



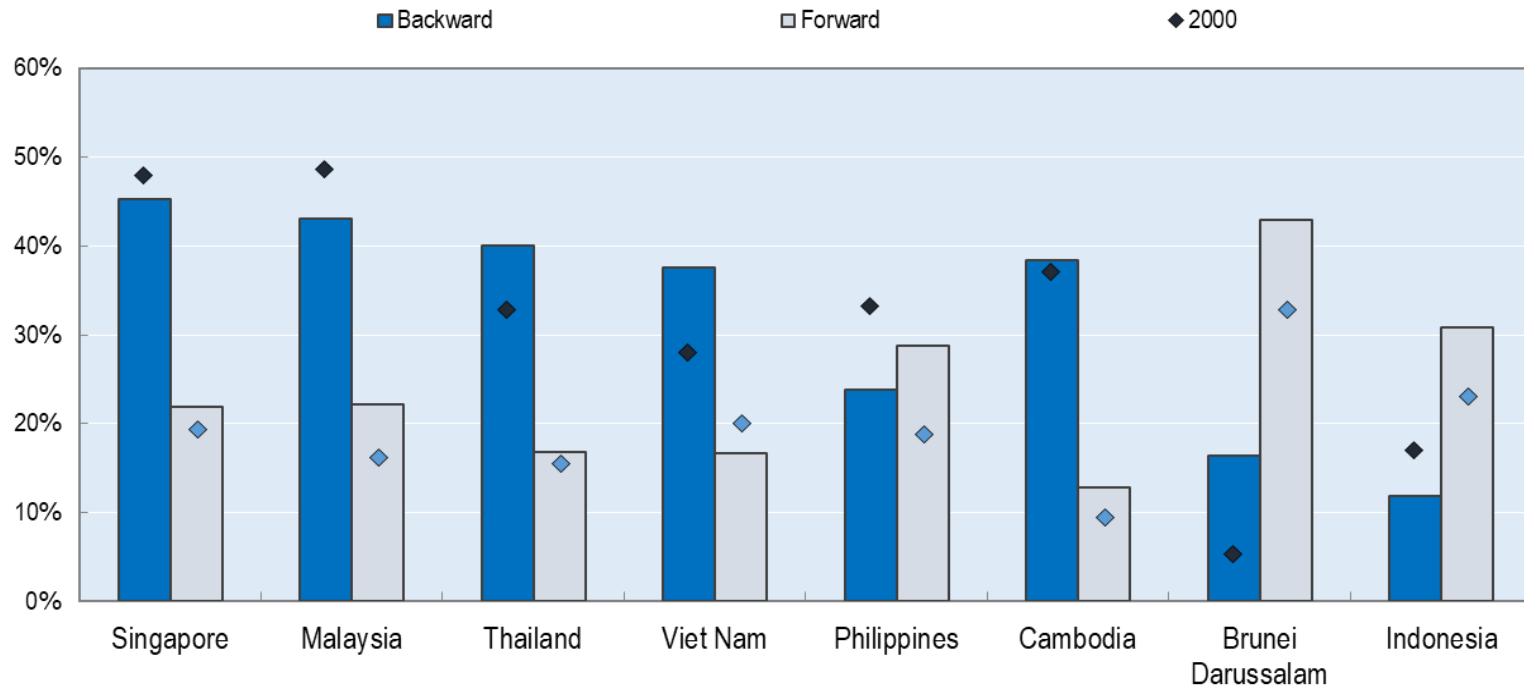
Participation and Benefits of SMEs in GVCs in Southeast Asia

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Trade and Agriculture, OECD

Value chain development for deeper integration of FEALAC: Asian
perspectives
Bangkok,
11 July 2019

GVC participation in ASEAN has been growing... and evolving...

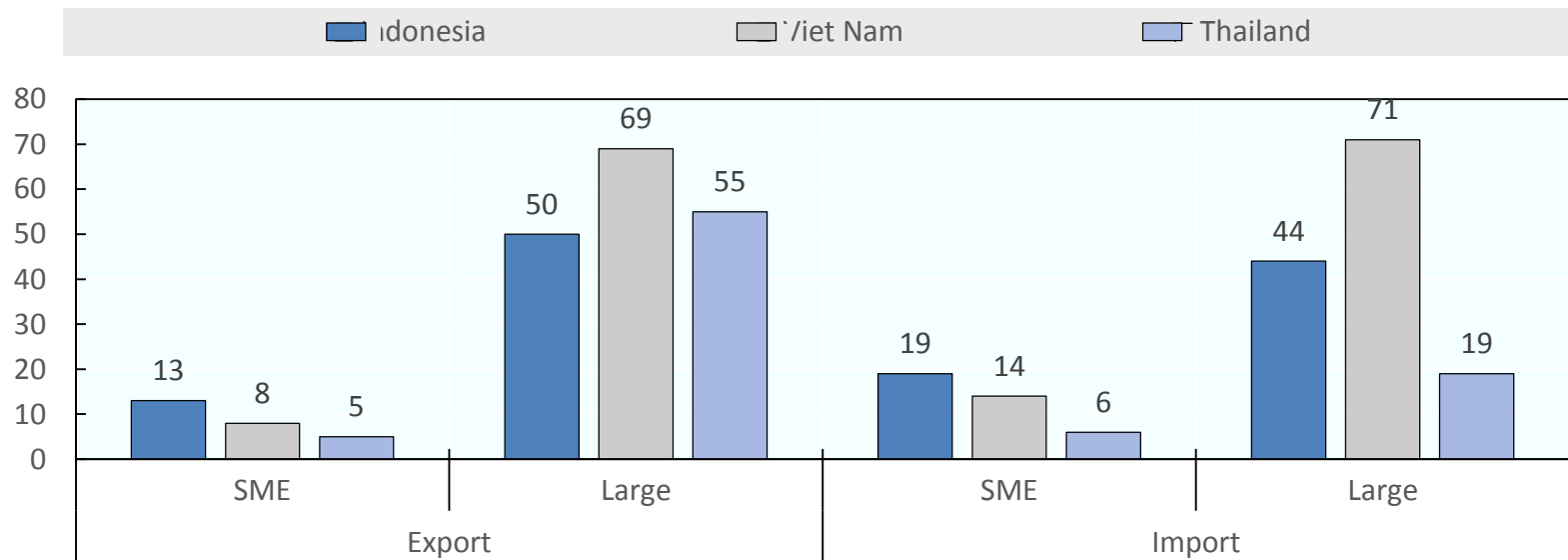
GVC Participation in ASEAN (2013)



Source: Lopez-Gonzalez et al. (2019) – calculations using TiVA 2018

» But little is known about whether SMEs are benefitting...

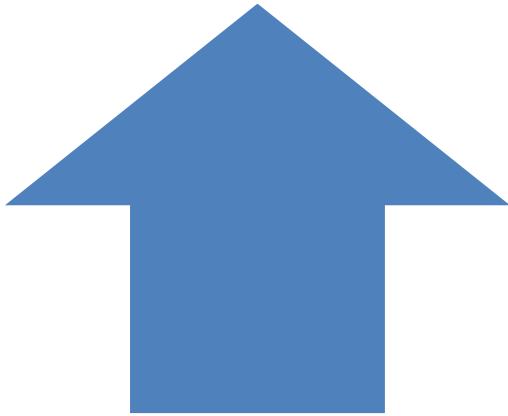
- While SMEs make up the majority of enterprises in developed and developing countries, they are underrepresented in trade



» Do GVCs provide **new opportunities** for SMEs?

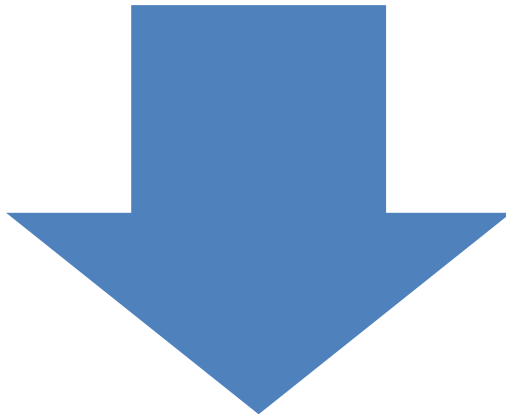
- Widely recognised that SMEs are **disadvantaged** by:
 - **Size** (restricting access to economies of scale) and experience;
 - **Access to resources** (finance, investment information, technology).
- **Do GVCs offer new opportunities for SMEs?** Do they allow SMEs to relax some of these constraints?
- Note: Not all SMEs able to benefit from GVCs. Some sectors/activities are more or less predisposed to internationalisation (hair dressers or local restaurants). Issues related to informality are also hard to pin down.

» How can SMEs **benefit**?



Selling side:

No longer having to master the entire production process of a good and **slotting into different segments of 'global production'** according to comparative advantages (direct or indirect exporting).



Buying side:

Having **wider access to** more sophisticated and competitively priced **imported intermediates, new technologies** in capital products or **tech transfers** from lead firms (often neglected).



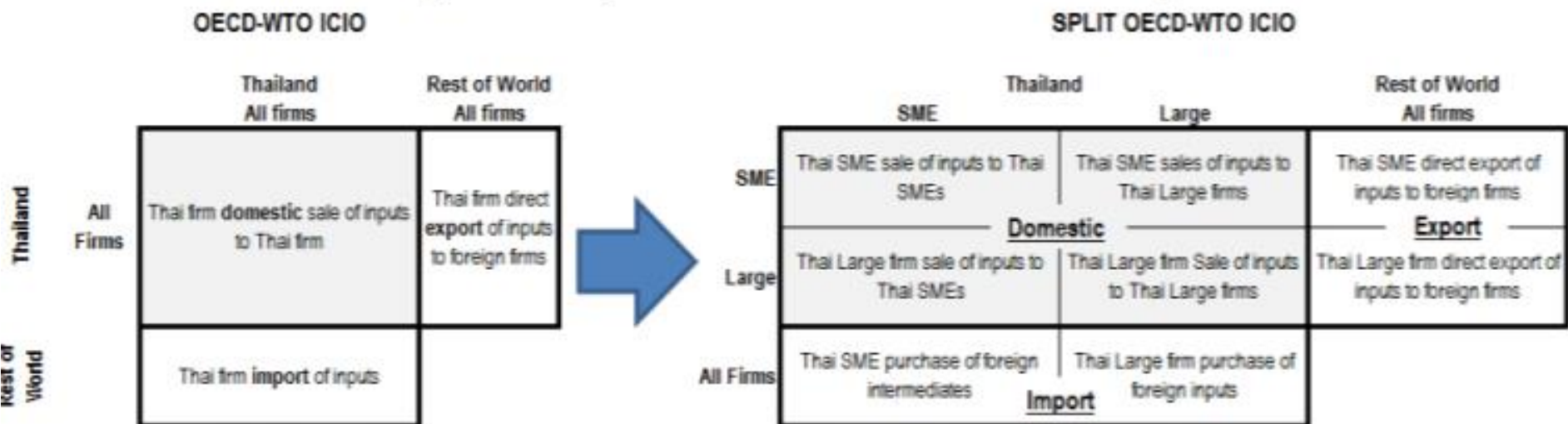
IDENTIFYING SME PARTICIPATION IN GVCS

Adding granularity to the TiVA database

- TiVA database: a great tool for GVC analysis → ICIO and a range of indicators (2018 revision: 64 economies, 36 sectors, 2005-2015 with projections 2016 – SNA08 and ISIC rev. 4).
- But it does not decompose activity by firm size, important in light of firm heterogeneity findings (Melitz, 2003).
- Insights can be obtained by splitting the TiVA database using detailed firm level data to identify differences in sourcing and selling patterns of different sized firms.

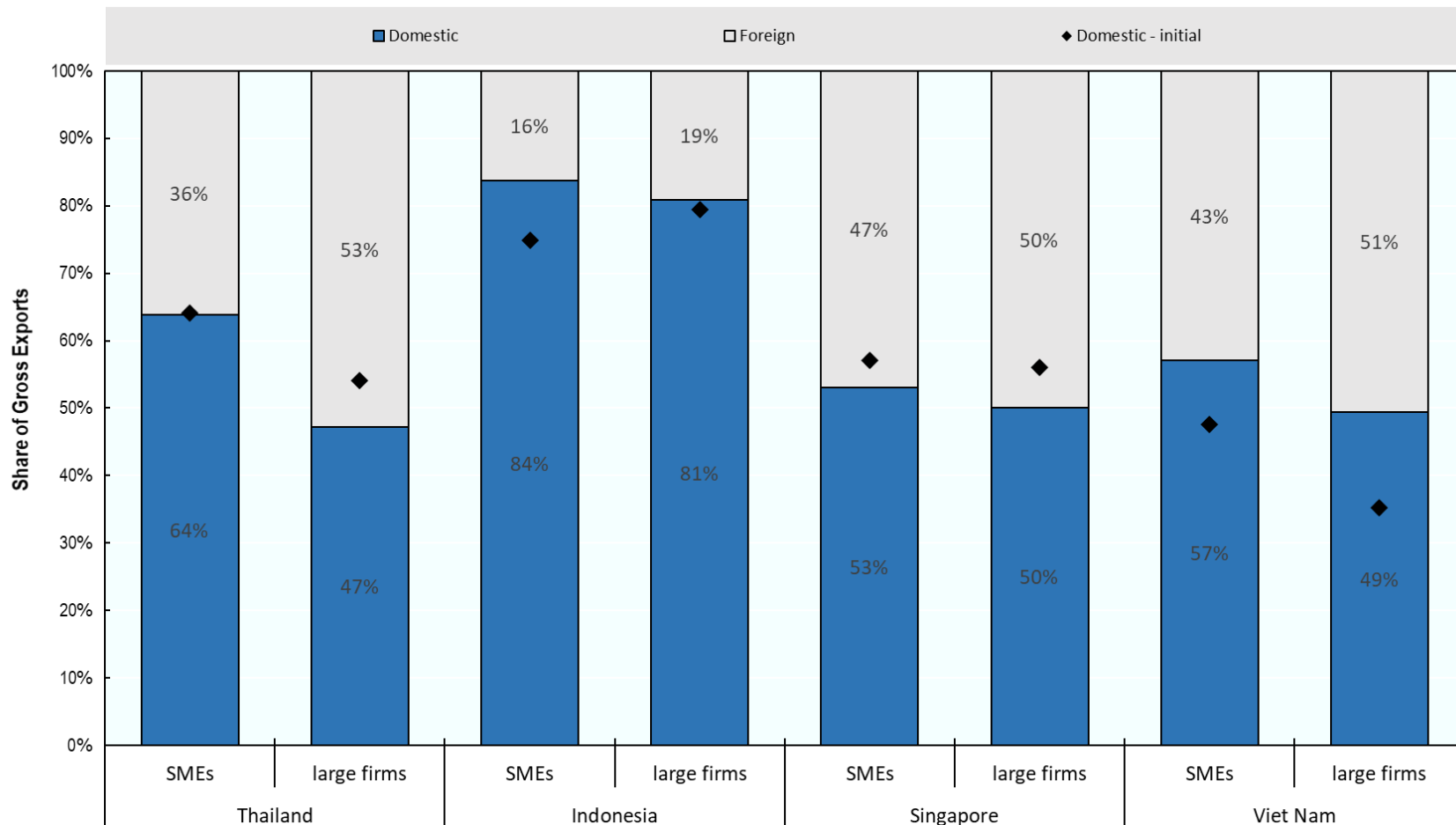
» By splitting the ICIO using firm level data

Figure 4. Example of new information derived from ICIO split

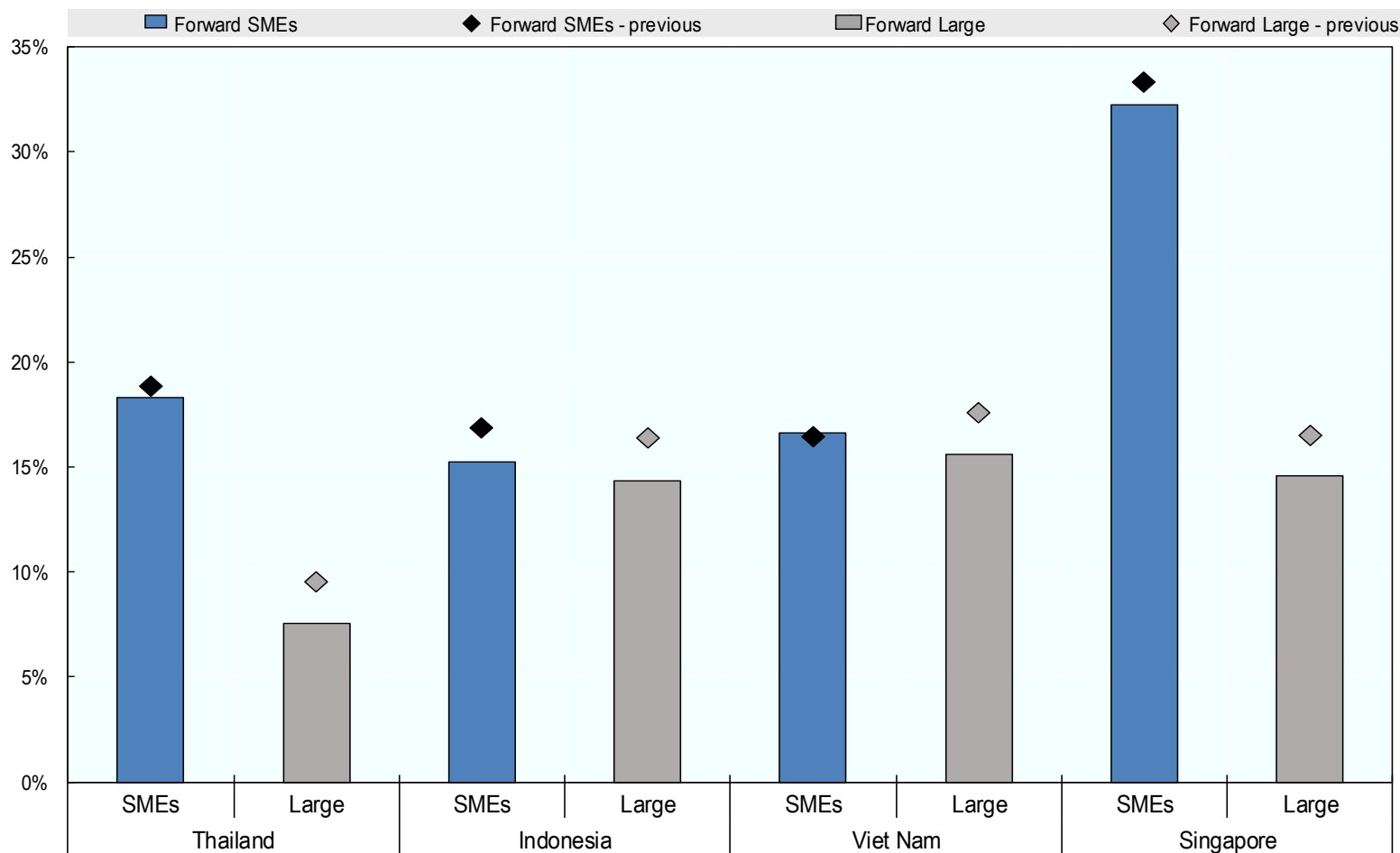


Note: Rows represent sales and columns purchases as in traditional IO tables. The first entry in the expanded table (right) shows the value of Thai SME sales to other SMEs in Thailand, below it is the value of large Thai firm inputs used by SMEs in Thailand and so forth.

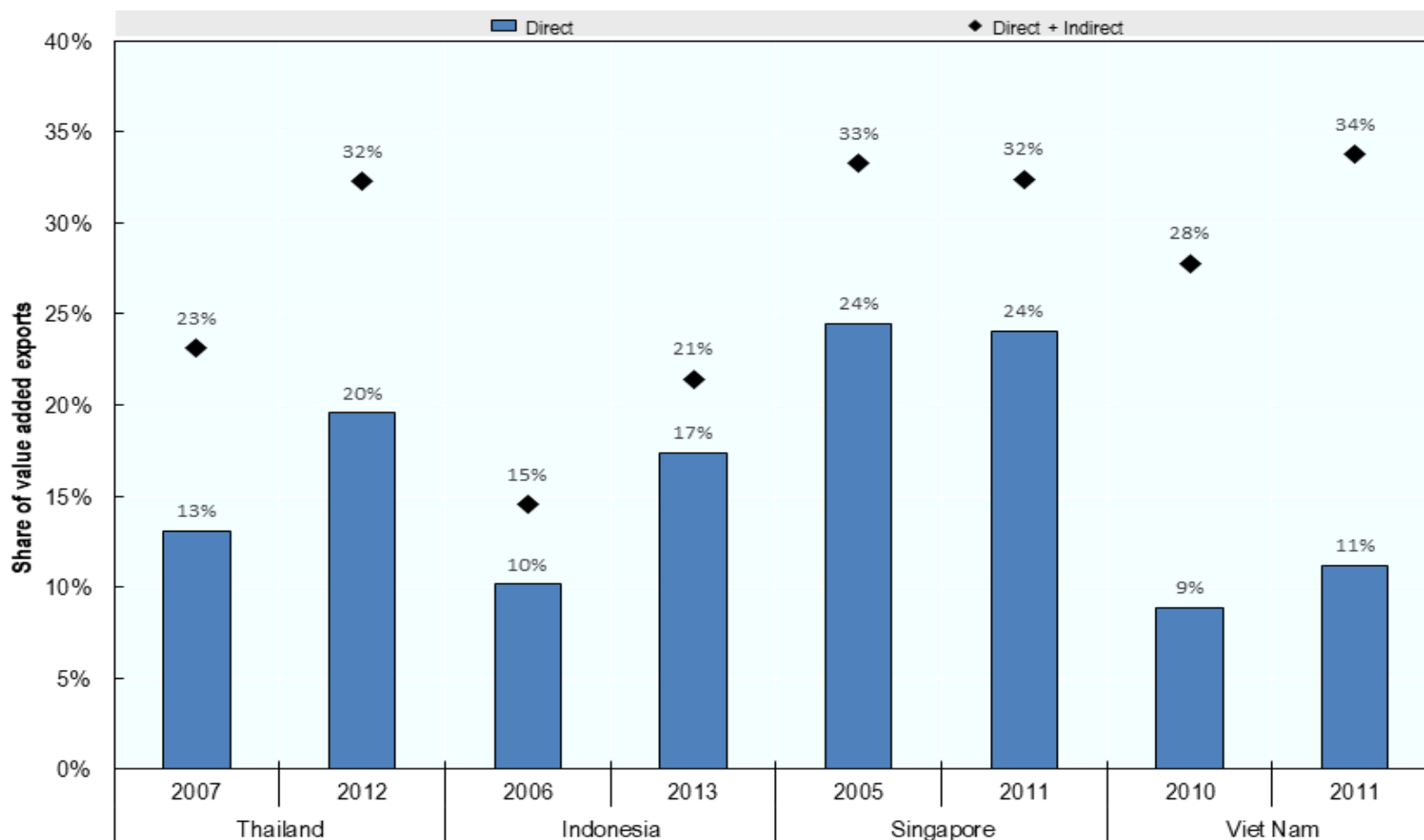
Showing that: SMEs tend to **import less** than larger firms (lower backward participation)



ASEAN SMEs tend to be **more specialised than larger firms in the production of intermediates** sold into GVCs (higher forward participation)

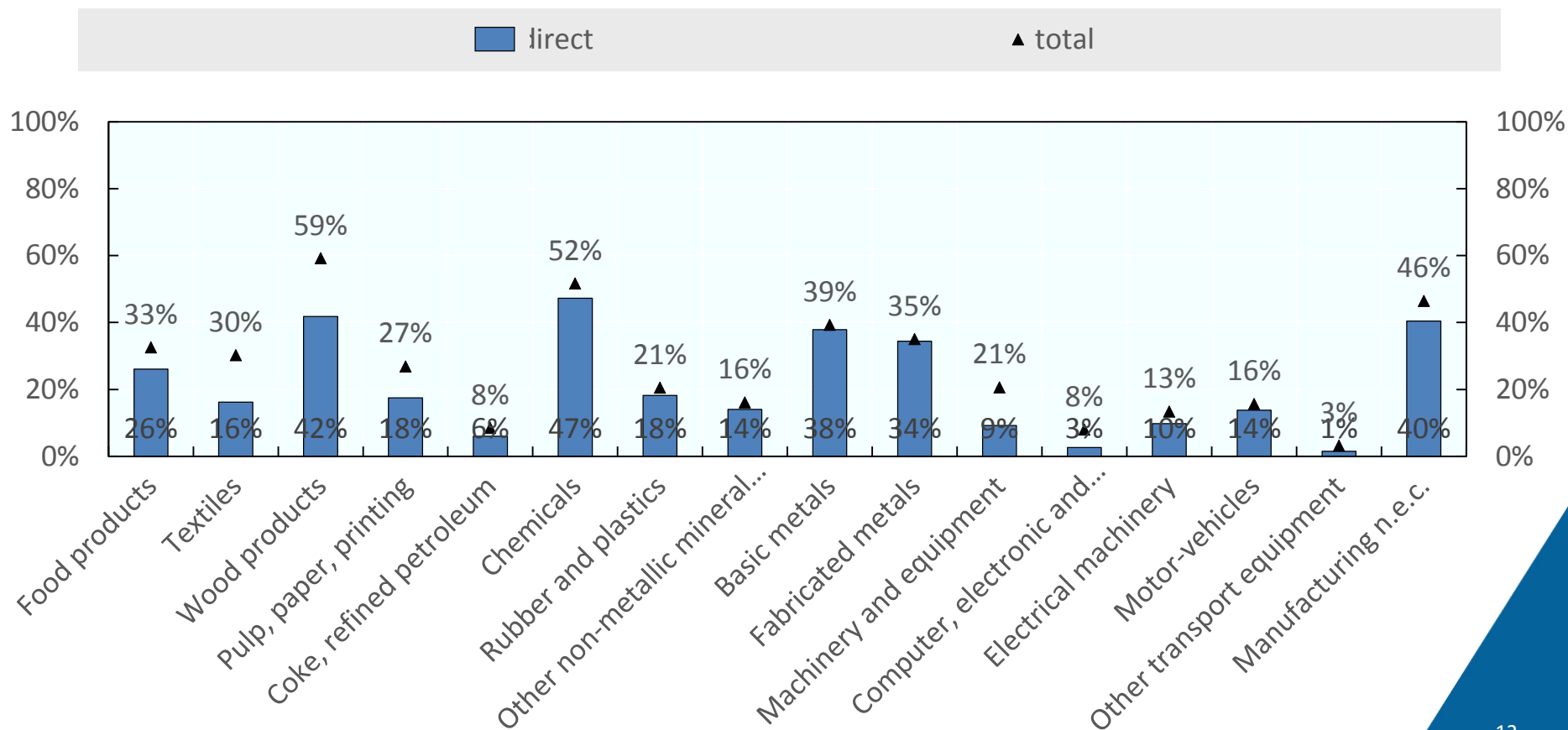


Indirect Exporting is an important channel for ASEAN SME internationalisation



Particularly in GVC 'intensive' sectors...

Thailand 2012





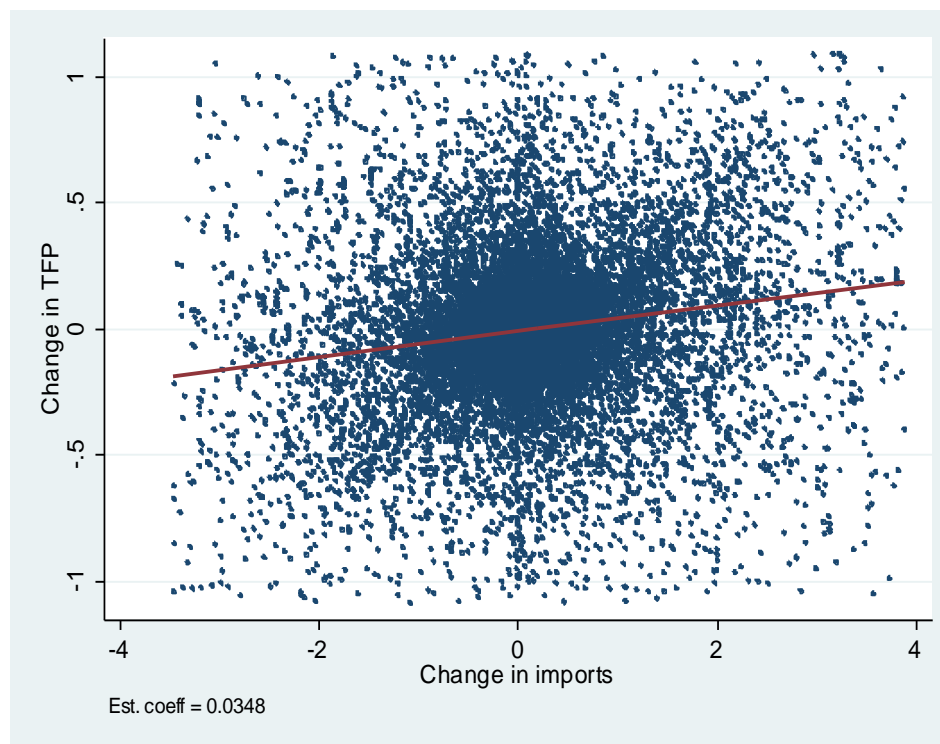
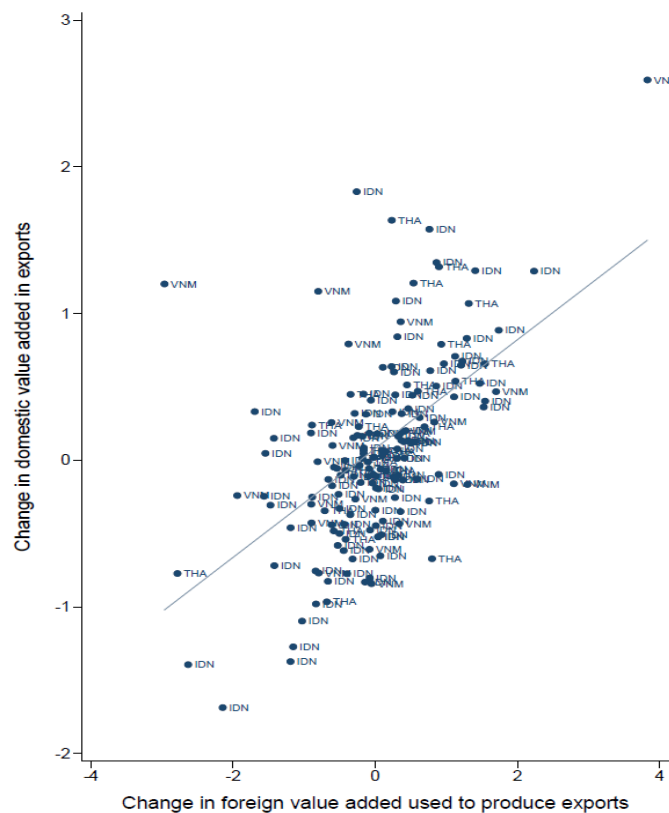
IDENTIFYING THE BENEFITS OF SME PARTICIPATION IN GVCS

» GVC participation is not an end in itself...

- Empirical analysis underscores that there are potential benefits for SMEs that integrate in GVCs in ASEAN.
 - *Exports* in the region are shown to be associated with productivity growth and upgrading (although direction of causation hard to establish).
 - Participation also linked to *employment* generation. In the case of Indonesia, importing SMEs generated more jobs for women than any other category of firms, but they generated more for men.

Imports, which are often neglected, are key!

- They are associated with higher domestic value added and greater TFP



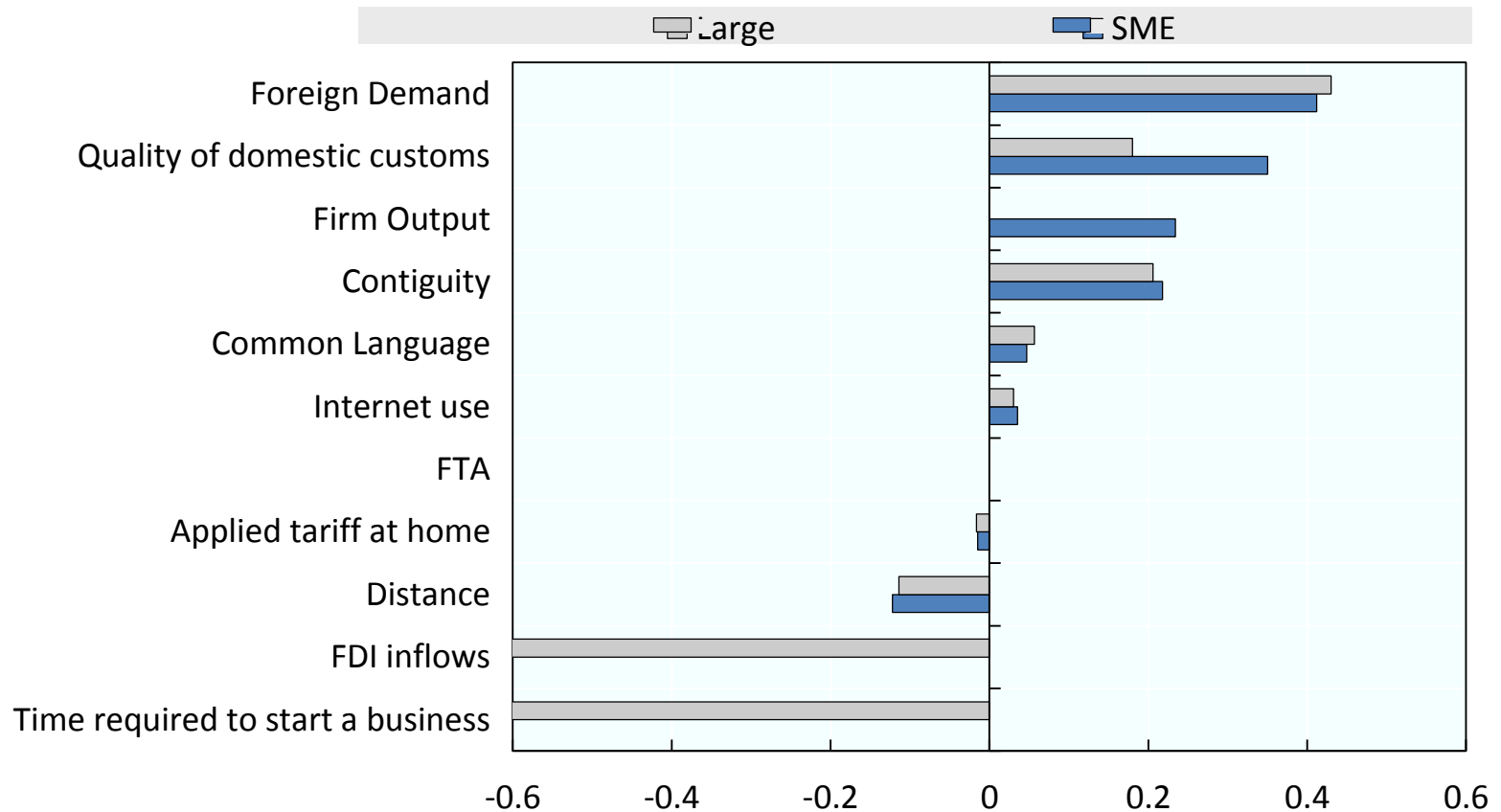


**SO, HOW DO WE HELP SMES
INTEGRATE INTO GVCS?**

» Governments need to consider carefully how to help SMEs integrate into GVCs

- Although clear benefits from further integration and participation, not all SMEs will be able to participate.
- **SMEs highly heterogeneous** (in terms of size, sector and willingness and ability to engage in GVCs).
- Policy can **help those that want to grow**, by helping them overcome some of the challenges, especially where there are market failures.
- But **difficult questions** about what objectives to pursue given that there can be trade-offs between efficiency and inclusiveness (think LCRs or RoO).

They can usefully focus on reducing trade costs



» And creating an enabling environment to promote domestic linkages helping SMEs export indirectly

- Indirect exports are a key channel for SMEs to internationalise, especially in sectors associated with strong GVC activity.
 - *Promoting the creation of domestic linkages* connecting SMEs with large domestic and multinational.
 - *Creating an enabling environment* by promoting rule of law and enforcement of contracts
 - *Approaching trade and investment policies more jointly* to help promote SME-MNE linkages

What have we learned?

- GVCs offer new opportunities for SMEs in ASEAN to participate and benefit from GVCs.
- However, SME participation remains low, both as importer and exporters.
- Governments may usefully focus on reducing trade related costs to level the playing field and help SMEs that want to participate make the most out of the evolving environment.
- More data is needed to increase coverage and identify differences across developed and developing countries and across different sectors.

Contact us

We look forward to hearing from you!



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www.oecd.org/tad



You can reach us via e-mail by sending your message to the following address:

tad.contact@oecd.org



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