Policy Implications for Enhancing SMES Access to GVC

Submitted by: Korea Small Business Institute
Policy Implications for Enhancing SMEs Access to GVC

APEC PPD on Building Asia Pacific Partnership through GVC Collaboration
Session 2 part 3:
Assist SMEs and enable developing economies to plug into GVCs
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I. Issues to Consider

▶ Measuring Trade in Value Added
  ▪ The Trade in Value Added initiative factors out the double counting implicit in current gross flows of trade
  ▪ It measures the flows of value that is added by a country in the production of any good or service that is exported
  ▪ The OECD’s indicators on trade in value added are derived from a global IO-table which accounts for 58 economies and 95% of global output

I. Issues to Consider

- **Trade Balance in Value-added Terms**
  - In value-added terms, trade deficit (in gross terms) with Japan, Australia and Saudi Arabia reduced
  - Trade surplus (in gross terms) with China reduced

☞ KORUS FTA – worried?
☞ Korea-China FTA is under negotiation – impact?

< Bilateral trade balances, USD million >

Source: OECD/WTO TRADE IN VALUE-ADDED (TIVA) INDICATORS (2013).

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- **Domestic Value Added content of Export**
  - Korea’s domestic value-added content of its exports is about 59%, amongst the lowest in the OECD (foreign value-added contents of gross exports is about 41%)

☞ Real value generated by Korean economy in exports, measured by value-added, is shrinking?

< Domestic value added content of gross exports, % >

Source: OECD/WTO TRADE IN VALUE-ADDED (TIVA) INDICATORS (2013).
I. Issues to Consider

- **Services Content of Export**
  - In value added terms under 40% of Korea’s exports reflect services
  - This is relatively low compared to the OECD average (about 48%)
  - Proportion of domestic service contents of gross exports of Korea to the total service contents is among the lowest

☞ Need to increase the competitiveness of service sector

< Service content of gross exports, 2009 , % >

Source: OECD/ WTO TRADE IN VALUE-ADDED (TIVA) INDICATORS (2013).

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I. Issues to Consider

- **Value-added generation in tangible activities is decreasing** (Backer, 2013)
  - “Hollowing out of tangible things is not critical; hollowing out of intangible things is really critical” – Stan chin, Acer Computer CEO

< The smile curve>

Source: Business Week International online articles, May 10, 2009, Stan Shih on Taiwan and China

I. Issues to Consider

- Globalization of the world economy, development of ICT and transportation technology accelerate diffusion of GVC
  - Globalization of the Korean economy
    - Concluded FTA with Chile in 2004, ASEAN(2007), EU(2011), U.S (2012) and China (2014?) – accounts for about 80% of World GDP
  - Most SMEs are not competing with large enterprises in the global market, but rather connected to large enterprises in the (global) value chain
    - 99.9% of Korean companies are SMEs
    - 90% of Korean SMEs are in service sector
    - Korean manufacturing sector is losing its competitive edge to neighboring economies
  - Implication?
    - Have no other alternatives but to adjust to the world trend
    - Support local SMEs (in manufacturing as well as service sector) access to various GVCs

II. Findings from Korean Case Study

- Research conducted on the various paths of (manufacturing) SMEs that successfully embedded in GVCs
  - Major factor of conditions for SMEs to be engaged in the GVCs
  - Major external factors that helped SMEs to be engaged in the GVCs
  - Most wanted type of government (or any other form of) supports

< Categorization and key questions: from the perspective of SMEs>

<table>
<thead>
<tr>
<th>Classification</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationality of GVC governing company</td>
<td>Domestic</td>
</tr>
<tr>
<td>Domestic</td>
<td>Long term relationship b/w LEs and SMEs</td>
</tr>
<tr>
<td>International</td>
<td>Major factor of SMEs competitiveness</td>
</tr>
</tbody>
</table>
II. Findings from Korean Case Study

- **Access to information**
  - Information asymmetry between LEs and SMEs
  - Large enterprise (usually) has high quality information that they can share with SMEs
  - Most SMEs do not know what governing companies of their GVC want from them

- **Role of large enterprise (GVC governing company)**
  - Large enterprise can support SMEs (legal & strategic advise, R&D support etc.)

- **Support from export /internationalization supporting organizations**
  - Export supporting agencies

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II. Findings from Korean Case Study

- **Participation of local SMEs in GVC, is it worthwhile?**
  - It does not always bring success for SMEs
  - Participation in GVCs and survival are separate issues because most multinational/global enterprises govern the GVC of their major product, and often act as a tyrant
  - Local SMEs can be at a disadvantage when negotiating with LEs due to inequality in information and bargaining power

- **Despite of drawbacks, it has been identified that cooperation with a network of upstream and downstream partners can enhance SMEs' value, and increase chances of success in the global market (ADB(2003), UNIDO(2004), OECD(2007))**

- **Many economies provide a wide range of policies to facilitate local SMEs participation in GVCs. In spite of these efforts, SMEs are still vulnerable to environmental changes, and lack of strategy to tackle these challenges**
III. Policy Suggestions

- Develop national strategy based on the perspective of GVC
- Encourage domestic, long-term inter-firm relationship between LEs and SMEs
- Increase awareness (among local SMEs) of the advantages of participating in GVC
- Provide SMEs and LEs with information
- Consider to establish a 'Platform for APEC Value Chain'

III. Policy Suggestions

- Authorities need to develop GVC map that is incorporating technology map and status/location of local SMEs in the map
  - It has been identified that different activities in the GVC generate different levels of value-added
  - A GVC map of a particular sector or a product which indicates the level of technology or competitiveness of local companies can provide basic/critical information for governments to identify the reality
  - For some economies, they could be better off by re-arranging their scarce national resources and by concentrating on the particular sector or activities on the GVC where their competitive edge reside
  - In case of Korea, it is recommended to support the development of SMEs in service sector
III. Policy Suggestions

- **Encourage Large enterprises to support local SMEs**
  - Paradigm of business competition shifts from “competition between companies” to “competition between networked companies”
  - It is recommended to encourage large firms to support local SMEs access to various GVCs (by providing incentives?)
  - The National Commission for Corporate Partnership (NCCP) was established in 2010 to play a role in disseminating a culture of corporate partnership and relieving social polarization (NCCP, 2012)
    - NCCP provides annual “Win-Win Index” which measure the degree of collaboration between (domestic) SMEs and LEs
  - Different economies may come up with different policies/measures to encourage collaboration of firms

III. Policy Suggestions

- **Need to increase awareness (among local SMEs) of the advantages of participating in GVC**
  - It has been identified that inter-firm cooperation increases the chances of success of SMEs in the value chain in terms of status, information flows and learning possibilities
  - For many local SMEs, their limited (human and capital) resources and managerial capacities still hamper acquiring accurate information and analysis of the opportunities in global markets
  - Most SMEs are not very well exposed to the issues of GVC and often have no knowledge about GVC
  - It is recommended to host seminar/workshop on inter-firm cooperation to educate/promote/provide information regarding opportunities/advantages of participating in GVC
III. Policy Suggestions

- Provide both SMEs and large enterprises with information about them so that they can meet
  
  - Introduce programs/services for local SMEs to visit/experience MNEs and TNCs (trade fair, exhibition + Chain Visit Program?)
  
  - Using trade promotion agency (such as Korea’s KOTRA) as an intermediary, invite CTO or other C-suite executives of global LEs to deliver their strategies, technology development, technological standards, and other information such as conditions for entering their value chains
  
  - Such programs/services will allow SMEs to acknowledge and align themselves with the technological and strategic direction of their LE customers
  
  - In short, let them meet
III. Policy Suggestions

- Expert groups identify/verify/analyze the capacity of Korean companies
- Support On-Offine Matching between SMEs and global enterprises
  - Regional based match-making: Europe, US, Japan, China, Korea, etc.
  - Factory inspection support: Factory inspection for verifying production and process capacity

III. Policy Suggestions

- Consider to establish a platform for "APEC Value Chain"
  - Provide a (Website-based) platform that allows government agencies and/or subordinate (or regional) agencies to accumulate and distribute information of their local SMEs and LEs
  - Provide links to SME websites/information via a standardized format that categorizes SMEs by industry and business type
  - Provide a portal to search and find information about potential local partner SMEs for LEs in the APEC region
  - Such a platform is expected to facilitate inter-firm cooperation within APEC member economies
IV. Concluding Remark

- Domestic policy measures are limited in their domestic boundary
- Cultural gap within APEC may hamper inter-firm collaboration between companies of different economies
- It seems that there may be no common policy implication applicable
- However, enhancing information flow among APEC can play an important role of encouraging inter-firm collaboration among APEC
- APEC can provide a meeting place and let them do it based on the market mechanism
- APEC should continue to explore the promotion/enhancement of inter-firm cooperation among APEC members