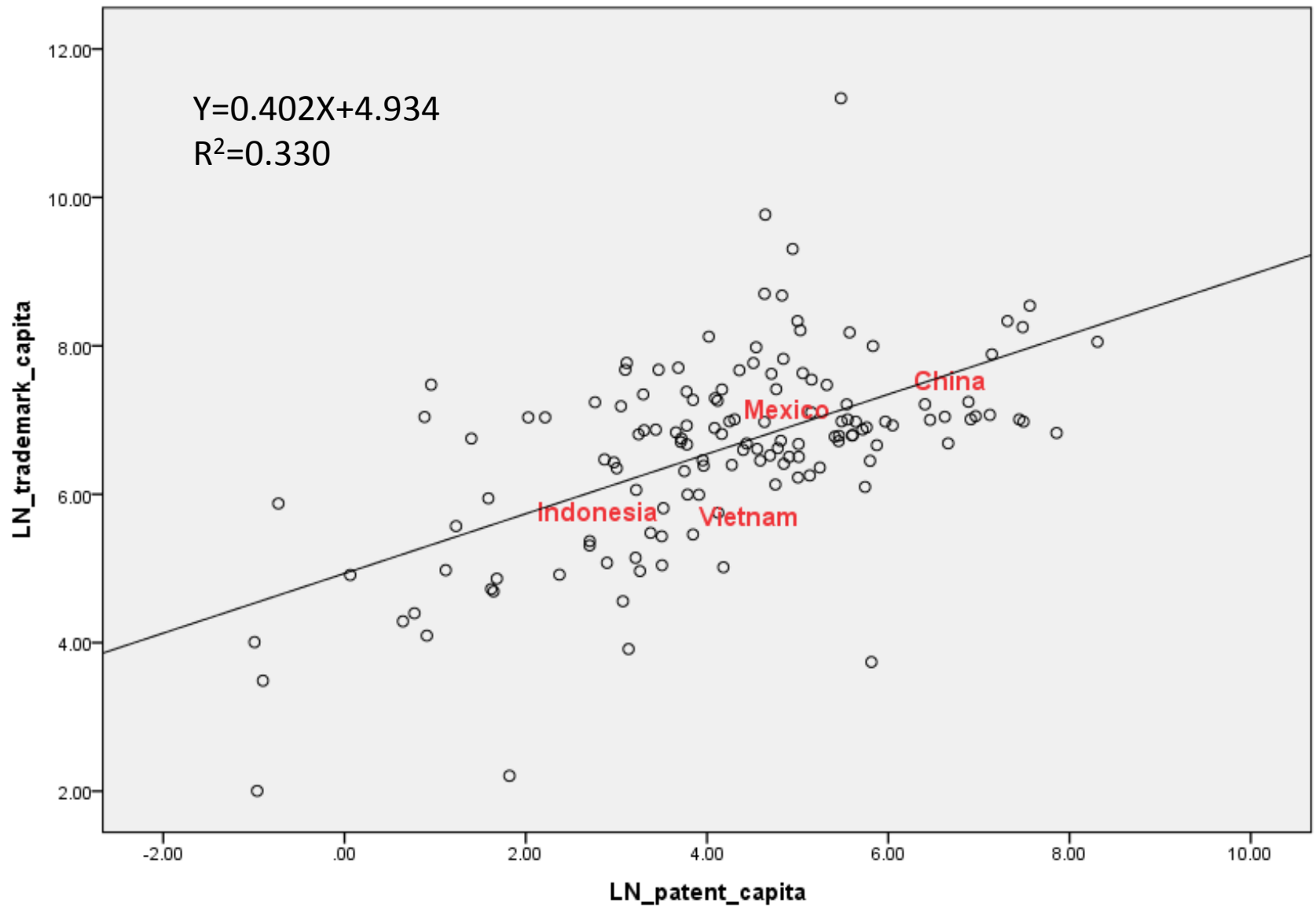
Innovation output and ease of doing business



R&D expenditure by funding source in Asia



Innovation vs. branding



Source: The author's based on WDI (2016).

Key policy issues

- Business environment
- Access to finance
- Infrastructure
- Trade and logistics facilitation
- Technology, innovation and branding
- SME policies vs. general business policies
- Developing countries' SME provisions under RTAs
 - Protection?
 - Nurturing?
 - Cooperation with foreign investors?

