

**TRADE AND DEVELOPMENT BOARD COMMISSION  
ON ENTERPRISE, BUSINESS FACILITATION AND  
DEVELOPMENT**

*Expert Meeting on*

**"ENHANCING THE PARTICIPATION OF SMALL AND MEDIUM-  
SIZED ENTERPRISES IN GLOBAL VALUE CHAINS"**

*Geneva, 18-19 October 2007*

PAPER SUBMITTED TO THE EXPERT MEETING\*

**Integrating Developing Countries SMEs  
into Global Value Chains**

by

**UNCTAD/DITE**  
Enterprise Development Branch

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\*The views expressed are those of the author and do not necessarily reflect the views of the UNCTAD

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# Presentation Outline

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- Global value chains (GVCs), importance and magnitude
- Findings of joint UNCTAD-OECD-University of Fribourg research project
- Policy issues and recommendations



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# **1. GLOBAL VALUE CHAINS (GVCs), IMPORTANCE AND MAGNITUDE**



# What are GVCs ?

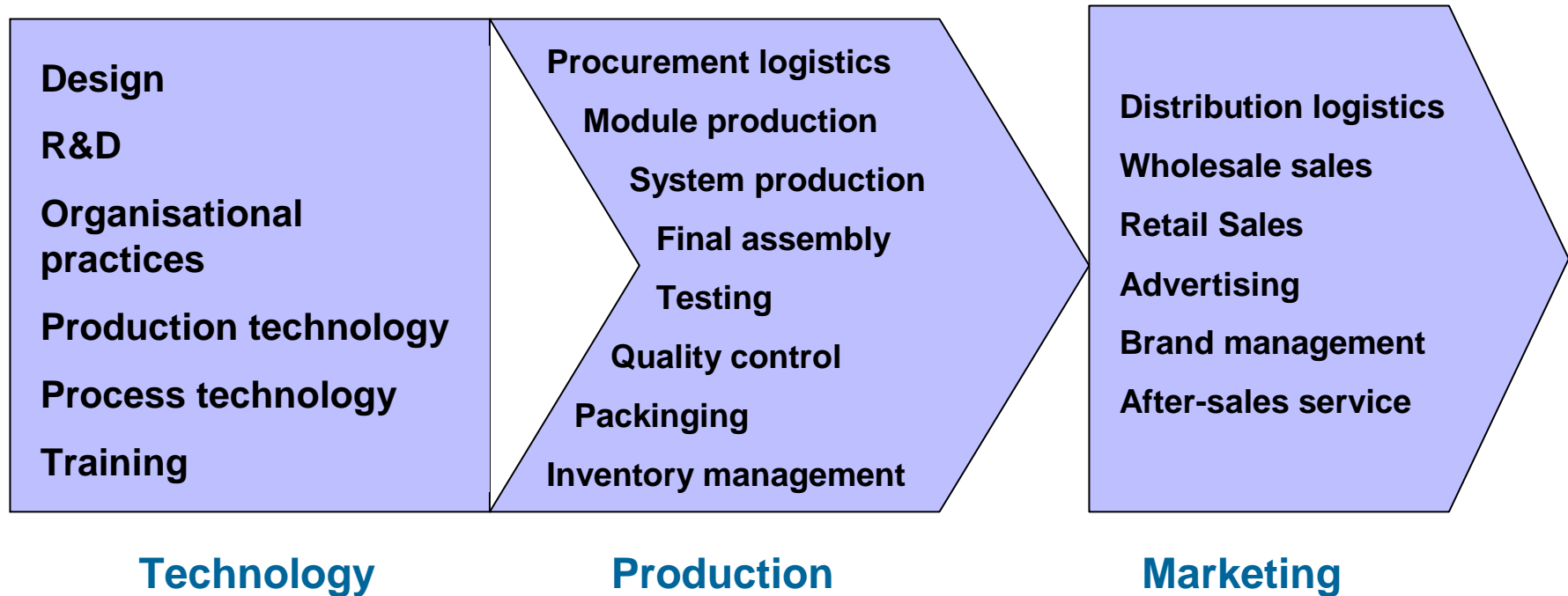
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**The organisation and distribution of production activities.**

**From technology sourcing and development through production to distribution and marketing.**

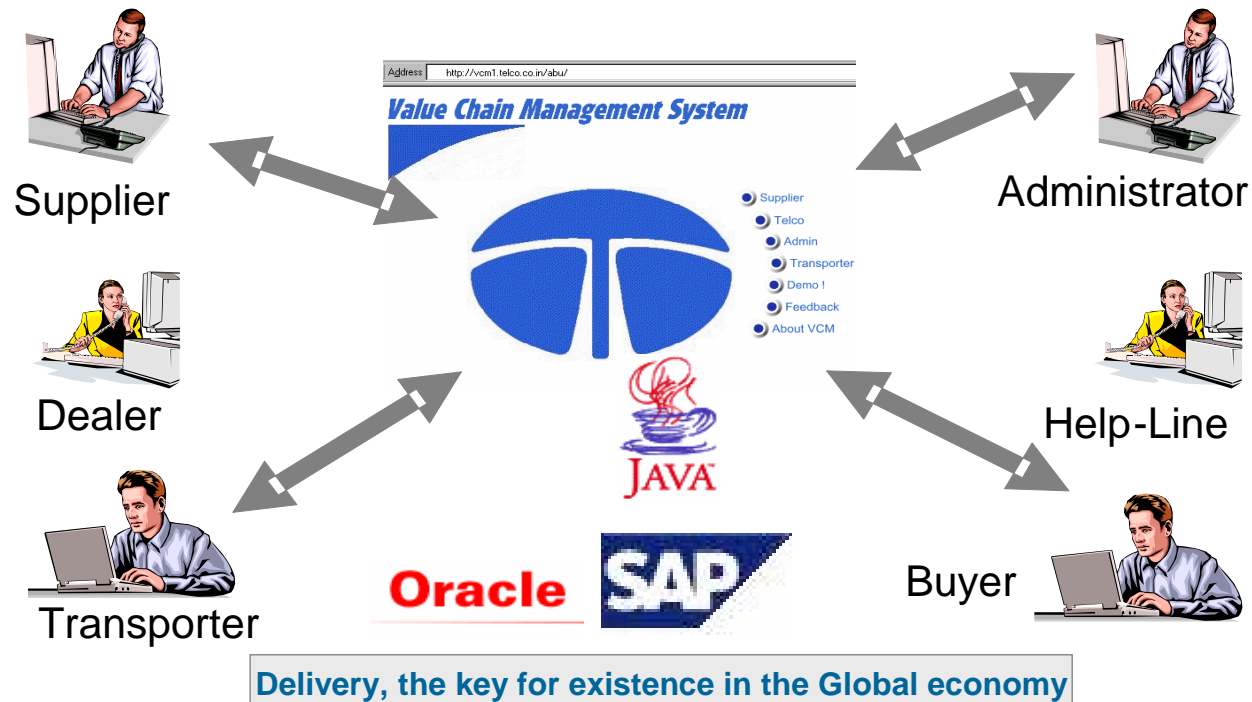


# The Global Value Chain of Production



# Value chain management system in the software industry

Enhancing export competitiveness  
Speed and flexibility across value chain through VCM



Source: UNCTAD's case study on Microsoft in Egypt, 2006



# **TNCs, the lead players in GVCs?**

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**TNCs are setting up international production systems on the basis of corporate strategies that seek to obtain the optimal configuration of their production process by spreading production that offer significant advantages in production costs and access to third markets**





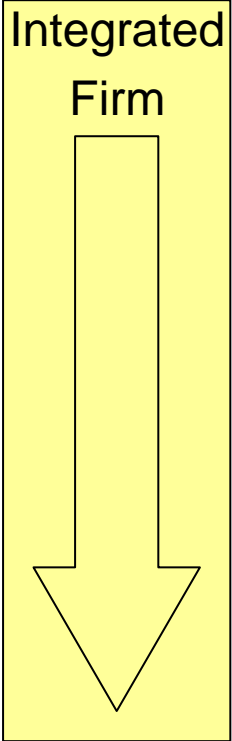
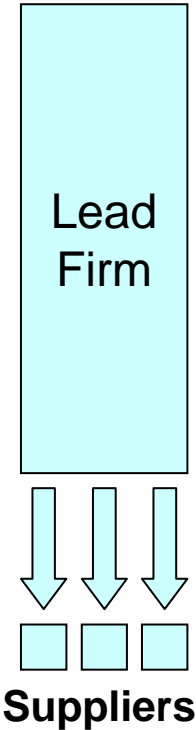
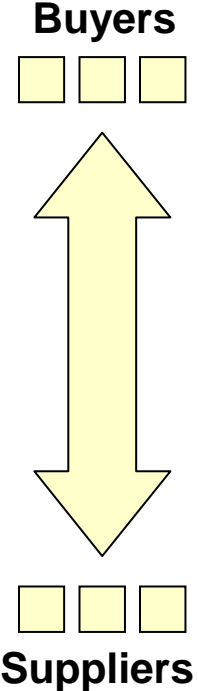
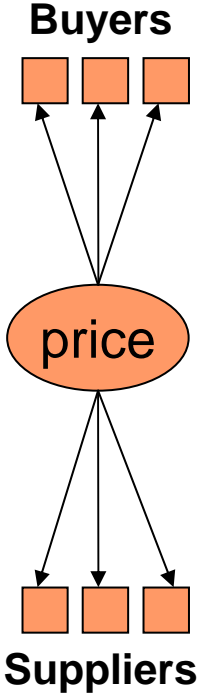
# The increasing role of TNCs in the international production system

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- **78,000 TNCs** in the world and 770,000 foreign affiliates
- They account for 10%, 17% and 13% of estimated foreign assets, sales and employment of the world's
- Foreign sales and employment increase faster than domestic ones
- More than 20,000 of the TNCs originate in developing countries.



# Governance structures of Value Chains



# Governance structures of Value Chains

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**Lead firms coordinate the value chain : innovate, create brands, control the whole production *process***

## **Producer driven**

- Large firm or TNC controls production network
- Upstream and downstream linkages
- Capital and technology intensive industries (i.e. automobiles, aircraft)

## **Buyer driven**

- Decentralised production network
- Labour intensive industries (large retailers and branded manufacturers, i.e. GAP, Nike)



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## **2. FINDINGS OF JOINT UNCTAD- OECD-UNIVERSITY OF FRIBOURG RESEARCH PROJECT**



# Terms of Reference

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- The Government of Switzerland, the Geneva International Academic Network (GIAN/RUIG) funded the research.
- Case studies carried out by UNCTAD cover local suppliers of large transnational corporations (TNCs) operating in developing countries in:
  - the automotive (Toyota in South Africa, Volkswagen in Mexico and Tata Motors in India);
  - software sector (Microsoft in Egypt and IBM in Vietnam) and;
  - the cinema and audiovisuals sector (Caracol in Colombia and NuMetro in Nigeria).



# Terms of Reference

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- The case studies look at structurally different sectors and industries but provide useful insights on the issues investigated and point to new relevant matters.
- The findings of the joint research project were presented at the OECD Conference held in Tokyo on 31 May and 1 June 2007. At the Conference, OECD member states endorsed the OECD Tokyo Action Statement, which includes policy recommendations on strengthening the role of small and medium enterprises (SMEs) and for further work in this area.



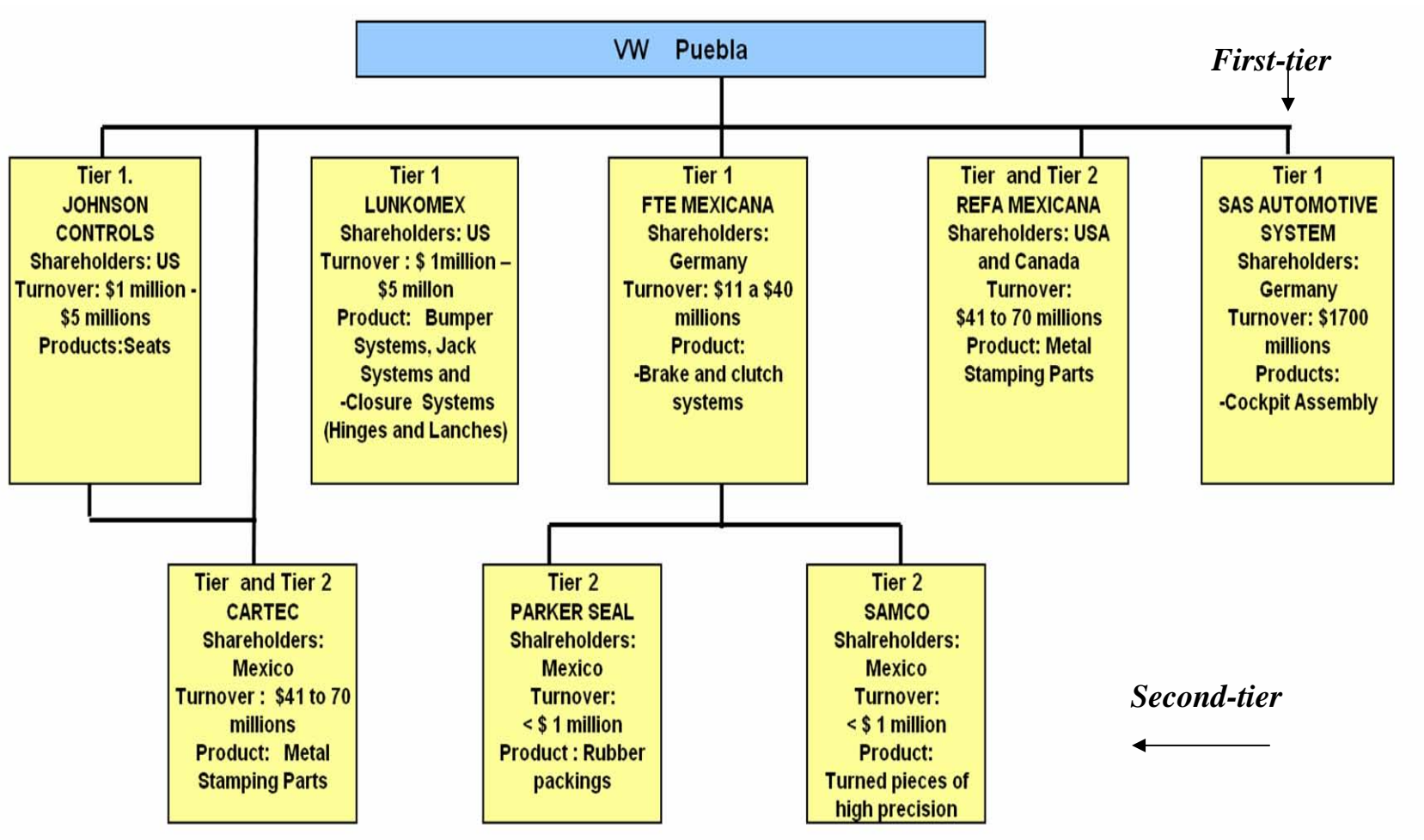
# Case study: Automobile Industry

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1. Most local suppliers in developing countries did not succeed to become global sourcing partners.
2. Developing countries SMEs have started to link up with first tier suppliers of large TNCs.
3. Large opportunities appear to have emerged in second-tier sourcing in Mexico and South Africa.



# First and second tier suppliers for the Puebla VW Plant





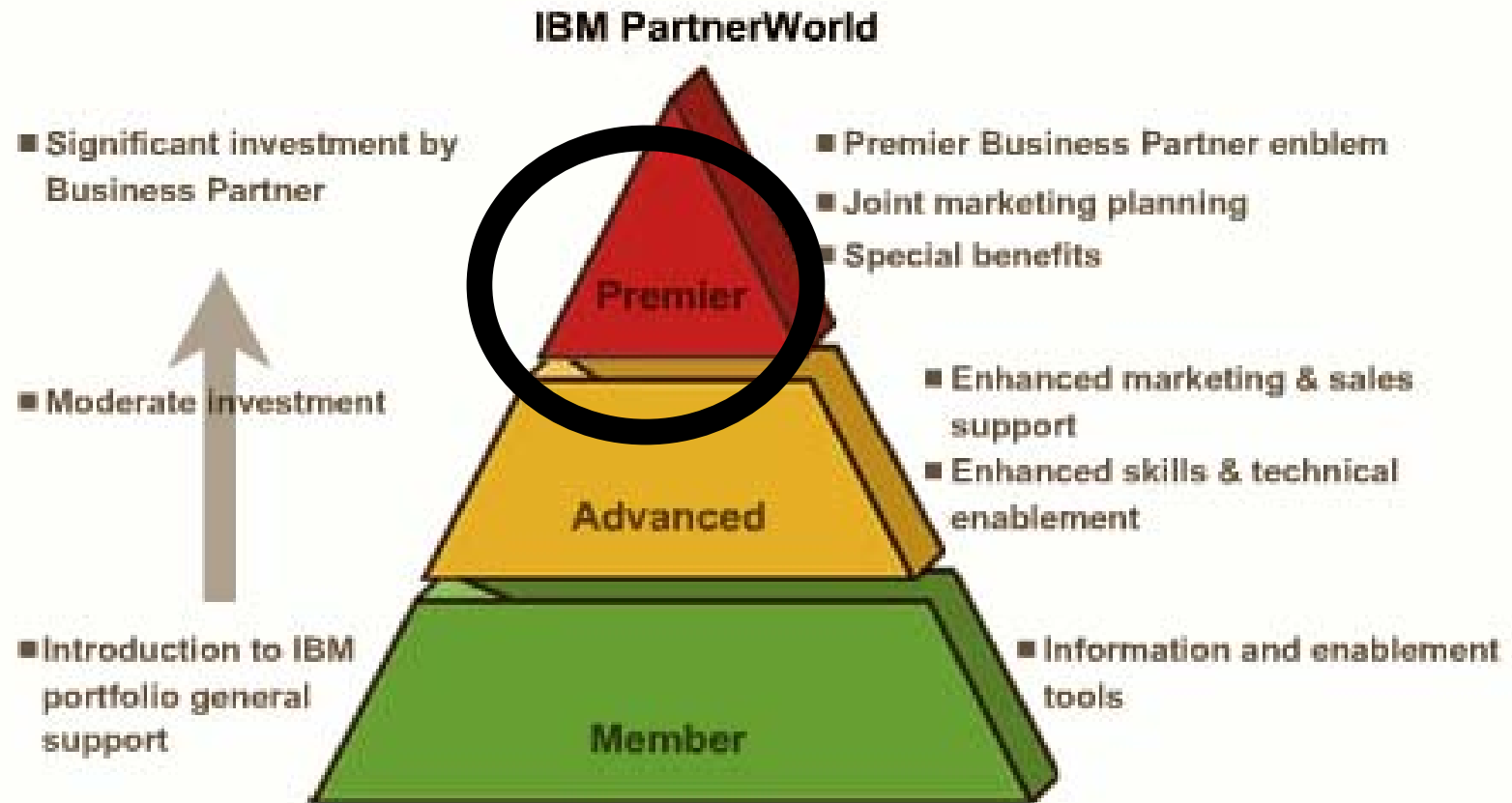
# Case study: Software Industry

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1. Leading software providers (such as Microsoft in Egypt or IBM in Viet Nam) depend on local companies to adapt their products to the local market and to support local customers.
2. Rivalry among local companies is strong and is driving a constant upgrading process.
3. This, in turn, gives companies **visibility and credibility** not only in their domestic market but also in their region.



# Supplier upgrading: IBM Partner World, Vietnam



**Benefits tiered by Business Partner achievement**



# Case study: Cinema Industry

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1. TNCs dominate the most important production networks. Creative industries face structural changes triggered by technology, both at the production and the distribution side.
2. The issue of **local preferences, culture, formats and language** is still a determining factor in shaping the emergence of new value chains in creative industries.
3. This opens up new opportunities for new, specialized entrants, such as the Colombian 3-D animation producers and local movie producers in “Nollywood” (Nigeria).



# The 3-D Animation Value-Chain in Colombia

<b>Animation firms (including freelance)</b>	
<b>3D-animation producers</b>	<b>23</b>
<b>3D-animation producers with presence in international markets</b>	<b>8</b>
<b>Digital animation producers (not necessarily specialized in 3D-animations)</b>	<b>34</b>
<b>Total (without international offices)</b>	<b>57</b>
<b>Film producers</b>	
<b>General film producers</b>	<b>20</b>
<b>Documentary film producers</b>	<b>18</b>
<b>Total</b>	<b>38</b>
<b>Production and postproduction firms</b>	
<b>Production and postproduction firms for TV commercials</b>	<b>79</b>
<b>Advertising agencies</b>	
<b>Advertising agencies</b>	<b>68</b>

Source: UNCTAD's case study on Caracol in Colombia, 2006



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## **3. POLICY ISSUES AND RECOMMENDATIONS**



# Concerns highlighted by surveys

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1. The need to improve technology and innovation capacity.
2. The lack of adequate finance and human capital for this process.
3. The capacity to respond to standards and certification requirements.
4. The ability to better manage intellectual assets, including the protection of IPRs when appropriate.
5. The uneven bargaining power SMEs face with large contractors.
6. The diversification in activities is needed to reduce dependence from one or few customers.



## And widespread need to raise SME awareness

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The "OECD Action Statement on Strengthening the Role of SMEs in Global Value Chains" highlights the importance of:

- Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners.
- Encouraging SMEs to call in external consultants for the implementation of feasibility studies and market research.
- Improving investment performance by facilitating companies' efforts to expand their business globally.
- Facilitating information flows throughout the entire GVC and in particular encouraging TNCs to share their road-map in terms of future product and process development with their SME partners.



# UNCTAD's Policy Recommendations (1)

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- The findings of the case studies are industry-specific, influenced by industry structure, stages of industry development and the buying behaviours of lead firms in a given industry.
- However, lessons can be drawn to identify key policy issues in integrating SMEs in GVCs.
- . The studies demonstrate that an enabling business environment is a necessary precondition for promoting SMEs to integrate into the global market.





## UNCTAD's Policy Recommendations (2)

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- Governments, the business community and international organizations should play a role in designing and implementing targeted assistance programmes to build capacity in SMEs, so that they can overcome the challenges of entering or upgrading their position in the GVCs.



## UNCTAD's Policy recommendations (3)

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1. In developing countries, policies should improve the CAPACITY of SMEs TO UPGRADE.
2. Upgrading should involve process, product, functional and chain upgrading.
3. Upgrading should be accompanied by measures for connecting to final markets.
4. Evidence shows that upgrading SMEs is easier when achieved collectively.



## UNCTAD's Policy recommendations (4)

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Main areas of policy intervention that apply to GVC development initiatives:

- Skills development
- Technological upgrading
- IPR protection
- Quality and standards
- TNC-SME linkages
- Clusters and territorial development

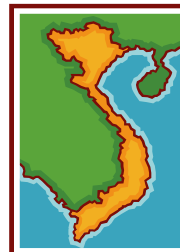


# In Conclusion (1)

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Developing countries SMEs can participate effectively in the global economy but have to achieve collective efficiency:

- Either horizontally, through clusters
- Or vertically, through TNC-SME linkages



## In Conclusion (2)

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TNCs often take active steps to improve the capabilities of their suppliers, but they seldom progress beyond the first tier, thereby missing SME suppliers in most developing countries. Suppliers upgrading and linkages creation policies should therefore focus on the integration of lower-tier suppliers in GVCs.



# Thank you

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