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Enhancing SME Participation in Global Value Chain

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- Global Value Chains (GVCs)
- Rationale for policy emphasis
- Policy options
- SME engagement in GVCs:
The Case of Penang Export Hub, Malaysia

Global Value Chains (GVCs)

Value chain

The full range of activity involved in bring a product from its inception (the design stage) to its final consumer

Global value chain (GVC)

Value chain that is divided among multiple firms that spread across geographic boundaries

- Understanding of the structures and dynamics of GVCs is vital for crafting policies to promote SME engagement
- GVCs are not homogenous (contrary to the way the terms is widely used in the policy debate)
- Useful starting point for understanding the heterogeneity is the two-way classification:
 - Buyer-driven GVCs
 - Producer-drive GVCs

Buyer-driven GVCs

‘Lead firm’ in the value chain is the international buyer (a large retailer or a brand manufacturer).

Common in diffused-technology products such as garments, footwear, toys and variety of handicrafts.

Producer-driven GVCs

‘Lead firm’ is the multinational manufacturing firm

Common in vertically integrated global industries such as electronics, electrical goods, automobiles, scientific and medical devices

Driven by ‘global production sharing’

A more suitable term would be ‘global production networks’ (GPN)

Rationale for policy emphasis

- GVCs have become much more prevalent and elaborate over the past few decades, as an integral facet of economic globalisation. (internationalisation of the value chain)
- The policy emphasis on joining GVCs is therefore a ‘natural’ response as part of policy transition from a inward-oriented to an outward-oriented development strategy

- What is the rationale for the emphasis on promoting SMEs' engagement in GVCs?
 - Better employment and equity outcome of SME operations compared to large firms [greater capacity reduce poverty and inequality through labour absorption (mostly unsullied labour)]
 - Provide a 'seedbed' for future large national companies
 - Foster industrial linkages
 - Provide a foundation for the national R&D effort *

* This point is based on the experience of mature industrialised countries; whether it is applicable to developing countries is debatable

Policy options

A two-pronged approach:

- Policies to offset the disadvantages imposed upon SMEs by the prevailing trade and industry policy regime
- ‘SME-specific’ policies: policies specifically designed to remove impediments to their operations resulting from ‘natural’ market imperfections
 - SME-specific policies are effective only if they are part of an overall GVC-friendly policy package
 - **These policies need to be crafted to suit the structural peculiarities of particular GVC**

SME engagement in producer-driven GVCs: The Case of Penang Export Hub, Malaysia

Based on

Athukorala, P. (2014), 'Growing with Global Production Sharing: The Tale of Penang Export Hub', *Competition & Change*, 18(3), 221-245.

(Longer working paper with case studies

https://crawford.anu.edu.au/acde/publications/publish/papers/wp2011/wp_econ_2011_13.pdf)

and

my ongoing research

Penang

A state of Malaysia, located on the northeast coast of Malaysian Peninsula (See Map)

Area Penang Island: 293 Sq. KM
 Seberang Perai: 753

Population 1.52 million.

Resource base:

The least natural-resourced endowed state among the 13 Malaysia states,



PENANG



Evolution of the export hub

- 1971-1975

The arrival of ‘Eight Samurai’ (National Semiconductor (NS), Intel, AMD, Osrum, Hewlett Packard, Bosch, Hitachi, Clarion) to set up plants for component assembly

- From the late 1980s, production base diversified with the entry of MNEs in consumer electronics and consumer peripheral industries

- Emergence of ancillary (supporting) industries
 - initially foreign vendors
 - Then, local vendors (some local firms became MNEs)
- By the mid-1980s an export cluster with a sizeable number of branch plants of electronics and electrical MNEs and a network of local SMEs was well established

Ownership stature of manufacturing firms in Penang, 2008

	Firms (%)	Employment (%)
Foreign-owned	22.9	72.3
Large	11.3	68.3
SMEs	11.6	3.9
Local	77.1	27.7
Large	9.7	12.6
SMEs	67.4	15.2
	100	100
(Number)	(1193)	(299,329)

Policies

A comprehensive policy package for promoting export oriented industrialization, with a specific focus on linking Penang to global electronics value chain

Overall policy package to attract MNE:

- Free Trade Zones
- Infrastructure development
- A 'land bank', which served the dual purposes of gaining budgetary autonomy and facilitating infrastructure development
- Investment promotion

Policies to foster GVC-SME links

- Institutional support for MNE affiliates to forge subcontracting relations with local firms, including launching vendor development programs
- Industrial estates (side by side with EPZs)
- Penang Skill Development Centre : Vocational training programs with a focus on vendor development
- Equal treatment of SMEs and MNE affiliate in providing duty-free access to imported inputs and other tax concessions
- Avoiding rescuing ‘failed firms’ (policy makers beloved in ‘creative destruction’)