



*Short courses for Permanent Missions in Geneva  
Tuesday, 4 November 2014*

---

# **Integrating SMEs into Global Value Chains: Myth or Reality?**

*Fulvia Farinelli,*

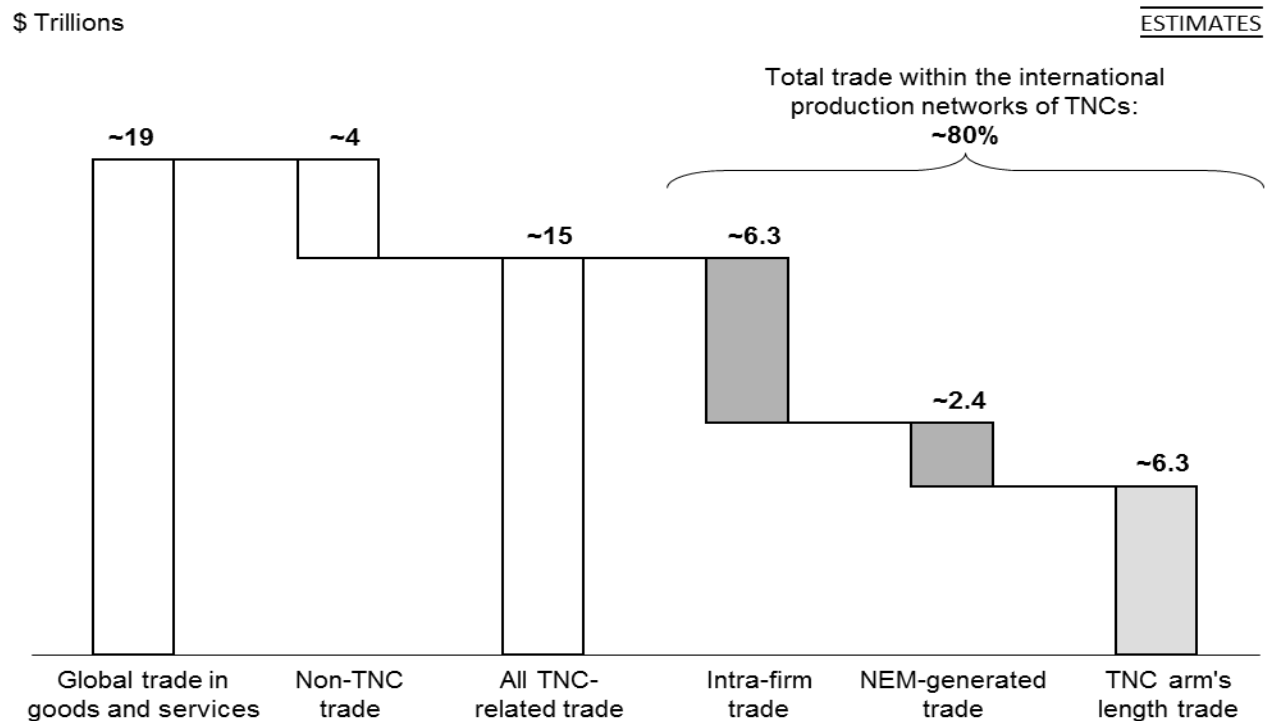
*Division on Investment and Enterprise*

*UNCTAD*



# Investment, Trade and Participation in Global Value Chains

## Global trade (exports of goods and services), by type, 2010

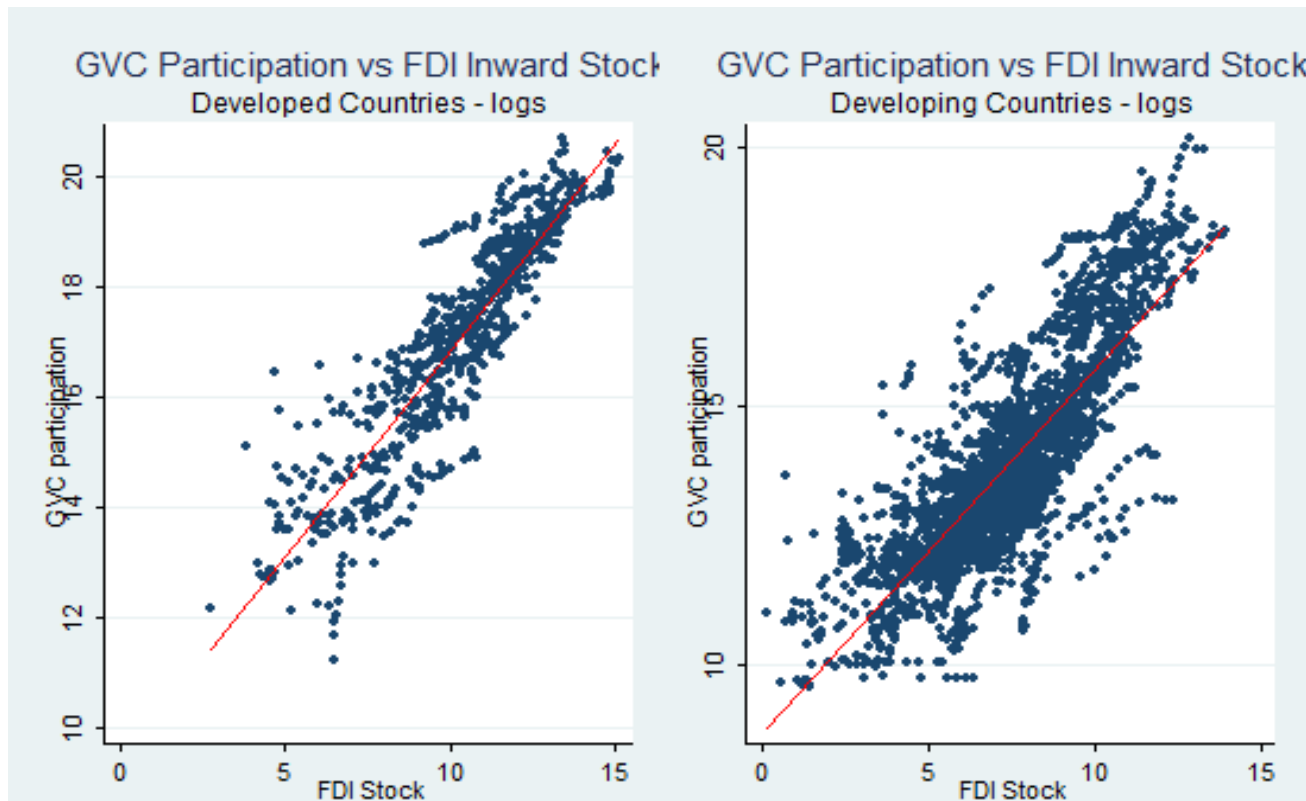


Source: UNCTAD estimates, based on WIR12 (table I.8); BEA; EFIGE; Altomonte et al. 2012.

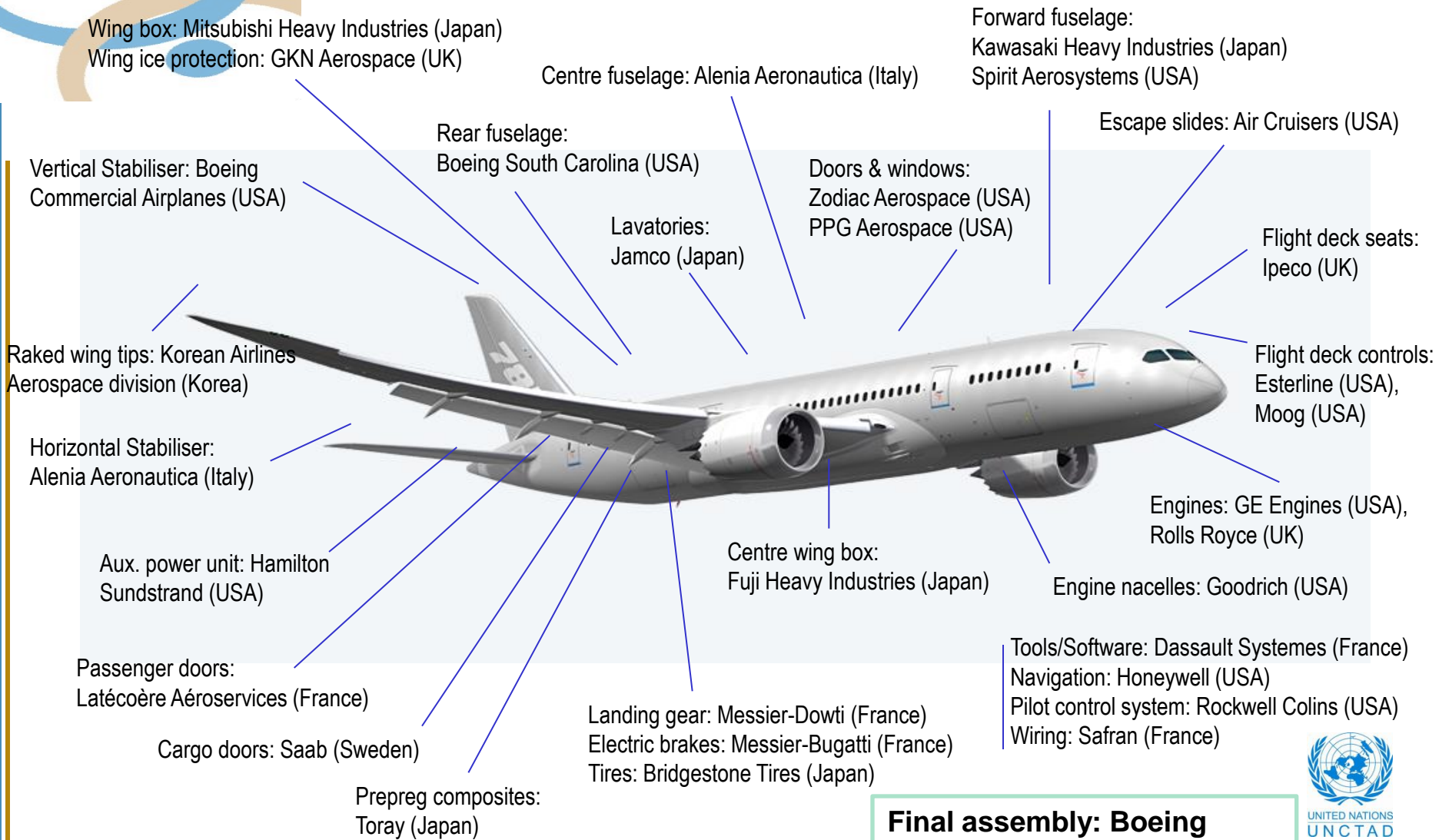


## FDI helps countries increase participation in GVCs but the presence of TNCs that participate in GVCs does not guarantee participation of local SMEs

Relationship between GVC participation and FDI inward stock,  
189 countries over 20 years

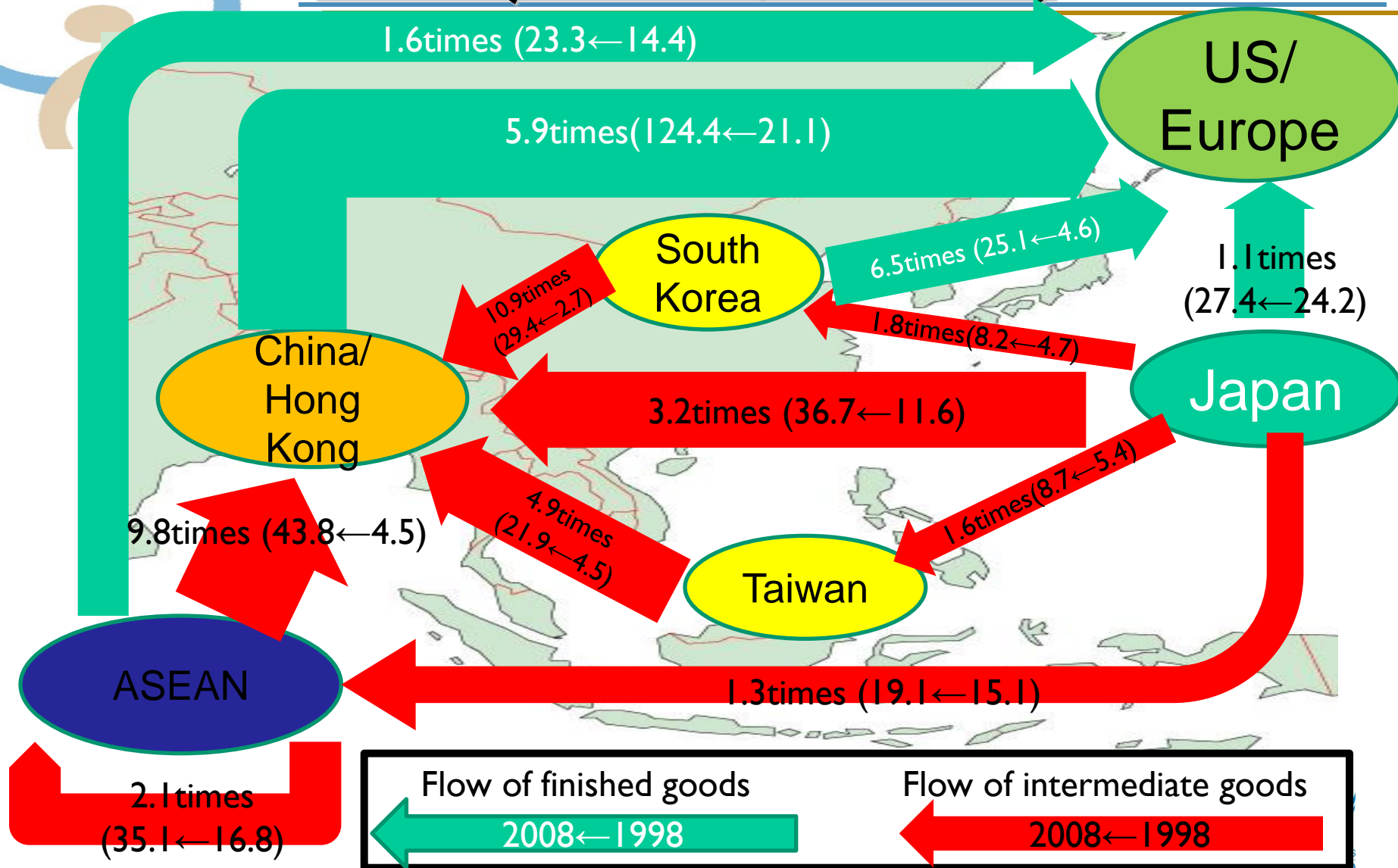


# Fragmentation of production: the example of the Boeing 787 Dreamliner



**Final assembly: Boeing  
Commercial Airplanes (USA)**

# Major Flow of Intermediate Goods and Finished Goods in Asia (Electrical/Electronic)



\* Electric/electronic machinery export value (billion USD)

Source: RIETI-TID(2009), White Paper on International Economy and Trade 2010 (METI)

# The Emergence of Regional Value Chains

---

- There is a significant structural diversity and a high degree of complementarity of emerging global and regional production systems
- Production networking and regional division of labour result in massive intra-industry trade in parts and components within regions
- Intermediate goods are the « blood stream» that irrigates global and regional supply chains

# Complementarity of auto-parts suppliers in ASEAN



## MALAYSIA

- Instrumental panel assembly
  - Bumper
  - Drive shaft

## PHILIPPINES

- Engine fuel system
- Emission dress parts
- Engine electronic parts
- Suspension parts
- MT mission

## AFTA-CEPT

## THAILAND

- Press parts
- Frame panels
- Electronic parts
- Interior parts
- Engine parts

## INDONESIA

- Cylinder head assembly
- Cylinder block
- Engine valve
- Steering handly
- AT mission





# What are the implications: consequences for SMEs

---



- New opportunities (vertical specialization)
- But also risks:
  - Being pushed towards cheap end of the market
  - Being pushed towards lower tiers of suppliers



# Value capture can be limited: iPod production in China



- The retail value of the 30-gigabyte video iPod is \$299.
- The most expensive component in it is the hard drive, which is manufactured by Toshiba and costs about \$73.
- The next most costly components are the display module (about \$20), the video/multimedia processor chip (\$8) and the controller chip (\$5).
- The final assembly, done in China, costs only about \$4 a unit.

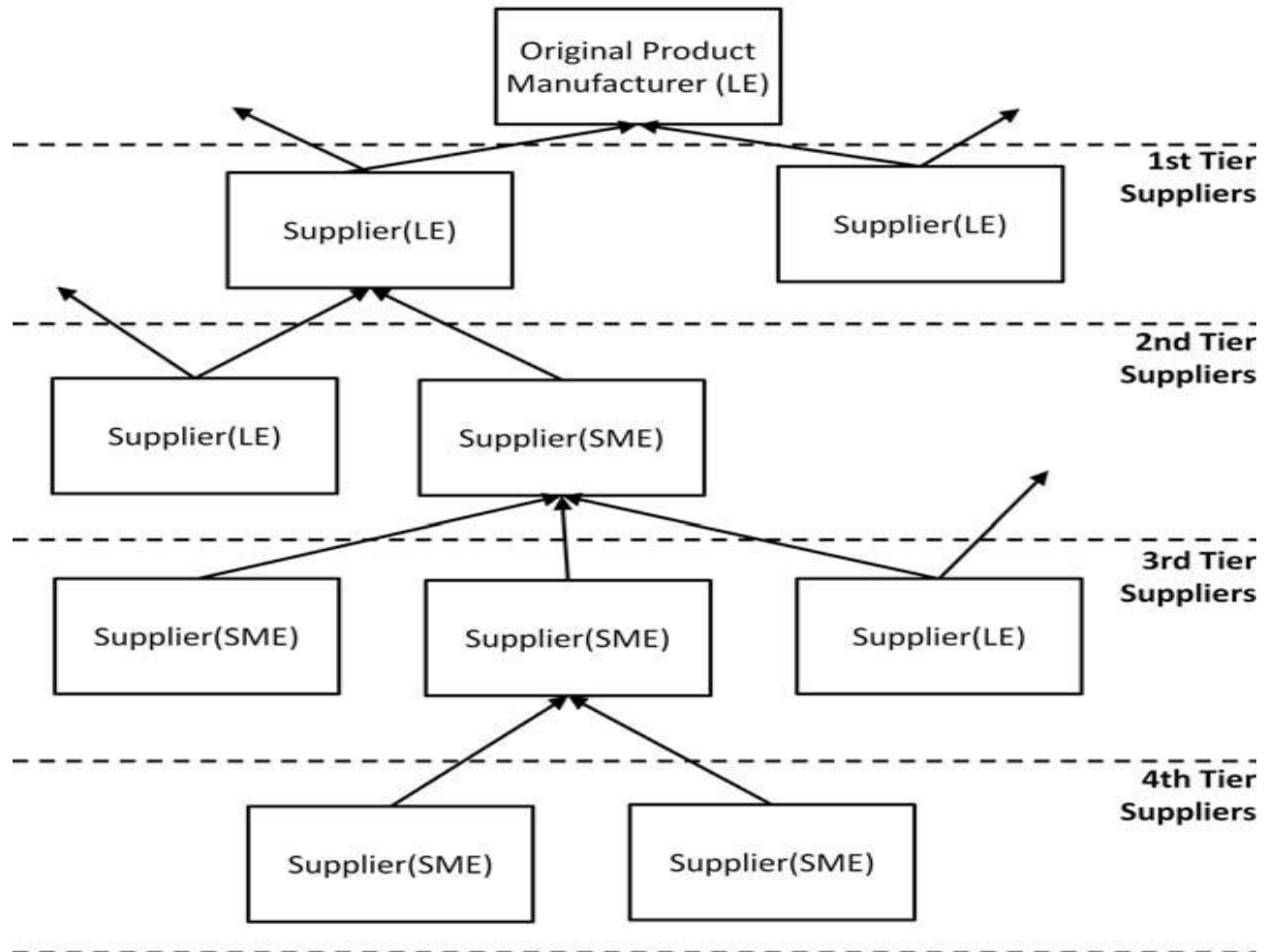


UNITED NATIONS  
UNCTAD

BUSINESS  
LINKAGES

# Risks

Figure 1: How SMEs fit into Global Value Chains



LE: Large enterprise  
SME: Small or medium enterprise  
Source: Abonyi, 2005

# Results of UNCTAD's case studies on the software industry:

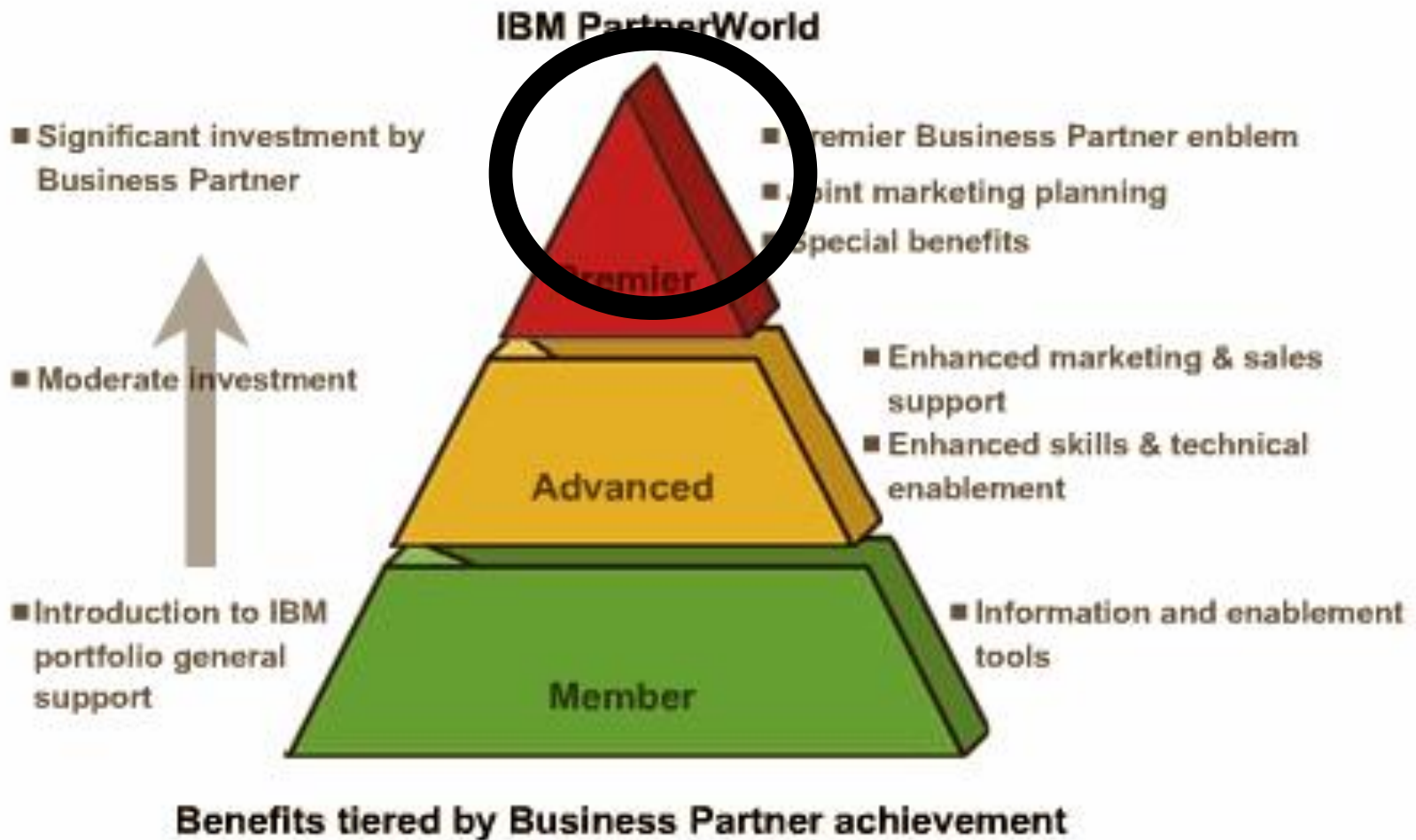


1. Leading software providers (such as Microsoft in Egypt or IBM in Vietnam) depend on local companies to adapt their products to the local market and to support local customers.
2. Rivalry among local companies is strong and is driving a constant upgrading process.
3. This, in turn, gives companies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



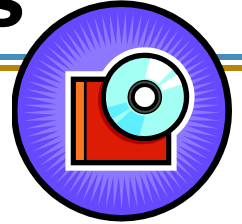


# Example of suppliers upgrading in the IBM PartnerWorld system applied in Vietnam



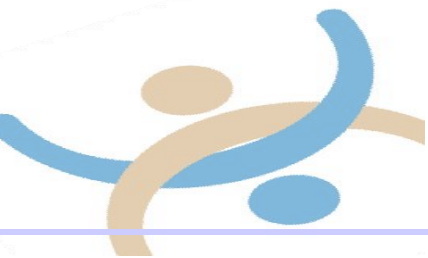


# UNCTAD's case studies results on the audiovisual industry:



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).

# E.g. Numbers on key players in the 3D-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, 2007

# Results of UNCTAD's case studies on the automobile industry

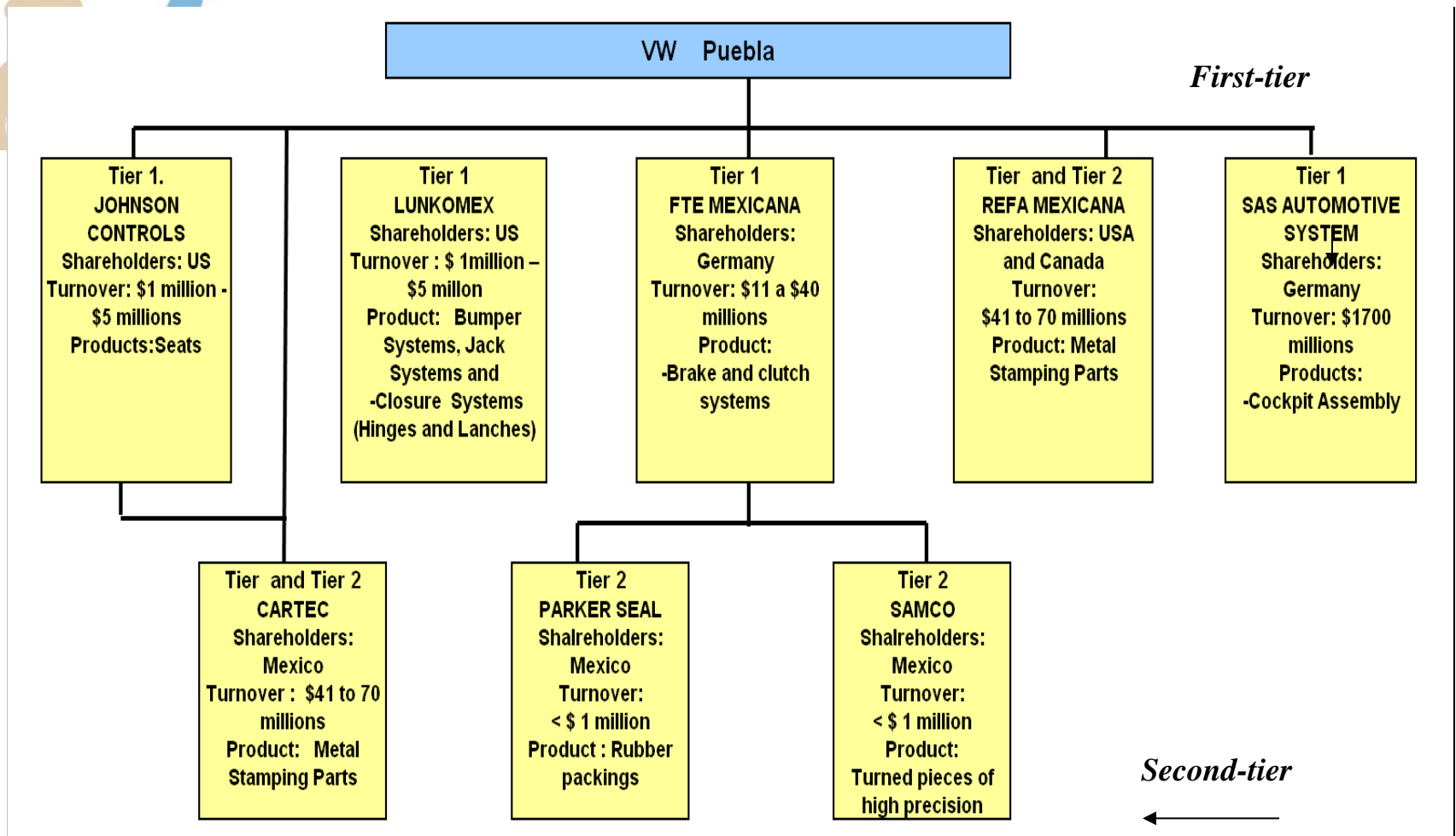


1. Most local suppliers in developing countries did not succeed to become global sourcing partners.
2. Developing countries SMEs have started to link up with first tier suppliers of large TNCs.
3. Large opportunities appear **to have emerged in second-tier sourcing.**





# First and second tier suppliers of the Volkswagen plant in Puebla, Mexico



Source: UNCTAD's case study on Volkswagen in Mexico, 2007



- UNCTAD's Business Linkages Programme connects large companies with domestic suppliers in developing countries
- Currently operational in **Argentina, Brazil, Mozambique, Chile, Tanzania, Uganda** and **Zambia**



"We are all speaking the same language, TNCs are here to stay and we want to grow. In order to do that, we need (to work with) local SMEs."

**EXAUDI KIWALI**, VODACOM, BL PROGRAMME IN TANZANIA

"The BL Programme in Argentina aims to strengthen the automotive sector and improve the relationship between domestic SMEs and large corporations (TNCs). It is a great step to foster the development of local suppliers. As this is a complex sector and a global industry, it is important to transform local SMEs into competitive global players."

**RUBÉN ASCÚA**, PRESIDENT OF EMPRETEC ARGENTINA

"Through the Business Linkage Barley Project developed in Mozambique the rural population in the Manica province got the opportunity to access a new source of income generation. Now hundreds of Mozambican small producers have the chance to improve their quality of life and get out of the condition of absolute poverty."

**EVARISTO JORDÃO VILANCULOS**, BL PROGRAMME COORDINATOR IN MOZAMBIQUE

"This programme has tremendously enhanced the productive capacity, efficiency, competitiveness and sustainability of these (participating) businesses".

**MAGGIE KIGOZI**, DIRECTOR, UGANDA INVESTMENT AUTHORITY ON BUSINESS LINKAGES



## Key activities:

- Upgrading local businesses to meet international standards
- Strengthening small businesses to become dependable partners for large companies
- Providing policy advice on improving the environment for sustainable business linkages
- Sharing effective international business linkage strategies with the various stakeholders

***...in order to deliver tangible results for all:***

### ECONOMIC DEVELOPMENT

- Development of a dynamic, competitive & sustainable industry
- Increased exports, tax revenue and employment
- Improved operations & products standards
- Increased industrial transfer of skills & technology

### TRANSNATIONAL CORPORATIONS

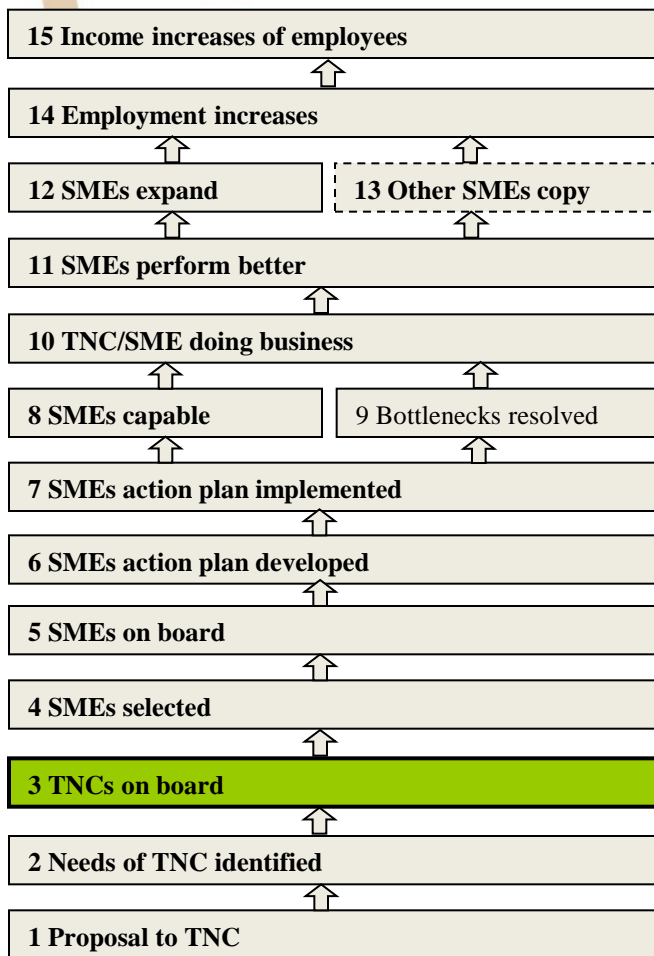
- Reliable supply structure
- Cost reduction
- Flexibility & speed
- Productivity gains from specialization & outsourcing
- Better use of own resources (capital, human) for core activities & processes
- Increased competitiveness

### SMALL & MEDIUM-SIZED ENTERPRISES

- Increased sales and/or exports
- Expansion of client base
- Access to information, technology & management processes
- Access to UNCTAD coaching & technical advice
- Improved competitiveness, product standards & managerial skills



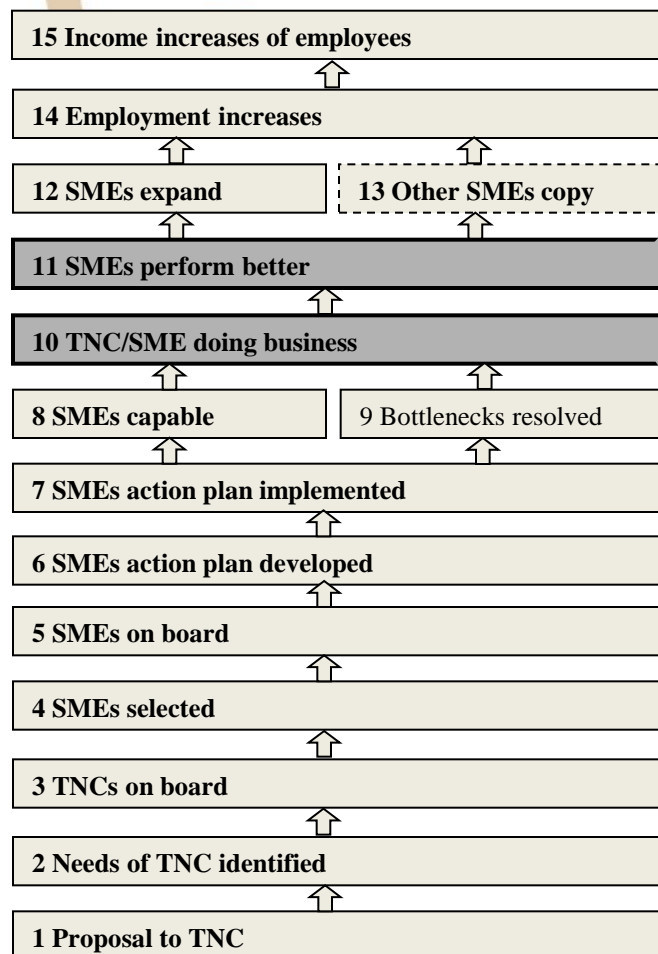
## Results monitoring: Brazil



Indicator	Bahia	Ceará	Manaus	Pernambuco	S. Bernardo do Campo	Total
Proposals to TNC	22	15	3	20	4	64
Expression of Interest signed	8	7	1	12	1	29
TNC needs identified	8	7	1	5	1	22
Assessment questionnaire	8	7	1	5	1	22
TNC on board	8	7	1	5	1	22
Signed MoU or agreement	8	7	1	5	1	22
Liaison officer appointed	8	7	1	5	1	22
Financial commitment	245,000	225,000	175,000	210,000	n.a.	855,000



# Results monitoring: Uganda



Indicator	TNC 1	TNC 2	TNC 3	TNC 4	Totals
Gross margins					
Net margins	332% (6% to 360%)	215% (-57 to 625%)	105% (-37 to 133%)		217% (average)
Investments made	Y	Y	Y	Y	
Loans received	236,901	1,018,223	199,088	300,683	
New clients captured					



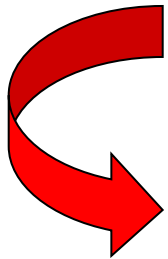
Indicator (% change)	TNC 1	TNC 2	TNC 3	TNC 4
SME-TNC Sales value	17% (6 to 50%)	-9% (-55% to 28%)	7% (-2% to 11%)	- 100%
Repeat sales	277%	154%	156%	
Domestic procurement				From 5 to 9 billion UGX (30% to 75%)
Case specific indicators				
Relationship perception				
TNC additional support	Y	Y	N	Y

# Conclusions

---



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



There is a need for industrial upgrading policies and business linkages programmes, in particular focusing on the integration of lower-tier SMEs in GVCs and RVCs



---

Thank you!  
[fulvia.farinelli@unctad.org](mailto:fulvia.farinelli@unctad.org)