



**Asia-Pacific
Economic Cooperation**

2014/SMEWG38/007

Agenda Item: 7

Integrating SMEs into Global Value Chains – Policy Principles and Best Practices

Purpose: Information

Submitted by: PSU, APEC Secretariat



**38th Small and Medium Enterprises Working
Group Meeting
Taichung, Chinese Taipei
26-27 March 2014**



Asia-Pacific
Economic Cooperation

Advancing
Free Trade for Asia-Pacific
Prosperity

Integrating SMEs into Global Value Chains Policy Principles and Best Practices




The 38th SMEWG Meeting, Taichung

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Outline



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1. Why is this an important topic?
2. What is global value chain and what is happening now?
3. How do global value chains look like in agriculture, food processing, automobile, electronics, and handcraft sectors?
4. What are multinational's expectations and requirements on SME suppliers?
5. How do we identify sectors with the highest potential to integrate SMEs in global value chains?
6. Policy principles and best practices.

Importance of the Topic



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Great benefits vs Huge barriers

Benefits to all


- Enhance capacity, reputation, and business stability for SMEs
- Reduce costs, improve productivity and access to new markets for MNCs
- Increase growth, employment, exports, and economic sustainability for local economy

Barriers on SMEs

- Access to external finance and manage internal finance
- Attract, maintain and motivate human resources
- Meet standards and acquire certificates
- Adjust to changing int'l business practices

Policy principles and best practices to integrate SMEs in global value chains

Global Value Chains

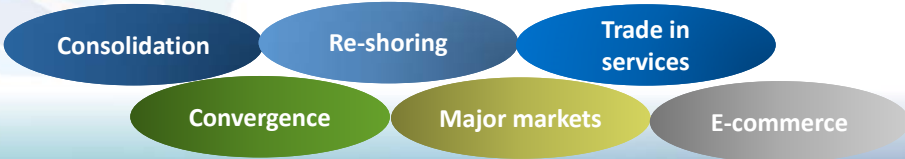


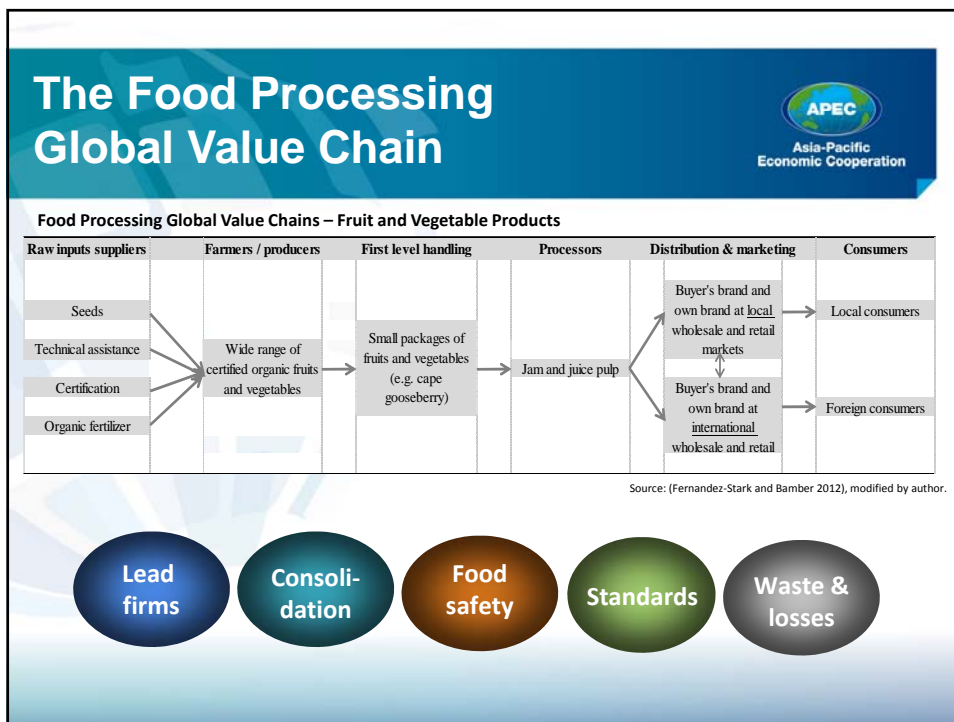
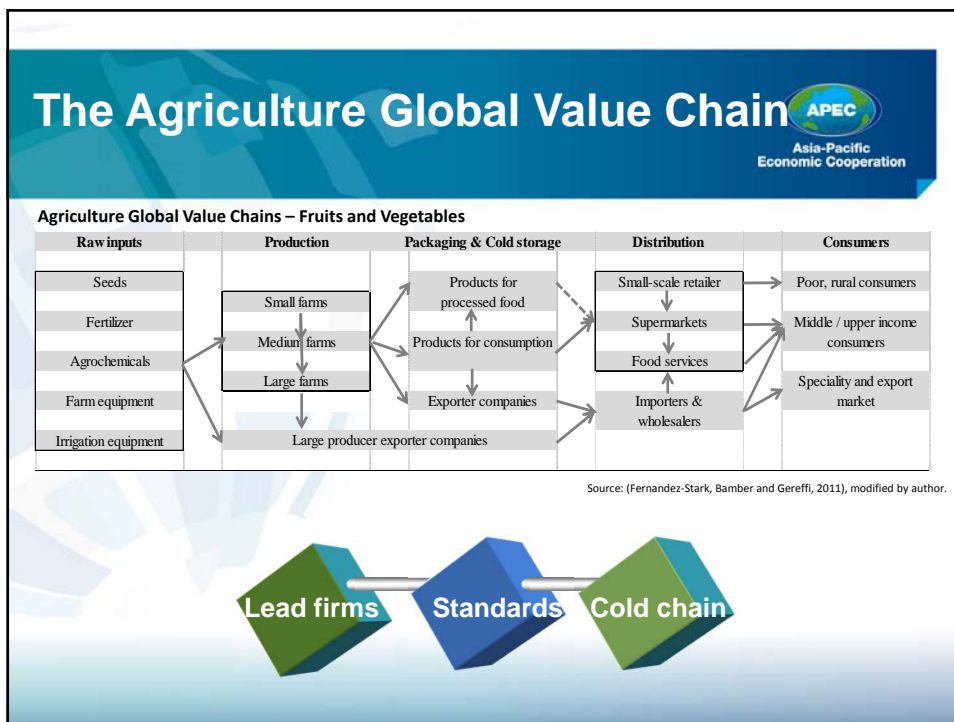
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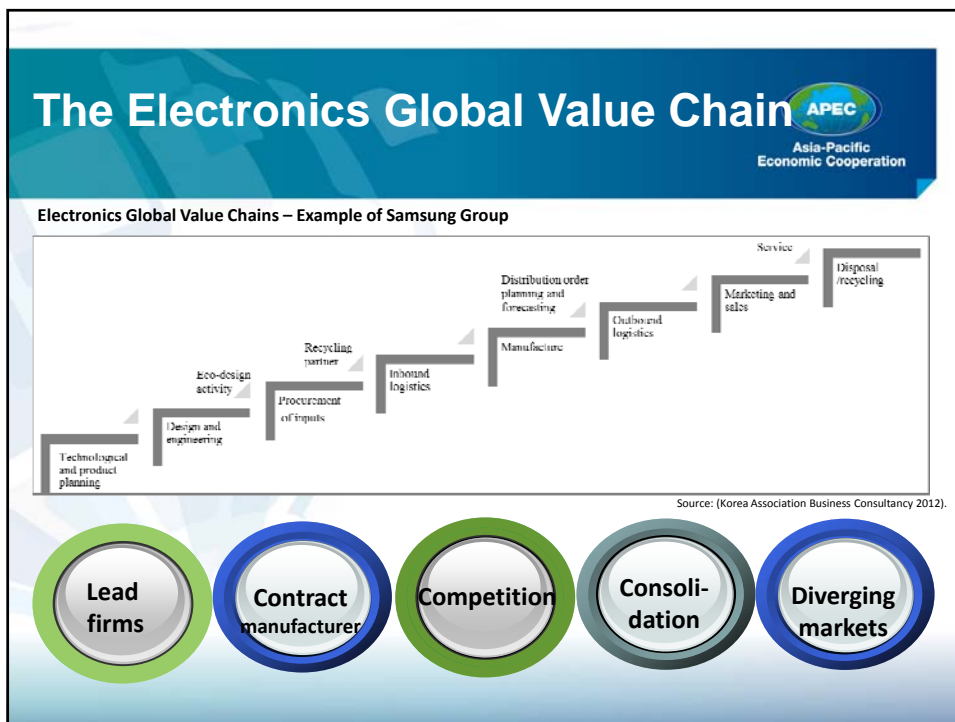
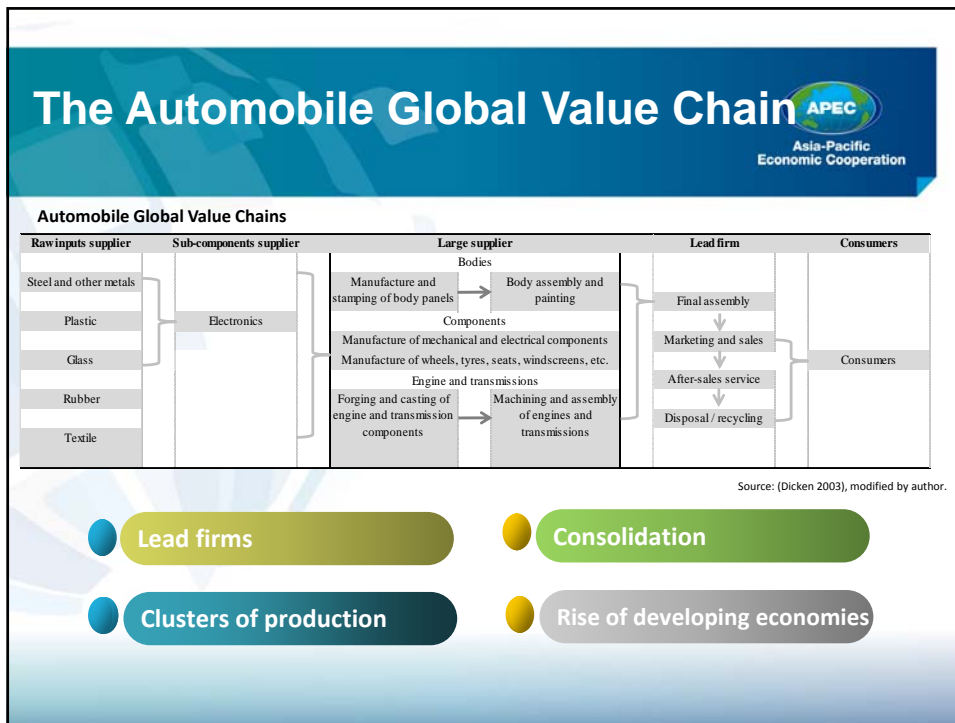
Global Value Chains

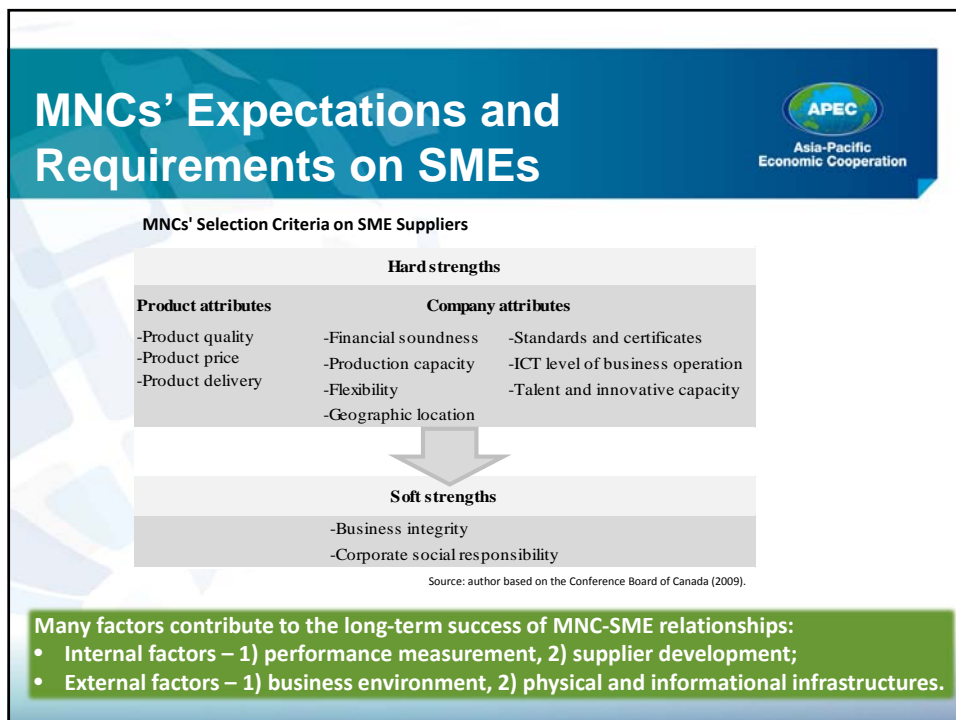
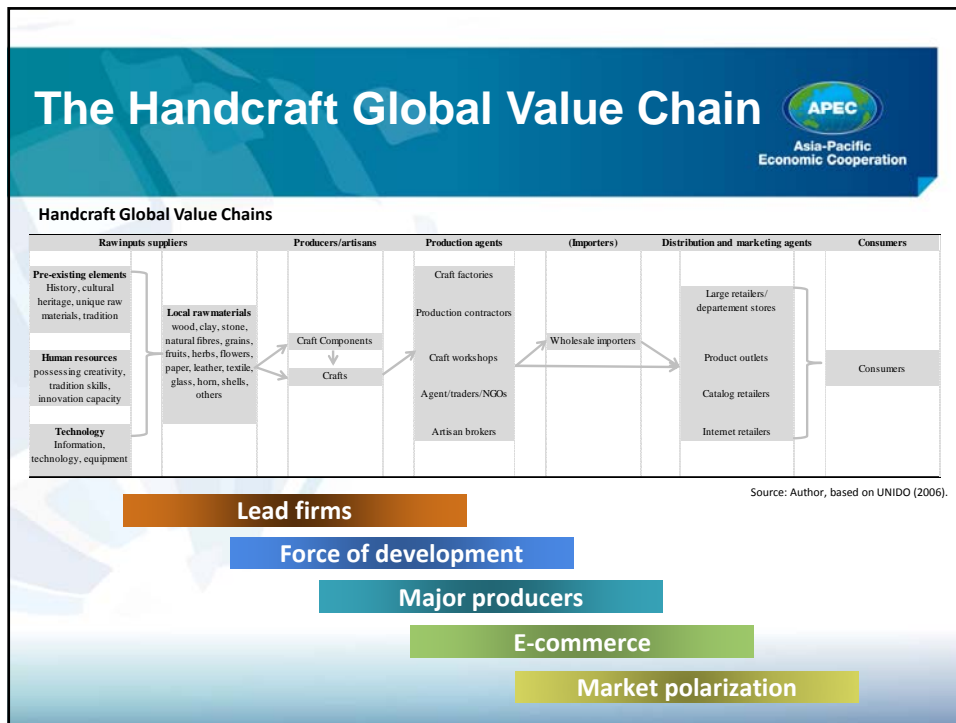
Lead firm(s)	Lower-tier suppliers	Second-tier suppliers	First-tier suppliers	Lead firm(s)	Distributors	Consumers
	SME(s)	large firm(s)	Large firm(s), perhaps MNCs	Original manufacturer (in general MNCs and large firms)	Distributors (department store, mass merchandise chains, factory outlet, mail order etc)	Consumers
Design and Development	SME(s)	SME(s)	Large firm(s)			
	SME(s)					
Product development	Input of raw materials	Transformation and processing	Assembly and packaging	Marketing and branding	Distribution	Consumption

Source: APEC PSU 2013, author.









Potentials for SMEs to Participate

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Potentials for SMEs to Participate in Global Value Chains

Factors	SMEs in developed and newly-industrialized economies					SMEs in developing economies				
	Agriculture	Food processing	Automobile	Electronics	Handcraft	Agriculture	Food processing	Automobile	Electronics	Handcraft
Product quality	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓
Product price	✓	✗	✗	✗	✗	✓	✓	✓	✓	✓
Product delivery	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓
Financial soundness	✓	✓	✗	✓	✗	✗	✗	✗	✓	✗
Production capacity	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓
Flexibility	✗	✗	✗	✓	✓	✓	✓	✗	✓	✓
Geographic location	✓	✓	✗	✗	✗	✓	✓	✓	✓	✓
Standards and certificates	✗	✗	✓	✓	✓	✗	✗	✗	✗	✗
ICT level of business operation	✓	✓	✓	✓	✓	✗	✗	✓	✓	✗
Talent and innovative capacity	✓	✓	✓	✗	✓	✓	✓	✓	✗	✓
Business environment	○	○	○	✓	✓	✓	○	○	○	✓
Physical and informational infrastructure	✓	✓	✓	✓	✓	✗	✗	✓	✓	✓
Sector-specific external factors	○	○	✗	✗	✗	○	○	○	✗	○

Source: author.

This analysis is based on the overall perspective of the APEC region, and the results are illustrative and not definitive.

Economies are encouraged to conduct the analysis on industry or product level to identify potential to integrate domestic SMEs into GVCs.

Recap of the Presentation

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1. Integrating SMEs into GVCs is an important topic because there are substantial benefits but huge barriers.
2. The GVCs are undergoing structural transformation: consolidation, convergence, re-shoring, developing economies become major markets, and rising of trade in services and e-commerce.
3. Agriculture, food processing, automobile, electronics, and handcraft GVCs exhibit different structures and features.
4. MNCs select SME suppliers based on product attributes, company attributes, and soft strengths.
5. SWOT analysis identifies sectors with the highest potential to integrate SMEs in GVCs, but region-wide results are only illustrative and not definitive.

Policy Principles and Best Practices

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Product Attributes

- Set up exchange platforms to bridge information gap between MNCs and SMEs

Company Attributes

- Financial soundness**
 - Encourage supply chain finance and provide financial skills training
- Production capacity**
 - Foster SME collaboration and clustering
- Standards and certifications**
 - Harmonize standards, build certification systems, training and technical assistance
- Flexibility**
 - Provide integrated services – financing cum training
- Geographic location**
 - Ensure macroeconomic stability, market openness, transparency of rule of law
- ICT level of business operation**
 - Nurture ICT skill base and establish technology hubs and incubation centers
- Talent and innovation capacity**
 - Facilitate collaboration between universities and SMEs, retribute SMEs' IP fairly

Policy Principles and Best Practices

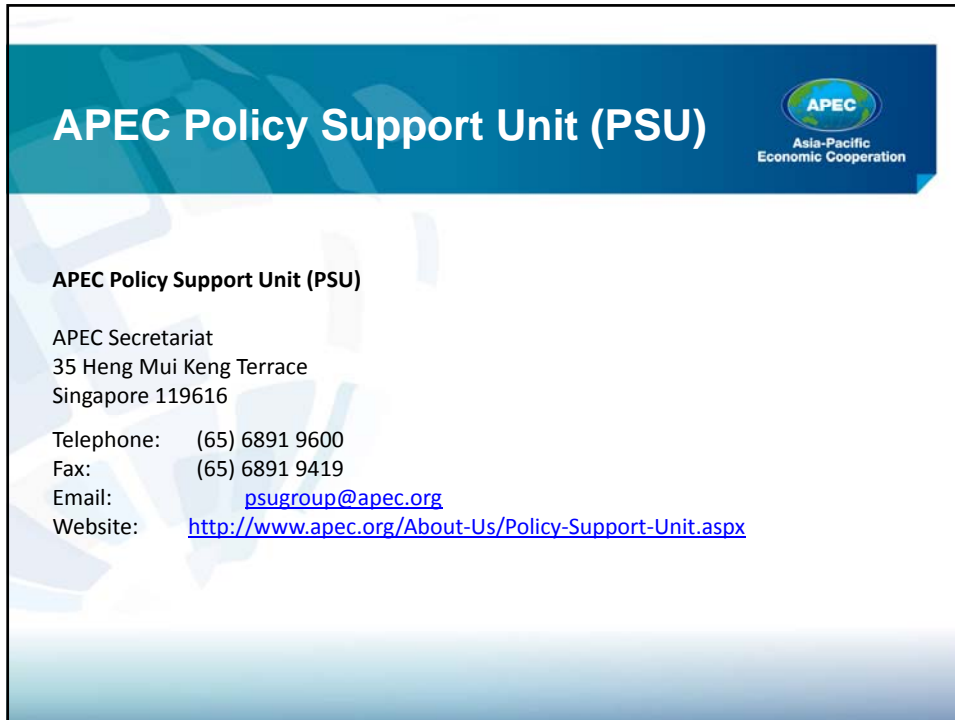
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External factors


- Business environment**
 - Strengthen local institutions and continue trade facilitation and liberalization
- Physical and informational infrastructure**
 - Develop both behind-the-border and cross-the-border infrastructures
 - Provide suitable infrastructures to SME clusters and networks
- Sector-specific external factors**
 - Play an active role in managing risk and reducing impact of disasters
 - Enhance regional supply chain resilience

Policies to integrate SMEs into GVCs are needed on two levels:

- General/ horizontal level- promote awareness and understanding on the benefits of GVCs;
- Industry level – identify S.W.O.T for domestic SMEs to enter into GVC and assist SMEs with correct policy tools/packages.



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