Comments on: Integrating Southeast Asian SMEs in Global Value Chains

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Why there is a focus on FDI sourced by MNEs?

According to the report:

- Through their activities in home and foreign markets, MNEs are estimated to account for roughly one-third of global output and between 50-60% of global exports. MNEs also source inputs and services from their networks of suppliers. Taking these supply-chain linkages into account, MNEs may be responsible for up to 80% of global trade (OECD-WTO-UNCTAD, 2013).

Question 1: Where are most of these MNEs located?
Question 2: What about FDIs that come from another smaller firm?
Question: Do we see any considerable differences between services and manufacturing SMEs in terms of SME/MNE linkages?
Similarities between ASEAN and EU SMEs - Stats

According to the report:
- SME is the most prevalent form of enterprise (98%)
- with high contribution to employment (>60%)
- and low productivity and contribution to value added (<30%)
- main barriers: complicated bureaucratic procedures, lack of coordination across SEZ, provincial and central government policies, poor local connectivity and infrastructure, limited local availability of technical skills

According to ”EU Evaluation of the SME definition(2010)”:
- employment contribution smaller (66.9%)
- turnover contribution smaller (57%)
- value added amounts to 58.4%
- main barriers: Complicated administrative procedures, high delivery costs, identifying business partners
ASEAN and EU firms motivation for FDI

Report:

Figure 3.12. Thai firms invest abroad to enjoy efficiency gains

What were the most important factors for your firm to invest abroad (outside Thailand)? (Select all that apply)

- To access the market: 44%
- To lower production costs: 40%
- To access raw materials and other inputs: 29%
- To establish linkages with local suppliers in host countries: 22%
- To benefit from generally good investment climate: 20%
- To diversify risk: 18%
- To benefit from investment incentives: 16%
- To access technology or knowledge: 13%

Note: Figures are based on 32 responses from Thai manufacturing firms with outward investments.
Source: OECD-UNIDO Thai Enterprise Survey (2018)
ASEAN and EU firms motivation for FDI

European Commission:

Figure 12  Main reason for having foreign subsidiaries/joint ventures abroad, percentage of SMEs with subsidiaries/joint ventures abroad

- Proximity to final customers: 17%
- Proximity as a supplier to a global enterprise: 12%
- Lower total labour costs: 11%
- Lower taxes: 9%
- Less administrative and regulatory burdens: 8%
- Export regulations: 5%
- Access to finance: 5%
- DK/NA: 32%

Extent of GVC linkages

Report:

Annex Figure 1.A.2. Extent and type of GVC linkages

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage of Surveyed Firms (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources inputs from suppliers abroad (imports)</td>
<td>58%</td>
</tr>
<tr>
<td>Sells output to firms abroad (exports)</td>
<td>60%</td>
</tr>
<tr>
<td>Sells to trading company that exports</td>
<td>40%</td>
</tr>
<tr>
<td>Sells processed goods for further processing and export</td>
<td>40%</td>
</tr>
<tr>
<td>Sources from foreign suppliers in Thailand</td>
<td>42%</td>
</tr>
<tr>
<td>Sells to foreign buyers in Thailand</td>
<td>51%</td>
</tr>
<tr>
<td>Partners with foreign suppliers abroad</td>
<td>31%</td>
</tr>
<tr>
<td>Partners with foreign buyers abroad</td>
<td>39%</td>
</tr>
<tr>
<td>Partners with foreign suppliers in Thailand</td>
<td>24%</td>
</tr>
<tr>
<td>Partners with foreign buyers in Thailand</td>
<td>38%</td>
</tr>
<tr>
<td>Foreign investors own over 10% of firms equity</td>
<td>15%</td>
</tr>
<tr>
<td>Contracts production abroad</td>
<td>7%</td>
</tr>
<tr>
<td>Invests in production abroad (outward FDI)</td>
<td>15%</td>
</tr>
</tbody>
</table>

Note: The figure is based on 250 responses of enterprises with manufacturing operations in Thailand. 
Source: OECD-UNIDO Thai Enterprise Survey 2018
## Extent of GVC linkages

### European Commission:

Table 1  Percentage of SMEs with international business activities in 2006-2008, by enterprise size

<table>
<thead>
<tr>
<th>Mode of internationalisation</th>
<th>Micro</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Total Percentage of all SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME with direct exports</td>
<td>24%</td>
<td>38%</td>
<td>53%</td>
<td>26%</td>
</tr>
<tr>
<td>SME with direct imports</td>
<td>28%</td>
<td>39%</td>
<td>55%</td>
<td>29%</td>
</tr>
<tr>
<td>SME has invested abroad</td>
<td>2%</td>
<td>6%</td>
<td>16%</td>
<td>2%</td>
</tr>
<tr>
<td>SME with technological cooperation with enterprises abroad</td>
<td>7%</td>
<td>12%</td>
<td>22%</td>
<td>7%</td>
</tr>
<tr>
<td>SME has been a subcontractor to a foreign main contractor</td>
<td>7%</td>
<td>11%</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>SME had foreign subcontractors</td>
<td>7%</td>
<td>12%</td>
<td>16%</td>
<td>7%</td>
</tr>
<tr>
<td>SMEs with at least one of these 6 international activities</td>
<td>43%</td>
<td>58%</td>
<td>73%</td>
<td>44%</td>
</tr>
<tr>
<td>Total N, unweighted</td>
<td>3253</td>
<td>3260</td>
<td>2967</td>
<td>9480</td>
</tr>
</tbody>
</table>

Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480).
Final Remarks

Comments:

- What explains the high share of local sourcing by foreign manufacturers in Thailand? (Slide 8)
- Why are Cambodian and Vietnamese SMEs doing relatively well in terms of absorptive capacity compared to foreign firms? (Slide 15)
- ASEAN outward FDI stocks (% of inward stocks) appear to be counter cyclical to global crises (dot-com bubble in 2000, financial crisis in 2008). Investors pull off? (Slide 10)
- crises might have over proportionally negative effects for the region since if inward FDIs shrink, overall productivity shrinks even more due to higher average productivity of inward FDIs compared to outward FDIs (Slide 12)
- when linkage programmes are widespread in ASEAN, why do they not work? (Slide 20)
THANK YOU

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