

Executive Summary

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**The region:  
A door to global trade**



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The International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations.

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## Foreword

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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  
Executive Director,  
International Trade Centre

# About this report

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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

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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

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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.

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*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

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## Regional integration, value chains and SMEs

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*Deep integration is good for value chains.*

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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.*

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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.*

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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

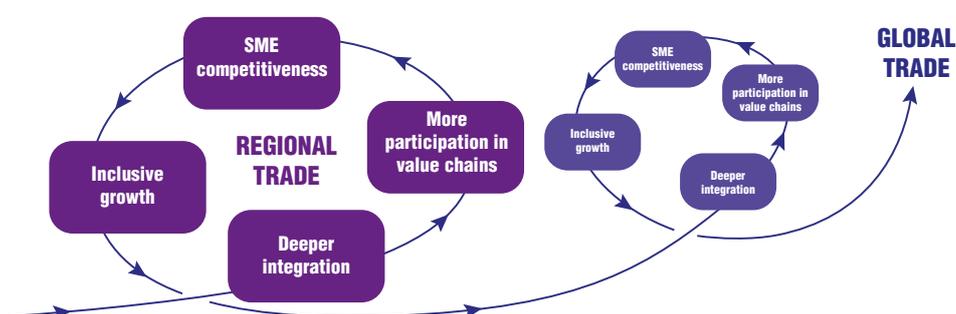


## The virtuous spiral: Deep integration and value chain activity

*International value chains are mostly regional. Very few span the globe.*

Truly global firms are rare. Most international firms turn out to be regional or multiregional. International value chains mostly function within a single region, or across two regions, to benefit from nearby suppliers. Limited geographic scope also helps firms get around the cost of moving people, which remains high.

### The virtuous development spiral



*Africa is an exception. Regional value chain activity has struggled to take off.*

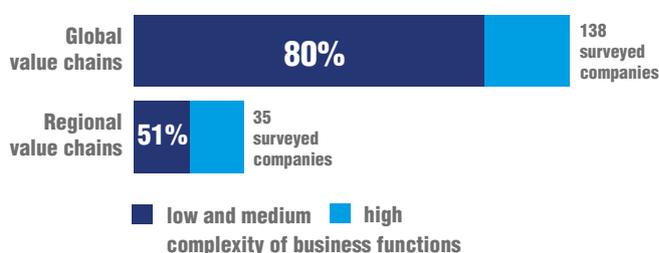
Africa appears to be the exception to the rule that value chains are clustered around regional activities. African firms are more likely to join production networks outside of the continent. ITC data for East African firms in international value chains confirms that they typically export intermediate inputs to firms in East Asia, Europe or North America.

Moreover, the firms themselves generally engage in business functions of low complexity, suggesting that they only capture a small share of value added in the chains. This matters because the position of SMEs within a value chain determines the benefits they receive and their potential to scale up in quantity, diversification or quality.

### Close up: East African SMEs

*The position of SMEs within a value chain determines the benefits they receive and their potential to scale up.*

**80% of firms in global and 51% in regional value chains provide products of low and medium complexity.**



One reason why regional value chain activity is lower in Africa than elsewhere may be related to lack of regional integration. Regional integration lowers transaction costs and smoothes the functioning of regional value chains, presenting an opportunity for development.

Regional integration agreements generally build on existing multilateral agreements by deepening multilateral commitments further (so called 'WTO-plus' provisions, such as further reductions in tariffs). Increasingly, they contain provisions that are currently not in WTO rules (called 'WTO-extra' provisions, such as those related to investment, capital movement or competition policy).

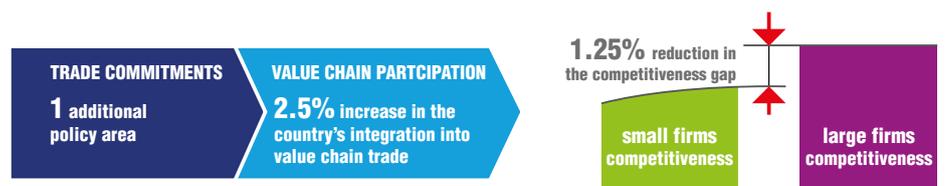
*Deepening the integration matters for value chain activity as a whole, and for SMEs.*

By exploiting existing databases on trade agreements, it becomes clear that deepening integration matters for value chain activity and for SMEs.

When a country covers an additional policy area in its relations with partners (by signing new agreements or deepening existing ones), there is a 2.5% increase in the country's integration into value chain trade. This benefits both small and large firms. Small firms benefit even more, which leads to a 1.25% reduction in the competitiveness gap (that is, the difference in performance) between large and small firms.

For example, increasing Ecuador's commitments by one policy area would result in a reduction of the competitiveness gap between large and small firms, with the reduced gap being similar to the competitiveness gap of Slovakia.

## Reducing the competitiveness gap



**For example, deepening Ecuador's commitments by one policy area can reduce the competitiveness gap, making it comparable to that of Slovakia.**

*Services are the glue that holds value chains together. Services provisions in trade agreements matter.*

## Making policies more coherent

That deep integration spurs value chain activity is likely to stem from greater policy coherence, bringing more conducive cross-border trade and investment. Recent regional initiatives have progressed on services, investment and infrastructure. All three are relevant to value chain activity.

Services are the glue that holds value chains together, in both developed and developing countries. Higher value is associated with segments of the chain that trade services, not goods. Moving into higher value-added goods segments, like component production, also requires services capabilities in areas like engineering.

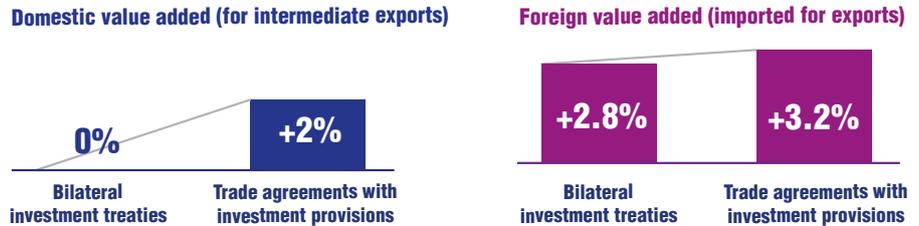
Both developed and developing countries aspiring to a lead role in value chains need to emphasize services. Services are also critical to supply labour and production capacities. Even in manufacturing value chains, services represent a significant share of value added. Services enable competitive manufacturing and an efficient business environment.

Services markets are dynamic and technology changes. Effective, efficient regulation is necessary to support productivity upgrades in services and boost opportunities for SMEs, thus helping all firms join and move up in regional value chains.

*Dealing with trade and investment under one legal umbrella, instead of signing bilateral investment treaties, has a greater effect on the level of domestic value added in exports through value chains.*

## Trade agreements with investment provisions are powerful

**Preferential trade agreements with investment provisions have a stronger effect on value chain integration than stand-alone bilateral investment treaties.**



Countries aiming to increase exports through value chains do well to consider investment provisions. Interestingly, this report finds that it matters how countries deal with investment provisions. Separate bilateral investment treaties have traditionally been the preferred form of regulating cross-border investment. Thousands of bilateral treaties are currently active.

This report shows that these treaties indeed matter to integrate buyers, as the treaties are associated with higher imports for exports. Including investment provisions into a preferential trade agreement, however, boosts integration for both buyers and sellers. In other words, the impact on domestic value added exports through value chains is greater when investment and trade happen under one legal umbrella.

Infrastructure is another policy area that has been affiliated with increased regional integration efforts. Regional infrastructure approaches have played an important role within the European Union. The emergence of new types of intergovernmental integration frameworks, such as China's Belt and Road Initiative, have led to a renewed interest in the role of hard infrastructure for regional integration.

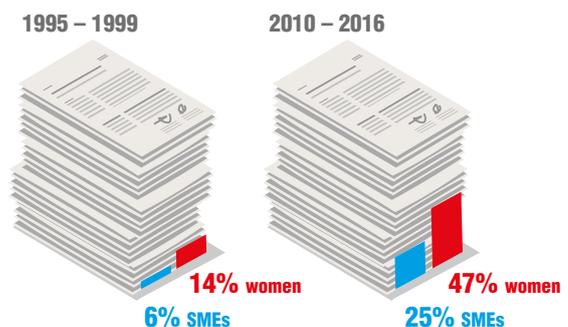
*Infrastructure investment is associated with increased regional integration.*

## Inclusiveness and sustainability through the lens of integration initiatives

### Women, SMEs now get more attention in trade agreements

*The share of preferential trade agreements with gender references has tripled since the 1990s. The same holds true for SME references.*

**In recent trade agreements, gender equality references and SME provisions have more than tripled.**



*SME integration and gender equality are important for the distribution effects of trade.*

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*Taxation is another relevant policy area to address public concerns about distribution effects of globalization.*

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*Supply chain managers look at policies for trade, investment and taxation as one package; trade negotiators do not. Tax treaties are still concluded outside of trade agreements.*

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The new generation of regional trade agreements often includes provisions for inclusiveness objectives, such as gender equality or SMEs. For example, the share of preferential trade agreements entering into force that include gender references has more than tripled since the late 1990s. The same holds true for the share of preferential trade agreements including references to SMEs. While such provisions are not often legally binding, they raise awareness to reduce the gender gap in the labour force or integrate SMEs in international markets.

Taxation is another policy area with inclusiveness objectives. Bilateral double taxation treaties have been on the rise in recent years. The recently concluded 'Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting' modifies the application of those double tax treaties. The convention is multilateral in nature, yet—like the double taxation treaties—has been concluded outside of trade agreements. While supply chain managers look at trade policies, investment policies and tax policies as one package, policymakers do not.

Regulation, especially related to the environment, matters for sustainability. Multilateral trade rules under the World Trade Organization contain relevant provisions for environmental sustainability, notably under the Agreements for Technical Barriers to Trade (TBT). While these provisions have been deepened within preferential agreements, more remains to be done. The TBT Agreement encourages international collaboration among standard-setting or certification bodies. Such collaboration is underway in a number of regions.

## Coherent policies benefit everyone

**For the widest benefits, economic and inclusiveness policies should be developed in coherence.**



### Taking advantage of value chain activity: A guide for SMEs

*More regional value chain activity can ease the internationalization of SMEs.*

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More regional value chain activity can ease the internationalization of SMEs. While integration provides many opportunities, many raise concerns that SMEs may remain stuck in low value added activities in such chains, particularly those in developing countries. Captive relationships are also a concern. Where SMEs have little room to negotiate their contracts with lead firms, space for offering decent working conditions is also reduced.

This report's SME guide to value chains advises SMEs on how to become more attractive partners for lead firms, as well as on how to strengthen their bargaining power within value chains. The guide contains concrete suggestions on how to:

- get selected by regional or global buyers;
- operate successfully within international value chains;
- upgrade or expand within value chains.

Market know-how and resources are critical to enter value chains. Success hinges on managerial and operational capacities. Upgrading depends on a proactive search for opportunities.

## How to grow a successful business

**Enter, operate and upgrade within value chains.**

See the SME Competitiveness Outlook 2017 chapter 'SME guide to value chains'.



To plug into a value chain, SMEs require both market know-how and access to adequate resources. Once they join, their priorities shift to managerial and operational capacities. Successful SMEs design their upgrades to higher-value tiers of the chain. They proactively seek market opportunities. Any firm-level effort in this direction is more likely to succeed if supported by national and regional systems.

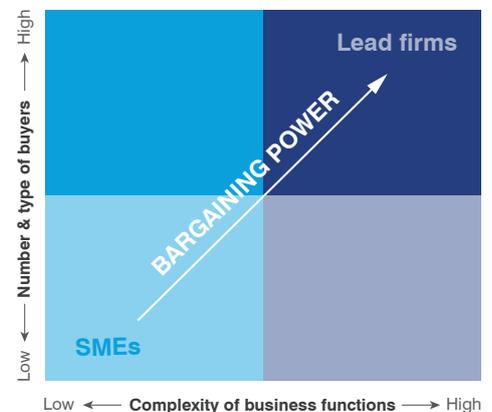
Like many things in life, attaining a progressive path within a value chain comes down to a catch-22 problem. Low profitability rates and a stagnant position in a chain are often associated with SMEs stuck in a hierarchal or captive governance structure. So-called modular or relational governance structures give more leverage and bargaining power to an SME, and are more conducive for upgrades or expansion within the value chain. Yet, only competitive SMEs can successfully negotiate balanced contractual arrangements with lead firms.

An SME's bargaining power in value chains determines its benefits. Bargaining power depends on competitiveness and client base.

## How to increase SME bargaining power

**The recipe:**

- Increase complexity of products or services
- Enlarge pool of buyers



## Supporting regional value chains and SMEs: The role of trade and investment support institutions

Trade and investment bodies are merging.

Together, they can support regional value chains and SME internationalization.

Value chains that tie investment flows to goods and services in different regions have implications for trade and investment support institutions (TISIs). Trade promotion organizations and investment promotion agencies have been consolidating their operations through mergers, particularly in high-income countries and sparsely populated countries. The trend is logical. Connecting to value chains requires both trade and investment promotion, often with the same partners abroad. Merging can make them more agile in a fast-moving environment.

## Regional networks boost national institutions through:



*Collaboration among trade and investment support institutions can strengthen a region's global trade position.*

TISIs have considerable scope to support regional trade and investment policy initiatives. Regional networks of national trade and investment support institutions can influence regional policies and transmit regional policy changes to the ecosystem that immediately surrounds firms.

These five areas of collaboration among trade and investment support institutions can strengthen a region's position within global trade:

- Regional information exchange (such as business databases, export and investment potential analyses);
- Regional strategies (especially for joint value chains and regional branding);
- National policies coherent with regional strategies;
- Joint capacity building at the regional level;
- Joint trade and investment promotion.

*Regional institutions are diverse.*

Other regional institutions – chambers of commerce, regional standard-setting institutions, coalitions of services industries and regional tourism associations – support SME internationalization by providing a discussion platform and representing business interests at the global, regional, national, sub-national and sector level.

A network is only as strong as its participating organizations. Strong individual players are necessary. To function well, networks depend on collaboration at all levels. Coherence among the different levels is necessary to avoid overlapping functions, which reduces the effectiveness of these services.

## Regional roads to success

*Systematic assessment of a region's potential for value chain activity is possible with ITC's SME competitiveness framework.*

The extent to which regional value chains are present helps determine whether SMEs connect to regional and global markets. Policies, institutions and business activity in neighbouring countries make a difference. They affect a region's capacity to attract lead firms, establish regional value chains or link suppliers to lead firms in other regions.

Research based on trade flow data has shown that some countries are more integrated in value chains than others. ITC's competitiveness framework makes it possible to explain why this is the case.

The framework explains in a systematic way why some countries are better integrated in value chains than others, and why some regions have been more successful in developing regional value chains than others.

## Connect, compete, change

*Assessing the capacity of firms to compete, connect and change makes it possible to identify weaknesses and to design policies to address them.*

Competitiveness is based on the capacity to connect, compete and change. The capacity to compete is static. It centres on firm operations and efficiency in cost, time, quality and quantity. The capacity to change centres on the ability of firms to change in response to, or in anticipation of, dynamic market forces, and to innovate through investments in human and financial capital. The capacity to connect links the static and dynamic part of competitiveness. It centres on collecting, processing and communicating information and knowledge, crucial for the digital economy and for services.

The strength of each of these three pillars is assessed at three levels of the economy: the firm, the business ecosystem and the national environment.

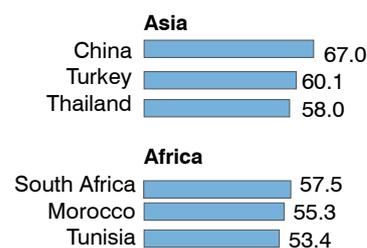
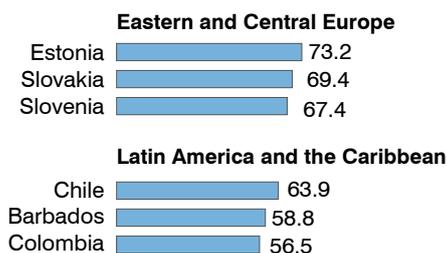
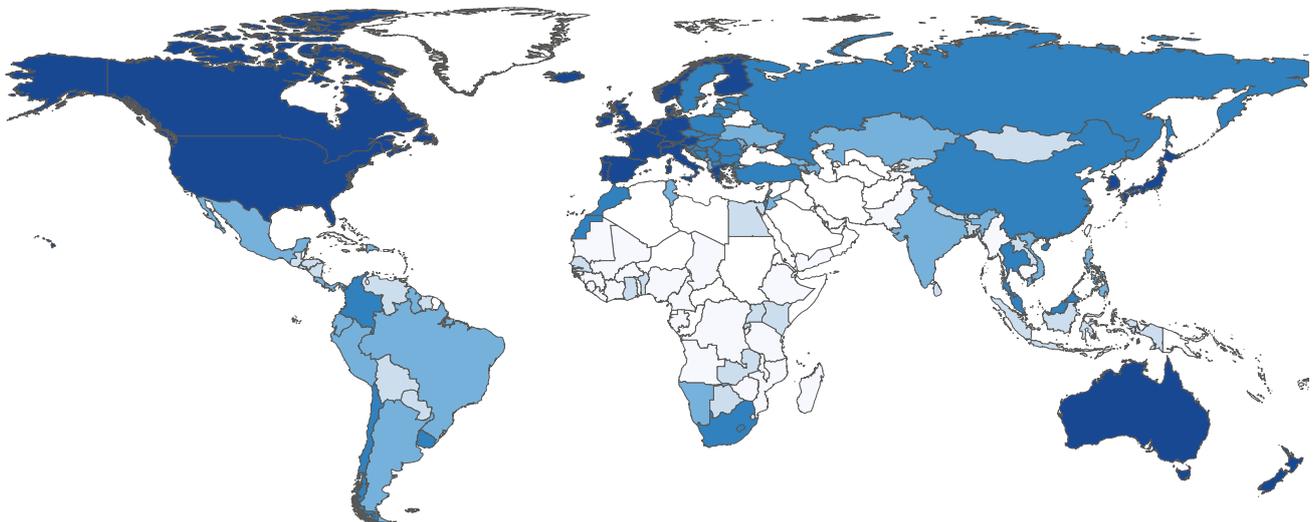
## Distance matters

An additional factor related to the value chain context is the distance of countries and their competitors from headquarter economies (home countries of lead firms that manage value chains and provide technology and know-how).

## Regional analysis: SME competitiveness

# SME competitiveness across the world

□ Bottom 25%   □ Between 25% and 50%   □ Between 50% and 75%   □ Top 75%   ■ Top economies   □ No data



*Companies in Asia and Central and Eastern Europe benefit from the proximity of headquarter economies. Both regions have a strong potential to develop lead firms, as SME competitiveness is high in several countries.*

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*Top competitiveness performers in Latin America are weaker than those in Asia and Central and Eastern Europe. They are also often further away from headquarter economies.*

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*Competitiveness is relatively high in Northern Africa, where countries are connected to European value chains.*

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*Sub-Saharan Africa is missing a lead economy.*

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*ITC's SME competitiveness framework can be used for systematic SME competitiveness assessments and competitor benchmarking.*

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An analysis of SME competitiveness scores for a sample group of countries in four regions reveals that:

- Asia and Central and Eastern Europe sample countries appear well-placed for regional value chain activity.
  - They are close to headquarter economies such as Germany and France in Europe, and Japan and the Republic of Korea in Asia.
  - Top performers are strong enough to be, or soon become, headquarter economies themselves. The region is thus able to provide the full value chain ladder. In China, many firms are becoming lead firms. The role of a country like China in international value chains is twofold: it supplies labour to production networks linked to more advanced economies, and provides know-how and technology to firms in other developing and least developed countries, generally in Asia.
  - Top performers in Asia are China, Thailand and Turkey. Top performers in Central and Eastern Europe are Estonia, Slovakia and Slovenia.
- In Latin America and the Caribbean, the top performers are Barbados, Colombia and Chile. They are weaker than Asia's and Europe's top performers, and thus may not be fully suited to act as headquarter economies. The alternative headquarter economy, the United States, is geographically remote for many Latin American countries. In this context, it is difficult to develop regional value chains.
- Africa remains a continent split in two for its potential to integrate into value chains.
  - Some of its strongest performers (Morocco, Tunisia) are north of the Sahara, in a position to serve headquarter economies in the European Union. They are, however, in a tough competitive position vis-à-vis Eastern and Central European countries.
  - Sub-Saharan Africa lacks a clear headquarter economy. South Africa leads the SME competitiveness score in Africa, but lies significantly behind top performers in other regions.

## Success factors, country stories, potential paths to growth

Among the three pillars of competitiveness, the capacity to connect drives cross-regional differences. Connectivity therefore deserves a closer look to strengthen regional value chain activity, especially in Africa. Asia's performance is trailing due to its capacity to connect, which is low compared to its capacity to compete and change. The Americas' and Europe's strengths are connecting to markets, customers and stakeholders.

The gap between the connectivity of large firms compared to medium-sized or small firms is much narrower in Europe. The connectivity gap between large and medium-sized firms is smaller in the Americas than in Africa and Asia.

Within regional contexts, some countries integrate more into international value chains than others. Multiple factors determine where durable matches between lead firms and suppliers occur.

Smart entrepreneurs are typically behind the final decisions, supported or not by policymakers. While their mix of decision-making factors differs, these always involve:

- the strength and nature of individual firms in the deal;
- the ecosystem in which those firms operate;
- the national policy environment.

This report contains stories of value chain integration for various sectors in five countries: Ghana, Hungary, Indonesia, Kenya, and Morocco. The narratives illustrate how quantitative export potential assessments, value chain analysis, competitor benchmarking and systematic SME competitiveness assessments can be used to enhance business-to-business matches, SME performance or national export strategies.

## Ghana: Competitive firms in a challenging business environment

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*Firms in Ghana compare well to competitors in similar value chains. To strengthen SME competitiveness, the focus should be on interest rates, reliable electricity supply and adoption of international standards.*

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Ghana is an integral part of the international cocoa value chain. Yet its export potential in this sector remains underexploited. In terms of SME competitiveness, Ghana is ahead of its regional partners. Ghanaian firms make more use of e-mails, websites, financial auditing and foreign technology licences than counterparts in Côte d'Ivoire, Nigeria and Senegal. Ghanaian firms are also strong in adopting domestic certificates and standards. Among surveyed firms, 90% reported that they adhere to an official domestic certificate or standard – though this dropped to about half for internationally recognized certificates or standards. Reliable electricity supply remains a challenge for Ghanaian firms. So does the high interest rate, which discourages firms from seeking finance in the formal banking sector.

## Services, a key to electronics from Indonesia

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*Indonesia is active in fiercely competitive value chains. The services sector is proving to be dynamic. If supported, this can give Indonesian value chain activity the necessary competitive edge.*

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Indonesia participates in the complex, fiercely competitive value chain of electronic products. The potential to increase exports exists. However, several Asian countries are a step ahead; Indonesian firms have room for improvement in competitiveness.

There is a mismatch between the relative strength of the national environment and the relative weakness of firm capacity. This has not prevented individual companies or sectors from progressing. An ITC survey of women-owned services companies, for instance, revealed that most firms use mobile phones, e-mails and business websites for day-to-day business. Similarly, a large majority of women-owned services firms have business bank accounts and a solid knowledge of loan application procedures.

## Hungary, a major automotive supplier

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*Hungary has become a major supply hub into high value added industries.*

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Hungary has established itself as an important European centre of the automotive industry. The country's investment in infrastructure, research and development centres and its tailored education system make it a prime destination for foreign direct investment.

At the firm level, the country scores highly in management experience and international quality certification. Strong capacity to compete comes partly from firms' ability to deliver products and services on time. Among surveyed firms, 90% have a business website and 98% have a business bank account, contributing to high scores in the capacity to connect and change.

In their business ecosystem, firms benefit from the low cost to implement international quality certificates, facilitated by ready access to high-quality information about standards. They also report easy access to financial institutions. Firms, however, regard the cost of sector associations to be too high and the level of information exchange within clusters to be too low.

## Services, also a key to horticulture from Kenya

*Kenyan firms score better than the average African firm in competitiveness. Areas to improve: quality certification, market information.*

Horticulture dominates Kenya's agricultural sector, employing a large share of the total workforce. It accounts for a staggering 80% of SMEs, with a relatively high female labour participation rate of 35%. A small player in a growing but competitive market, Kenyan horticulture has unexploited export potential. Kenyan firms score better than the average African firm in competitiveness. Compared with others in the East African Community, Kenyan firms perform well in international quality certification.

Areas to improve include the spread of quality certification and market information. Stronger linkages between the horticulture sector and the nascent but vibrant services sector could address this. An ITC survey among women-owned services companies reveals that almost all of the surveyed firms use mobile phones and e-mails for their business activities, and 70% have a business website. Surveyed firms score strongly in meeting finance and skill-related requirements – almost 90% of surveyed firms have a business bank account, and more than 80% of firms have a hiring plan.

## Morocco, an automotive and aerospace supplier

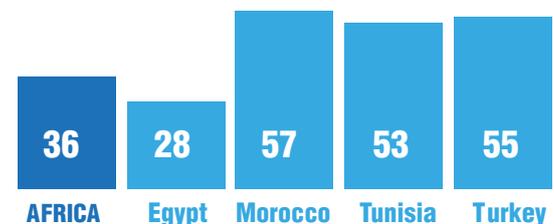
*Moroccan firms perform well compared to counterparts in their home regions, but are active in value chain sectors with strong competition from non-Africans.*

Morocco has established itself as a manufacturing exporter, particularly in automotive and aerospace sub-assembly. Its location and cultural, linguistic and historical links with Europe explain only some of this success. Constant investments are required to maintain and expand its position, notably in light of competition from countries such as Tunisia and Turkey. At the firm level, Morocco and Tunisia perform more strongly than their average African counterparts. Both Morocco's and Tunisia's large firms, however, struggle to keep up with counterparts in Turkey, in particular in using foreign technology licences.

## Easy benchmarking with SME-specific data

**Governments and investors can use national SME competitiveness data to inform their decisions.**

**SME scores: firm capabilities**



*Greater access to information on domestic and foreign patents and stronger linkages to research networks could help.*

Greater access to information on domestic and foreign patents could help Moroccan firms of all sizes to overcome innovation weaknesses. A recent survey found that less than one in five of firms have a foreign patent. Better labour force skills may help address this, and large firms are making efforts in this direction. While almost all of the large firms

*Competitive SMEs can become regional or global leaders in their line of business.*

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*While there is no single blueprint for SME success, the region often serves as a springboard, and deep integration helps.*

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*Deep regional integration spurring value chain activity is good for SMEs.*

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surveyed (93%) have staff hiring plans, only 57% of small enterprises do. There is also scope to strengthen firms' linkages to research hubs. Less than a third of surveyed small firms engage in research networks, whereas almost 60% of large firms do.

## Deep integration: Part of a blueprint for SME success

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SMEs take a variety of paths to international success. Five company success stories in this report show how small SMEs grew to become regional or global leaders. The company stories also examine the role of regional integration and policies in their success.

These examples illustrate that there is no single blueprint for success. While every success story is unique, they illustrate that a start-up in a developing economy can become a global lead firm. Some capitalized on their home region. Others used it as a springboard to expand globally.

Governments' regional policies often played a role in their success. The five company examples are very much in line with this report's econometric finding: deep regional integration that spurs value chain activity is good for SMEs.

# Featured in 2017 SME Competitiveness Outlook

## Country profiles

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1. Argentina
2. Bangladesh
3. Barbados
4. Bhutan
5. Brazil
6. Burkina Faso
7. Cambodia
8. Chile
9. China
10. Colombia
11. Costa Rica
12. Côte d'Ivoire
13. Ecuador
14. Egypt
15. Ghana
16. Guinea
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19. Indonesia
20. Jamaica
21. Jordan
22. Kazakhstan
23. Kenya
24. Lebanon
25. Madagascar
26. Malawi
27. Malaysia
28. Mauritius
29. Mexico
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39. Senegal
40. Slovakia
41. South Africa
42. Sri Lanka
43. Thailand
44. Trinidad and Tobago
45. Tunisia
46. Turkey
47. Ukraine
48. United Republic of Tanzania
49. Uruguay
50. Viet Nam

## Thought leaders



**Susana Malcorra**  
Promoting strategies to ensure MSMEs gain more from value chains



**Tony O. Elumelu**  
Harnessing the power of African SMEs for economic growth



**Ying McGuire**  
Buyer perspectives on sustainability, diversity in value chains



**Twahirwa Dieudonné**  
SME perspectives on supplying value chains



**Mukhisa Kituyi**  
Small businesses can propel development by linking better to value chains



## Case studies



**South-South cooperation:**  
Indian spice company grows new chilli varieties in Rwanda



**Building supply chain management competencies**



**The Chocothon Initiative helps cocoa farmers in Ghana**





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