



MC13 Thought Leadership Towards Inclusive Global Trade: Enabling SMEs

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DISCLAIMER

This study has been developed with the intention of offering insights into current developments in relation to inclusive trade and expanding SME integration into global value chains. The perspectives and opinions presented herein do not necessarily align with or represent the official viewpoints of the World Trade Organization (WTO) or the MC13 Chair. The primary purpose of this paper is to serve as a resource that informs and contributes to ongoing dialogues on international trade. The information provided is for general guidance only, and any reliance upon the material is at the sole discretion of the reader. The ECSSR disclaims any liability for inaccuracies, errors, or omissions in this document. While the information contained in this document is derived from or based on sources believed to be reliable and accurate, its completeness and correctness are not warranted or guaranteed. Readers are advised to consider this report as a component of a wider discussion and are encouraged to seek additional sources of information for a deeper understanding of the topics addressed.

Introduction: The Imperative of Inclusive Trade



In the current global landscape, the imperative for inclusive trade has never been more pronounced. As nations strive to navigate the complexities of economic interdependence, the need to ensure that trade policies and practices are both equitable and beneficial to all stakeholders becomes paramount. Inclusive trade, by its very nature, seeks to minimize disparities and unlock opportunities for underrepresented groups. This nexus between inclusive trade and sustainability represents a dynamic arena for policy innovation and strategic thinking, in support of the global agenda for sustainable development. As stakeholders across the spectrum demand greater transparency, equity, and responsibility in trade practices, governments and international organizations are increasingly recognizing the importance of inclusive trade policies in achieving broader economic and sustainability goals.

Facilitating access to global markets for small and medium-sized enterprises (SMEs) and marginalized communities is an essential pillar of any inclusive trade strategy that aims to foster economic growth, enhance societal welfare and embrace core principles of sustainability. SMEs play a crucial role in most economies, particularly in developing countries and emerging economies. In fact, SMEs contribute to more than 50 percent of employment and represent around half of all businesses worldwide. In emerging markets, formal SMEs account for 40 percent of national income (World Trade Organization (WTO), 2022) and generate around 7 out of 10 jobs; the numbers are even higher if we include informal SMEs. According to the World Bank, 600 million jobs will be needed by 2030 to

absorb the growing global workforce, making SME development a policy priority in many countries around the world, particularly given their capacity to absorb rising employment demand.

Challenges to Overcome

There are significant challenges to SME development, chief of which is a lack of access to finance mechanisms, leading to an increased reliance on informal sources to fund businesses. According to the International Finance Corporation (IFC), 40 percent of micro, small and medium-sized enterprises (MSMEs) in developing countries have a financing gap of approximately \$5.2 trillion annually. This varies significantly from one region to another, with the highest shortfalls found in East Asia and the Pacific (46 percent), while Latin American and Caribbean rank second with 23 percent, and Europe and Central Asia third with 15 percent. The gap is substantially higher when informal businesses are taken into consideration.

The challenges for female business leaders in the SME space are particularly pronounced, with access to finance mechanisms a persistent issue; the research underscores this difficulty of access to funding for female business leaders, in both developing and developed countries (Deyshappriya, 2019). Additional constraints for women in this context include inadequate training and guidance, legal barriers, a lack of societal support, and difficulties in achieving a work-family balance (Vossenbergh, 2013).

As a consequence of these barriers, while SMEs account for the majority of businesses and a large part of the domestic labor force in developing and emerging economies, their contribution to growth and trade is unbalanced, negatively impacting job creation and economic development. In addressing these issues, two main pathways offer a route to a more inclusive trade distribution for SMEs: global value chains (GVCs) and the digital transformation.

“*As stakeholders across the spectrum demand greater transparency, equity, and responsibility in trade practices, governments and international organizations are increasingly recognizing the importance of inclusive trade policies in achieving broader economic and sustainability goals*”

Innovations in technology are enabling more efficient and transparent trade processes, as well as technology transfer, which could better facilitate access to markets for small and medium-sized enterprises and marginalized communities. In terms of GVCs, SMEs can take advantage of a degree of modularity; rather than being required to master entire production processes to produce final goods, they can slot into segments of GVCs through the production and sale of intermediate goods. This could take the form of direct exports, or through domestic sales to other exporting companies (indirect exports).

In combining the opportunities offered by technology, knowledge exchange and a tailored approach to GVC integration, SMEs can improve their overall performance, while overcoming some of the broader trade participation constraints through the creation of more supportive domestic and international trade environments. This would include the provision of education and training, strengthened technological capability and trade facilitation, aiming to ensure a more equitable share of globalization's benefits.

An Important Platform

These issues come into sharp focus as the World Trade Organization's (WTO) 13th Ministerial Conference (MC13) in Abu Dhabi sees 164 nations

and trading blocs come together for high-level discussions on pivotal reforms of the global trading system. Regarded as one of the most important ministerial conferences in the WTO's recent history, MC13 aims to make impactful reform to the WTO itself, safeguarding its future as a credible custodian of the multilateral trading system. Within this context, there is a significant opportunity to deepen the conversation on more robust SME development and global trade inclusion, as issues discussed range from strengthening dispute resolution mechanisms and adopting digital trade frameworks, to addressing supply-chain disruption and boosting investments in trade technologies for more sustainable and resilient supply chains.

This research paper considers the multifaceted dimensions of inclusive trade, with a specific focus on SMEs. Exploring the current context and the vital role played by SMEs in job creation and growth, particularly in the Global South, it examines both the opportunities and challenges to wider SME development and inclusion, before reviewing a case study from ASEAN, which offers valuable lessons for future policy development in this area. The paper then offers a series of proposals to support the advancement of SMEs, as drivers of inclusive growth, equitable global trade and sustainable development.



Evaluating SME Integration into Global Value Chains



Global value chains offer important avenues for SME participation in foreign trade, particularly benefiting from niche market segments and focused activities offered by the fragmentation of production processes across international markets. For developing economies, SME integration into GVCs offers significant benefits, in terms of job creation, access to new technologies and inclusive growth. However, evaluating the current landscape and opportunities for SME participation in GVCs is limited by a lack of available data, which obscures the overall picture. Most analysis is based on case studies, enterprise surveys and standard administrative data, which can be inconsistent in key aspects, particularly establishing consensus over the definition of SMEs, foreign trade partners, or in making distinctions between the direct exports of final products and direct exports of intermediates. From the empirical evidence, however, we can establish that SME participation in global value chains is low, especially when compared to large companies.

In developing countries, the participation of SMEs in exports is on average 7.6% of total manufacturing sales, while SME contribution to GDP stands at 45 percent. The participation of micro firms in international trade is even lower in some countries (6 percent in Congo, 3 percent in Ethiopia (World Trade Organization, 2016), and according to recent World Bank micro-firm surveys (Ganne and Lundquist, 2019). This participation also varies substantially according to region; SME exports represent 28 percent of total exports in developing Europe, 8.7 in developing Asia, and only 3 percent in Africa. The evidence regarding the composition of SME exports (final goods production or intermediates) shows significant difference compared to large firms. In Thailand, for example, Lopez Gonzalez (2017) found that 16 percent of direct SME exports are sold to firms abroad for further export processing, compared to 6 percent for large firms.

Opportunities in Global Value Chains

The literature highlights the various routes through which SMEs can be more successfully integrated into GVCs. First, by directly exporting intermediate goods and services (direct forward participation) or through supplying inputs to local firms as indirect exports (indirect forward participation).¹ Second, SMEs can join GVCs by importing input for their own production needs (direct backward participation), or by sourcing goods from local firms drawing on imports. In this sense, these forward and backward linkages refer to the supply and demand sides, respectively (Ganne and Lundquist, 2019).

SMEs can also benefit from GVC integration through the import of intermediate goods (backward participation), which could improve competitiveness for SMEs through the import of more affordable and technologically developed goods (Bas and Strauss-Kahn, 2015). This is particularly true for SMEs in developing countries when participating in global value chains. The literature shows that processing trade allows firms to work on behalf of foreign companies in production and assembly, which requires lower levels of technological knowledge and less need for working capital.

In terms of indirect SME participation in GVCs, this happens when SMEs supply intermediate goods to other firms based locally, behaving like an ‘indirect exporter’ by contributing to the production of goods to be later exported. SMEs may also source inputs from local firms, to avoid the high fixed costs of direct importing (indirect backward participation) (Ganne and Lundquist, 2019). The empirical evidence on SMEs acting



For developing economies, SME integration into GVCs offers significant benefits, in terms of job creation, access to new technologies and inclusive growth



¹ Some SMEs can also export directly and indirectly, according to foreign market entry modes (Nguyen et al., 2012).

as indirect exporters reveals a significant level of integration in developed countries. In the US, for example, SMEs supply 25 percent of total inputs purchased by large firms (Slaughter, 2013). In Portugal, the SME share in gross exports stands at a high of 60 percent, while their share in value added exports is around 63 percent (Organisation for Economic Co-operation and Development (OECD), 2018). However, it is worth noting that in developing countries, the level of integration of SMEs in GVCs is much lower; SME indirect participation in exports is estimated to be 2.4 percent of total sales in the Middle East, 1 percent in Africa and just over 9 percent in developing Europe.

The Current Landscape

In the WTO context, in an effort to address the various obstacles faced by SMEs when seeking to participate in international trade, the Informal Working Group on MSMEs was set up in 2018 to explore the ways WTO members could better support MSME participation in global trade. Its key recommendations and deliverables include:

- A call for WTO members to provide information on MSME policies during their Trade Policy Reviews to enhance transparency.
- A call for WTO members to support the Global Trade Helpdesk, an online platform intended to centralize trade and business information for companies, especially MSMEs.
- Support for full implementation of the Trade Facilitation Agreement and a recommendation for WTO members to share good practices related to MSMEs.
- A call for the exchange of best practices to help identify measures that can facilitate MSME access to finance and cross-border payments.

In preparation for MC13 in February 2024, the MSME Group have agreed to pursue deliverables including, a joint compendium with the Informal Working Group on Trade and Gender, focused on Access to Finance for Women-led MSMEs. Recognizing the need to maintain the momentum when it comes to SME inclusion, the MSME Group also continues to discuss a wide variety of topics including digitalization, intellectual property, innovation, MSME financing, trade facilitation and regional trade agreements.



Analyzing Challenges to SME Global Value Chain Integration



In reviewing the current landscape with a view to suggesting some actionable proposals that could facilitate a more inclusive global trade environment for SMEs, it is important to take a closer look at the key challenges, as well as areas that could be of benefit. Within the assessment of these aspects, it is important to keep in mind their overlapping and cross-cutting nature.

At the most fundamental level, an **inability to access finance mechanisms** is a consistent factor inhibiting the development of SMEs in emerging markets and developing nations. In the absence of formal sources of funding, SMEs in these contexts tend to rely on internal funds, from family or social networks to launch or run businesses. The evidence shows that the unmet financing needs of 40 percent of formal MSMEs in developing countries stands at a high of \$5.2 trillion, which is equivalent, according to the International Finance Corporation (IFC) to 1.4 times the level of global MSME lending (World Bank, 2017). Consequently, providing SMEs with better access to formal financial services from banking institutions and reducing regulatory barriers,² would help to support their integration into GVCs (Auboin, Smythe and Teh, 2016).

The literature points to **informality** as another key obstacle to SME expansion into international trade networks. Informality is a feature of between 80 to 90 percent of SMEs worldwide, and this is particularly prevalent in developing countries, where for example in Brazil, around two-thirds of businesses and 35 percent of employees are considered informal (Ulyseay, 2015). This informality is accounted for in several areas, including taxation policies, access to finance, and institutional and regulatory frameworks (Giles and Tedds, 2002; Straub, 2005; Dabla-Norris, Gradstein and Inchauste 2005). High levels of informality in the economy can generate inefficiencies in the production process, while also inhibiting the inclusion of SMEs into GVCs (Farazi, 2014).

Access to technology is an important area to consider, where SMEs can potentially leverage the digital transformation to increase international exposure (World Trade Organization, 2017, 2020). Digital technologies can increase SME participation in trade by reducing barriers and costs, especially for services SMEs (Cusolito, Safadi and Tagioni, 2016). New technologies can also improve access to foreign markets by facilitating contact with large numbers of globally linked clients. Digitalization makes it simpler for SMEs to outsource non-core activities, allowing for the scaling of production. According to the World Economic Forum, the pandemic increased demand for digital technology integration among SMEs, however, it is important to note that businesses still face institutional barriers as they aim to move forward with new technologies; only 23 percent of SMEs are able to dedicate resources to new digital tools (World Economic Forum, 2021).

Access to market and business information is a significant issue, as a lack of data and information about SMEs represents a major barrier to their integration into GVCs. Overall, “better information on firm operations within a country, including the size of the firms, the industries they participate in, and the value and volume of trade they conduct (including whether the trade is direct or indirect) are all crucial pieces of information to understand the basics of SMEs and value chain participation,” (Ganne and Lundquist, 2019, p. 136). Digitalization and the transformative impacts of new technology on data flows can enable smaller businesses to connect more effectively, which in turn enhances their ability to offer better products. Advanced tools can assist smaller businesses in overcoming informational disadvantages, allowing them to

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Access to the right forms of skills development and talent are essential for SMEs in adjusting to changes in competitive environments

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2 For example, with simpler and transparent loan applications or trade insurance.

compete on a more even playing field with larger businesses, through better access to essential knowledge and information.

The **high costs of logistics** is another area that must be addressed, where trade facilitation can help reduce some of the costs involved, including tariff and non-tariff barriers. Improvements in trade facilitation environments are likely to help SMEs develop their exports and imports through better management of fixed costs. Furthermore, trade facilitation helps SMEs reduce variable costs and increase foreign trade efficiency. Logistics costs tend to span three categories: administrative, transport and inventory costs. SMEs tend to face double the logistics costs where the first costs are linked to the economies of scale of their inventory, which results in higher inventory costs especially in low-income countries with poor logistics performance. The second costs reflect size aspects, as SMEs access to logistics services may be complicated by a lack of transparency and robust clearance processes.

Quality and standards compliance can be another difficult area for SMEs with limited resources. Failure to meet international standards can result in the rejection of products in global markets, which is damaging for business reputations. Given the complexity of social and environmental standards that SMEs in developing countries must comply with, Cadot and Malouche (2012) suggest sequencing as a solution. Specifically, they recommend that SMEs expand as a first step into regional markets, to gain scale and learning economies, before expanding further in a second step that would then include the adoption of international standards.

Skills and capacity constraints can also be limiting for SMEs, which often lack the necessary skills and human capital to engage effectively in global trade. Exporting requires understanding international regulations, negotiating deals, and managing cross-cultural communication. There-

fore, access to the right forms of skills development and talent are essential for SMEs in adjusting to changes in competitive environments. The evidence shows that “skill upgrading has notably been identified as a strategy used by firms to adjust to increasing market shares by foreign competitors,” (Janson and Lanz, 2013, p.4).

Risk management presents a considerable challenge for SMEs, particularly related to foreign exchange fluctuations, political instability and economic uncertainties in target markets. While large firms are also exposed to various risks, an SME’s survival could be at risk in some cases due to limited financial and non-financial resources. Risk management, involving the assessment of risks that could jeopardize the success or existence of the enterprise, requires specialized expertise and resources in order to address and manage risk.

SMEs also have **limited networking opportunities**; fewer opportunities to network with international partners, distributors and buyers can affect their ability to establish fruitful business relationships. Evidence shows that network cooperation helps in international market penetration and has a significant effect on SME performance and their innovative capacity (Mazzola and Bruni, 2000; Zucchella, 2021). In this context, cooperation between technology start-ups and large corporates is necessary for innovation, and could be of benefit to SMEs (Kovalik and So-wa-Jadczyk, 2022).



Regional Experiences of Expanding SME Participation in Global Trade: ASEAN Case Study



4.1 Background

In assessing practical efforts to address some of the core issues faced by SMEs striving to further integrate into global trade networks, a recent case study from ASEAN proves particularly instructive. In the bloc's original context, ASEAN countries³ envisioned regional economic integration that will lead to a single market and product base, in order to develop a highly competitive region with equitable economic development, fully integrated into the global economy. Within this vision, the ASEAN Economic Community (AEC), was established according to the Leaders' Declaration of ASEAN Concord II issued in 2003 (initially targeted by 2020, but later accelerated to 2015) (ASEAN Main Portal, 2023c). The AEC is considered a major regional economic power with a market size estimated by the International Monetary Fund (IMF) close to \$3.7 trillion in 2022, and covering a population of 672 million people (International Monetary Fund, 2023).

As the AEC focused on promoting inclusive business models to move towards equitable economic development, empowerment of MSMEs took center stage

As the AEC focused on promoting inclusive business models to move towards equitable economic development, empowerment of MSMEs took center stage, given the sector's economic dominance in the region (home to more than 70 million MSMEs). In terms of the share of total business enterprises, MSMEs account for between 88.8 and 99.9 percent, while their share of total employment is between 51.7 and 97.2 percent. In contrast, the share of total MSME exports remains small (between 10.0 and 29.9 percent) (ASEAN Main Portal, 2023a).

In 2015, the ASEAN Strategic Action Plan for SME Development 2016 – 2025 was launched to boost MSME productivity and promote deeper integration with regional/global value chains. The Action Plan targeted two stages for achieving SME development: the first five years aimed for SME integration with the AEC and regional value chains; the aim for the subsequent five years was for SMEs to become “globally competitive, innovative, inclusive and resilient”. The Action Plan set out five main strategic goals to be achieved by 2025 (ASEAN Main Portal, 2023a):

- Strategic Goal A: Promote Productivity, Technology and Innovation
- Strategic Goal B: Increase Access to Finance
- Strategic Goal C: Enhance Market Access and Internationalization
- Strategic Goal D: Enhance Policy and Regulatory Environment
- Strategic Goal E: Promote Entrepreneurship and Human Capital Development

As ASEAN finalized the first stage of the Action Plan (2016-2020), a mid-term review was conducted in 2021. This assessment offers valuable lessons, gleaned from regional efforts to integrate SMEs into regional value chains as a precursor to the more ambitious objective of integrating SMEs into global value chains. It is worth noting that while the lessons from this case study are particularly instructive, several aspects would require adaptation for regional contexts where the economic situation, infrastructure or level of technology development presents a different set of locally specific constraints and considerations.

³ ASEAN (the Association of Southeast Asian Nations), comprises of the following 10-member states: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

4.2 Outcomes of the First Stage of the ASEAN Strategic Action Plan for SME Development

**Table (1): ASEAN Strategic Action Plan for SME Development
2016 - 2025: Evaluation of the First Stage (2016-2020)**

Goals	Major Action Taken	Key Achievements	Key Trends	Further Action/Recommendations	
Goal A: Promote Productivity, Technology and Innovation	The ASEAN Business Incubator Network (ABINet)	More than 80% of the 62 planned action lines completed.	Facilitating access to finance and technology	Prioritizing digital transformation in all ASEAN Member States	
	ASEAN Inclusive Business Awards	Achieved immediate outcomes in policy uptake and alignment of plans and policies at the national level.		Providing online services to support the ease of doing business and regulatory compliance	
	Action Agenda on Digitalisation of ASEAN MSMEs through Capacity Building	Deployed six portals for public access, and produced 30 documents for MSME enablers to reference.		Supporting fintech adoption for increased access to financing, debt financing, peer-to-peer lending, and equity crowdfunding	
Goal B: Increase Access to Finance	The ASEAN Institutional Framework on Access to Finance for MSMEs	About 100,000 MSMEs and 300 enablers have benefited from the initiatives.		Disseminating public knowledge of the Action Plan and its progress	Providing regional initiatives for capacity building for digital upskilling, new skilling, and reskilling
	Facilitating Equity Crowdfunding in the region	Contributed to over 100 initiatives supporting MSME development.			Re-adjusting priorities to align with new emerging business models
	Alternative Financing Instruments for ASEAN SMEs				Developing a communication and engagement strategy for the Action Plan
	The Handbook for MSME Access to Alternative Sources of Finance in ASEAN		One-stop shops in each country that provide access to tools and information		
Goal C: Enhance Market Access and Internationalization	The ASEAN SME Service Centre		Relaxing resource constraints and limited capacities in some countries to implement some actions	Increasing the focus on more practical and tangible projects	
	The ASEAN–Japan Women Entrepreneurs Linkage Programme (AJWELP)			Realigning resources towards: access to markets such as the e-market space, access to finance and policies that encourage cross-border payments for digital interactions, and access to mentorship and skills building.	
	The publication, Future of ASEAN – 50 Success Stories of Internationalization of ASEAN MSMEs			Identifying specific opportunities in the areas of the Fourth Industrial Revolution, the digital economy, smart manufacturing and the circular economy	
Goal D: Enhance Policy and Regulatory Environment	The ASEAN Work Programme on Starting a Business		Women's economic empowerment	The emergence of the digital economy holds promise for women entrepreneurs.	
	The ASEAN Guidelines on Fostering a Vibrant Ecosystem for Startups Across Southeast Asia			Gender must continue to be a key focus in each of the strategic goals	
	The ASEAN SME Policy Index 2018			The ASEAN Committee on Women (ACW) has developed the ASEAN Gender Mainstreaming Strategic Framework.	
	The ASEAN Inclusive Business Framework				
	Guidelines for the Promotion of Inclusive Business in ASEAN				
Goal E: Promote Entrepreneurship and Human Capital Development	The ASEAN SME Academy				
	The ASEAN Mentorship for Entrepreneurs Network				
	The policy handbook Strengthening Women's Entrepreneurship in ASEAN				

Evaluation of the achievements of the first stage of the ASEAN Strategic Action Plan for SME Development reveals that more than 80 percent of planned action lines were completed, or are being implemented, in the form of provision of support services, the publication of reference materials, organization of public-private dialogues and sectoral roundtables, as well as capacity-building programs for both policymakers and MSMEs (ASEAN Main Portal, 2023b)

4.2.1 Key Action Points

As described in Table 1, major steps have been taken towards achieving the five strategic goals, highlighted by the following (ASEAN Main Portal, 2023b):

➤ **Goal A: Promote Productivity, Technology and Innovation:**

The ASEAN Business Incubator Network (ABINet), collaborated to deliver incubation programs for market and funding access to ASEAN start-ups. Policy dialogues, regional policy meetings and capacity-building programs were also organized for policy makers on topics related to this goal. In order to increase awareness on inclusive business models and encourage larger companies to integrate smaller enterprises as part of their value chain, ten ASEAN inclusive businesses were awarded the ASEAN Inclusive Business Award during the annual ASEAN Business Awards in 2020. Elsewhere, an Action Agenda on Digitalization of ASEAN MSMEs through Capacity Building initiatives was adopted (e.g., the Go Digital ASEAN initiative, where the ACCMSME collaborated with The Asia Foundation, with support from Google.org to provide digital skills to 200,000 people from rural regions and underserved communities, including micro and small enterprises, youth, and women).

➤ **Goal B: Increase Access to Finance:**

The ASEAN Institutional Framework on Access to Finance for MSMEs was adopted to support efforts to enhance access to financing instruments. For policymakers, a report, Facilitating Equity Crowdfunding in the ASEAN Region,

provided comparative analysis of the equity crowdfunding regulatory environments in many economies within and outside ASEAN. In addition, a report, Alternative Financing Instruments for ASEAN SMEs, provided guidance for accessing a broad range of financial instruments beyond traditional bank lending. The Handbook for MSME Access to Alternative Sources of Finance in ASEAN also provided information on available alternative sources of loan and equity funding based on the different needs and requirements of MSMEs in ASEAN.

➤ **Goal C: Enhance Market Access and Internationalisation:**

The ASEAN SME Service Centre was launched in 2015 with the aim of facilitating MSME internationalization through the provision of market and trade information, and information on services provided by SME agencies and MSME enablers in the region. Addressing challenges for female business leaders in this space, the ASEAN-Japan Women Entrepreneurs Linkage Programme (AJWELP) was established, offering a series of programs to empower ASEAN and Japanese women entrepreneurs by linking them with companies, mentors and AJWELP peers. The publication, Future of ASEAN - 50 Success Stories of Internationalization of ASEAN MSMEs, provided profiles of 50 ASEAN enterprises that have succeeded in accessing international markets, sharing best practices among AMS in developing and promoting MSMEs with a global business outlook.

➤ **Goal D: Enhance Policy and Regulatory Environment:**

The ASEAN Work Program on Starting a Business was adopted by ASEAN Economic Ministers, and its associated report identified key issues pertaining to business start-up procedures in ASEAN, highlighting policy lessons and reforms. The ASEAN Guidelines on Fostering a Vibrant Ecosystem for Startups Across Southeast Asia was also endorsed by ASEAN Economic Ministers. While the ASEAN SME Policy Index 2018 was

adopted as an independent tool for monitoring SME policy areas within the Action Plan. Additionally, the ASEAN Inclusive Business Framework was adopted by ASEAN Economic Ministers, and includes capacity building programs for ASEAN policymakers through the Inclusive Business Policy Maker Engagement Program. Meanwhile, Guidelines for the Promotion of Inclusive Business in ASEAN were endorsed by ASEAN Economic Ministers, providing policy options to assist ASEAN policymakers in formulating inclusive business strategies at both national and regional levels.

- **Goal E: Promote Entrepreneurship and Human Capital Development:** The ASEAN SME Academy was launched in 2016, providing training courses to enhance ASEAN MSMEs. In addition, the ASEAN Mentorship for Entrepreneurs Network project was established as a public-private partnership where a set of mentoring modules and a mentors training framework were developed and tested. Finally, the policy handbook, *Strengthening Women's Entrepreneurship in ASEAN*, was published to provide insights on the driving forces behind women's economic participation and entrepreneurship. It provided policymakers with recommendations on a range of policy levers and best practices to help unleash women's full potential.

4.2.2 Suggested Further Action

In order to enhance performance under the Action Plan, and to maintain its success, follow-up actions have now been outlined (ASEAN Main Portal, 2023b):

- The need to prioritize digital transformation in all ASEAN Member States, including providing online services to support the ease of doing business and regulatory compliance;

supporting fintech adoption for increased access to financing, debt financing, peer-to-peer lending and equity crowdfunding; providing regional initiatives for capacity building for digital upskilling, new skilling and reskilling; and re-adjusting priorities to align with new emerging business models.

- The need to disseminate public knowledge of the Action Plan and its progress,⁴ by developing a communication and engagement strategy for the Action Plan, and by establishing one-stop shops in each country that provide access to the available tools and information.
- The need to relax resource constraints and address limited capacities in some countries to implement some of actions by increasing the focus on more practical and tangible projects. Realigning resources towards access to markets, such as the e-market space, was also prioritized, ensuring access to both finance and policies that encourage cross-border payments for digital interactions. There is also a need for access to mentorship and skills building, while identifying the specific opportunities related to the Fourth Industrial Revolution, the digital economy, smart manufacturing and the circular economy.
- The need to strengthen women's economic empowerment by promoting the digital economy, as it holds promise for women entrepreneurs. This is in addition to guaranteeing continuity of focus on gender in each of the strategic goals, and incorporating gender issues into workplans.

⁴ The review showed that representatives from the private sector, other sectoral bodies, and committees had little knowledge of the Action Plan or its progress. Most key informants had no knowledge as to whether MSMEs have directly benefited from the Action Plan.

Proposals



Following the review of the current landscape relative to SME integration into global value chains, and building on lessons learned from the ASEAN case study, this paper has synthesized the following recommendations as next steps in the development of SME international trade integration, as a vital aspect of economic growth, jobs creation and the promotion of inclusive global trade.

5.1 Proposal 1: Expand Access to Finance Mechanisms

Establish an informal working group,⁵ with the objective of improving access to finance for MSMEs. The working group could provide a platform for WTO members to share best practices among WTO member countries, especially taking into account new developments regarding fintech adoption for increased access to finance, debt financing, peer-to-peer lending and equity crowdfunding.

➤ **Exchange of information:** The informal working group would aim to share information on best practices, in terms of adopting new technologies within financial services (fintech) and easing access to finance for MSMEs. Successful experiences in many countries could be instructive for other WTO members to diversify sources of funding for their own MSMEs.

➤ **Policy coordination:** The informal working group could serve as a platform to coordinate policies within member countries, regarding financial inclusion and harnessing innovation for financial inclusion. Policy coordination should reflect the interest of two or more members, away from WTO formal agreements, in promoting financial inclusion and assisting MSMEs with new sources of finance.

➤ **Capacity Building:** The working group could facilitate capacity-building initiatives aimed at helping WTO members enhance their ability to create alternative sources of finance for MSMEs. This could include training, technical assistance, and knowledge sharing. Capacity building could be achieved in collaboration

with the World Bank and the Organisation for Economic Cooperation and Development.

➤ **Guidelines and Best Practices:** The working group could aim to establish informal guidelines and best practices for alternative sources of funding. These informal guidelines would serve as a reference for member countries, and would not be legally binding.

➤ **Advocacy and Outreach:** The working group could engage in informal outreach efforts to promote pioneering experiences in member countries, avoiding formal WTO engagement.

➤ **Monitoring and Reporting:** This could arise from establishing mechanisms to monitor the implementation of policies on easing access to finance for MSMEs in member countries.

The working group should be informal, to avoid any formal WTO commitment. The informal nature of the group would bring more flexibility to accompanying changes in policies and reforms. The informal group could also serve as a platform for member countries to share experiences and knowledge on policies and reforms in this area.

5.2 Proposal 2: The Global Business Incubator Network

Establish an informal support network globally, designed to promote SME competitiveness and integration in global value chains, providing capacity building and global networking, as well as linkages between national and regional incubators. Key features of this network could include:

➤ **Knowledge Dissemination:** The proposed network would serve as a valuable global platform for learning and the sharing of knowledge and experiences among regional and national business incubators, where the exchange of experience and best practices among representatives could lead to better business preparedness for local MSMEs seeking to contribute to global value chains.⁶

5 The choice of the structure i.e. existing informal working groups (IWG) or within new ones, remains a decision that should reflect WTO member agreement.

6 As with the “exchange of information”, both “knowledge dissemination” and “technology transfer”, can be addressed either in existing IWGs or newly created ones.

➤ **Technology Transfer:** Members could use the network to share their experiences on the management of technology transfer programs in the development of start-ups,⁷ as well as experiences in their integration in value chains, regionally and globally. This could include technology transfer model systems and related business models and opportunities, incubation management, and commercialization strategies.

➤ **Capacity Building:** The network could serve as platform for strengthening the members' capacity building in nurturing start-ups, especially in developing countries. This could include technical assistance and training. The capacity building for start-ups development here could be achieved through bilateral negotiations and understanding between member countries.⁸

➤ **Business Networking:** The network could act as a catalyst for expanding business incubators⁹ amongst stakeholders, both regionally and

globally for the benefit of SMEs in members countries. It could also help in building cooperation among business incubator associations in assisting cross-border marketing for start-up products.

➤ **Guidelines and Best Practices:** The network could serve as a platform for assisting governments in creating standards based on best practices, for business incubators and professional certification programs for incubator managers.¹⁰

➤ **Advocacy and Outreach:** The network could engage in outreach efforts to promote the benefits of MSME integration in global value chains. This could involve the mutual promotion of MSMEs indirect and direct involvement in international trade, and showcase successful experiences.

It is important to note here that an informal network within the WTO is likely to operate differently from formal WTO agreements and negotiations. It would not have the same legal au-

7 The objective here is to create the channels and programs that would allow big corporates, looking for disruptive ideas and business opportunities to connect with start-ups and entrepreneurs. Cooperation between technology start-ups and large corporations is necessary to promote and develop innovation (Kowalik and Sowa-Jadczyk, 2022).

8 Capacity development could be achieved with the help of WTO (see proposal 3 below).

9 It goes beyond the "exchange of information" to the expansion of business incubator stakeholders regionally and globally.

10 The network could serve as a platform that would allow the recognition of member-specific standards, and specifically the codes of conduct for the recognition of these standards.





thority, and any recommendations or guidelines produced by the group would be non-binding. However, it can still serve as a valuable platform for member countries to collaborate and share insights on addressing challenges related to MSME participation in global value chains. Additionally, the informal nature of such a group allows for more flexibility and agility in responding to evolving issues in this area.

5.3 Proposal 3: Enhance Capacity Development and Promote Entrepreneurship

Establish an MSME academy that offers ‘training for trainers’, engaging ‘master trainers’ in the coaching of trainers from WTO member countries that are less experienced. Areas of focus would include marketing and business management, finance, legal, logistics, and information technology. The academy would work in collaboration with WTO member countries to offer the necessary skills to trainers, which would then be disseminated to MSME owners, strengthening financial advice and networking. Key features of the academy could include:

- **Capacity Building:** The MSME academy’s core activity would be offering training and mentorship to trainers from member countries, with the objective of ultimately enhancing MSME access to financial products, regional and international markets, information and advisory services, technology and innovation. The trainers would play a crucial role in enhancing capacity development in WTO member countries.
- **Developing Managerial Skills:** Effective management is vital for strong performance. How-

ever, MSMEs are less likely to obtain management training than larger firms due to financial constraints, information gaps and other factors. Programs that “train the trainers” at the academy, in collaboration with WTO member countries, would offer opportunities for MSMEs to acquire new management skills.

- **Strengthening Women’s Entrepreneurship:** The academy would also target women’s empowerment by ensuring a minimum level of women’s participation in business activities in collaboration with WTO member countries. It could be achieved through coaching for female trainers or improving women’s access to business information, particularly financial advice, corporate programs and networking.
- **Advocacy and Outreach:** The academy could engage in outreach efforts to promote the benefits of ‘training the trainers’, and to highlight the benefits for MSME development. This could be carried out by enhancing collaboration with business support organizations, development agencies and international organizations.
- **Best Practices and Success Stories:** Training programs could focus on best practices in terms of management within MSMEs, and showcase success stories in member countries.

Establishing the academy could be coordinated with governments in member countries, through business support agencies and organizations to ensure the efficiency of training programs. Coordination would allow for aligning national objectives for MSMEs, through capacity development programs offered by the academy. In addition, financial resources for establishing the institution could be found through negotiations and coordination between WTO members.

Conclusion



Although small and medium-sized enterprises represent a large proportion of firms worldwide, their participation in international trade is still limited. Global Value Chains offer new opportunities for SMEs to be part of foreign trade, especially in developing countries, given the benefits in terms of job creation, technologies and inclusive growth. SMEs can directly export intermediate goods and services (direct forward participation) or indirectly by supplying inputs to local firms (indirect forward participation). In terms of imports, SMEs can participate in GVCs by directly importing inputs (direct backward participation) or by sourcing goods imported by local firms.

Despite the opportunities, the evidence highlights persistent challenges for SMEs as they aim to integrate with GVCs, specifically access to finance, informality, access to market and business information, costs of logistics and access to technology. The issue of technology access is demonstrated by a growing body of literature that shows how digitally-connected SMEs in developing countries tend to import a higher share of their inputs than non-digitally connected firms (Lanz, Lundquist, Mansio, Maurer and Teh, 2018). The literature also highlights the opportunities the digital economy presents for SMEs, in terms of new business models and cost reduction, however, once again the complexities of the issue are shown in the difficulties many SMEs face in technology acquisition and development.

In surveying efforts to address many of these challenges, the ASEAN Strategic Action Plan for SME Development 2016-2025 adopted in November 2015 offers a good example of a robust regional economic integration strategy that targets the enhancement of the competitiveness and resilience of micro, small and medium-sized enterprises. A review of the action plan's progress so far shows that more than 80 percent of the 62 planned action lines have either been completed or are being implemented in the

form of the provision of support services. However, in reviewing its completed initiatives, the need for additional supportive measures was identified, in order to sustain relevance and ensure uptake at the regional and national levels.

In considering the relevant aspects of the ASEAN Strategic Plan for SME Development, and in assessing the key challenges and opportunities within SME integration in global value chains, this paper has suggested a comprehensive set of practical proposals that could be carried forward to advance meaningful WTO member engagement on these issues. Ultimately, SME development in this context will be driven by collaborative efforts to improve access to resources, both financial and knowledge-based, in addition to targeted measures that work towards ensuring equitable pathways to a more inclusive global trade landscape.

The global economy is witnessing a paradigm shift, calling for greater levels of equity and responsibility in trade practices. As we stand at the crossroads of economic development and environmental preservation, the pursuit of inclusive trade offers a pathway to a more equitable and sustainable future. At the heart of that effort is ensuring that SMEs have the support they need to reach their full potential within international trade. By fostering an environment where trade benefits are widely shared, we can work towards a world where economic prosperity and sustainable trade practices go hand in hand.



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