

Executive Summary

The region: A door to global trade



International
Trade
Centre

TRADE IMPACT FOR GOOD

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Foreword



The world of trade is changing. Traditional defenders of open markets now seem hesitant. Meanwhile, new major players in global markets are speaking up to defend open trade. Trade negotiations have been put on hold in some parts of the world. In others, integration efforts have intensified.

In this shifting context, companies will not stop doing business; they will change the way they do business. One response to protectionist rhetoric is to shorten supply chains to reduce vulnerability to future trade restrictions. This means strengthening operations in places where the policy environment is most stable and trade costs are lowest. As a consequence, lead firms are likely to reinforce their regional operations as a key coping strategy.

As an agency dedicated to the internationalization of small and medium-sized enterprises (SMEs), we at the International Trade Centre (ITC) have therefore chosen ‘the region’ as the theme for this year’s *SME Competitiveness Outlook*. This is not done out of a preference for regional as opposed to global integration. ITC remains firmly convinced that a strong, effective rules-based multilateral system is essential for trade-led development that is sustainable and inclusive.

Yet, the region has always been the door to global trade for SMEs, and we expect this to be even more so in coming years. With this report, we want to help SMEs and policymakers to better tap the potential offered by growing regional markets.

The potential of SMEs to connect to regional or global markets greatly depends on the extent of value chain activity within their geographical proximity. As this report shows, most value chain activity takes place within regional value chains,

with suppliers in the region serving lead firms in the regional hub. Some regions, countries, institutions and companies are more successful than others in generating regional value chain activity. This report provides insights into why this is the case.

Some regions generate more value chain activity. Regional integration turns out to be a major success factor. Stronger regional transport infrastructure and regional technical institutions relevant for standards and regulations help reduce trade costs, thus smoothing value chain activity. These regions also have formal trade agreements including policy areas relevant for value chain activity – most notably investment and services. This spurs value chain activity, which in turn is good for SMEs, and for inclusive development. Evidence in this report shows that if a country covers one additional policy area through trade agreements, its integration into value chains increases by 2.5%, decreasing the competitiveness gap (that is, the difference in performance) between large and small firms by 1.25%.

Some countries are more successful than others in connecting their companies to regional value chains and making them work for development. These countries typically draw the attention of foreign investors or regional lead firms. Where countries demonstrate relevant supply capacity, the resulting business deals can place a sector, cluster, or region on a growth spiral of increased investment and trade. This report shows how a combination of export potential assessments, value chain analysis and benchmarking through systematic SME competitiveness assessments can help policymakers prioritize actions and investment to help companies grow in value chain trade.

Some business ecosystems are more conducive to connecting companies to regional and global markets than others. Regional networks of trade and investment support institutions (TISIs) can play an important role in transmitting regional policy changes to the ecosystem that immediately surrounds firms. This report describes how TISIs like chambers of commerce, trade promotion organizations and standard-setting bodies have become organized in regional networks to strengthen their region's position in global trade. We highlight five areas of collaboration: information sharing (e.g. business databases, export and investment potential); strategies on value chains, branding and more; lobbying and advocacy to bring business views into policies; trade promotion events; and capacity building and mentoring.

Some companies operate more successfully within international value chains than others. The 'SME Guide to Value Chains' in this report provides actionable guidance on how to get selected by regional or global buyers; operate successfully within international value chains; and upgrade or expand within these chains.

It is the combination of deep integration, smart national policies, a vibrant business ecosystem and strong company capacity that will help SMEs to flourish in regional – and ultimately global – markets. This is good for SMEs. It is also good for those working in SMEs, who represent the majority of any country's workforce and often the most vulnerable parts of society.

In order for SMEs to offer their workers decent wages and working conditions, they must be able to negotiate decent deals with their buyers. The more competitive SMEs are, the stronger their bargaining power will be within international value chains. The guidance in this report is of direct use to SMEs. It also provides TISIs and policymakers with tools and guidance to assist SMEs in their efforts to strengthen their positions within value chains.

Deep integration appears to be more conducive to SME competitiveness than shallow integration. This report therefore invites policymakers to see the current 'globalization crisis' as an opportunity for integration. Deeper integration, rather than less integration, is one answer to urgent public demands for social equity and environmental sustainability. As lead companies turn to regions, if governments and their partners deepen regional economic integration

policies and governance, this would be good for value chains, good for SME competitiveness and good for their employees.

SME competitiveness may not be enough to reduce poverty and increase the number of decent jobs; but it is, in our view, a requirement. We are confident this report will help you find ways to address trade's contribution to the United Nations Sustainable Development Goals amidst the deep changes in today's political economy.



Arancha González
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About this report

Regional trade is the most common form of trade for small and medium-sized enterprises (SMEs).

SMEs typically look at neighbouring countries for their first international operation. In this context, SMEs are likely to encounter international value chains. Most international trade takes place within such value chains and – as shown in this report – many value chains operate mainly at a regional level. For most SMEs, value chains represent an entry point into internationalization. The discussion of regional value chains therefore takes a central stage in this report.

Part I

Part I of this report describes the environment in which SMEs are most likely to act at a regional level. It provides guidance for SMEs on how to benefit from value chains and for policymakers on how to shape policies that put SMEs on a road to success. Understanding the decision-making processes within value chains is a prerequisite for successful SME internationalization – and for any region to be a door to global trade.

- **Chapter 1** describes the relevance of regional value chains for international trade, and what they can offer to SMEs. The report finds that regional value chains are more prevalent and easier to access than global ones.
- **Chapter 2** provides insights into the policy environments that are most conducive for value chain activities. It assesses regional trade agreements and other regional integration initiatives from this perspective. In recent years, regional trade agreements have imbedded value chain imperatives into their design.
- **Chapter 3** represents a guide for SMEs on value chains. It provides actionable guidance on how to get selected by regional or global buyers; operate successfully within international value chains; and upgrade or expand within these chains. SME capacities are key to success.
- **Chapter 4** describes how different types of trade and investment support institutions operate at the regional level – often within regional networks – and how this can contribute to SME integration into regional value chains.

Part II

Part II gives policymakers, investors, exporters and importers key information on how to identify new partners and market opportunities:

- **Chapter 5** assesses why some regions are better positioned to participate in regional value chains than others. This assessment is based on ITC's SME competitiveness scores.
- **Chapter 6** illustrates how quantitative export potential assessments, value chain analysis, benchmarking against competitors and systematic SME competitiveness assessments can support decision-making around value chain integration. It does so through success stories of value chain integration in five countries: Ghana, Hungary, Indonesia, Kenya and Morocco.
- **Chapter 7** highlights five SMEs that became regional or global leaders in their line of business. The chapter examines the steps these companies took on their road to success and the role played by regional integration and policies.
- **Chapter 8** presents 50 country profiles, featuring SME competitiveness assessments and information on each country's export potential within and outside their geographical region.

To address the key question of the report – the role of the home region – this report separates value chains based on geographic scope.

International value chain (IVC) is the broadest term, encompassing regional, multiregional and global value chains.

Global value chain (GVC) in this report differs from a more generic use of the term. Here a value chain is considered global if it covers three or more of five geographic regions.

Value chain and **supply chain** are used interchangeably.

Executive Summary

Regional integration, value chains and SMEs

Deep integration is good for value chains.

Deep integration is good for value chains. This report provides new evidence that deep regional integration is linked to greater value chain activity. What's more, preferential trade agreements with investment provisions have a stronger effect on value chain integration than stand-alone bilateral investment treaties.

The world of trade is changing. With it, companies are changing the ways they do business.

As the landscape of the world of trade changes, companies are changing their ways of doing business. One response to increased protectionist pressures is to strengthen operations where the policy environment is most stable, and trade costs are lowest. For many lead firms, this may imply strengthening their regional operations.

For small and medium-sized enterprises (SMEs), this can be good news. Greater regional value chain activity provides new opportunities to enter international markets. Greater regional value chain activity is also linked with a reduced competitiveness gap between small and large firms, this report shows.

For SMEs, an increase in value chain activity around them provides new opportunities to enter international markets.

Action points for policymakers in this report can help them make their region more attractive for value chain activity, especially by deepening integration. The report also includes an 'SME guide to value chains' with insights into how SMEs can make the most of increased value chain activity in their region. Finally, the report assesses how regional collaboration among trade and investment support institutions can foster SME integration into regional or global value chains.

The SME Competitiveness Outlook offers tailored advice

Benchmarking/advice

预览已结束，完整报告链接和二维码如下：

https://www.yunbaogao.cn/report/index/report?reportId=5_22920

