I. STRENGTHENING THE COMPETITIVENESS OF SMALL AND MEDIUM ENTERPRISES IN THE GLOBALIZATION PROCESS: PROSPECTS AND CHALLENGES

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A. Globalization: challenges and prospects for small and medium enterprises in Asia and the Pacific

The Asian and Pacific region – a fast-growing, dynamic part of the developing world – has sustained its vibrancy and impressive growth, despite the unexpected setbacks during the latter half of the 1990s. The dynamism and vibrancy of the economies and the economic crisis of 1997-1998 are both cited as the results of the fast pace of liberalization and the globalization process. Opinions are divided and experts have different views on these issues. However, globalization, which is generally defined as the "shrinkage of economic distances (i.e., the costs of doing business) between nations", when one analyses the trends in production and trade or finance and capital flows among countries in the region as well as global terms,[1] has ushered in new opportunities and challenges especially for small and medium-sized enterprises (SMEs). Globalization has also resulted in the integration of economies and has prompted a rapid increase in the movement of products, capital and labour across borders. It is increasingly realized that globalization offers clear advantages as it contributes to the maximization of economic efficiencies, including the efficient utilization and allocation of resources, such as natural resources, labour and capital on a global scale, resulting in a sharp increase in global output and growth.

It is becoming increasingly clear that the globalization of production and trade has led to a rising trade-GDP (gross domestic product) ratio and has also resulted in the fragmentation of the production process into its subcomponent parts, which in turn are distributed across countries on the basis of comparative and competitive advantages. Developing countries have also benefited significantly from increased flows of capital and other forms of finance. However, globalization also has disadvantages, particularly as national Governments in many countries display a lack of political will and/or competence to adjust accordingly to the process of globalization. It is also observed by some people that globalization is a process mainly pushed by the developed world to unsustainable levels, and has placed many developing countries in rather unstable situations, disregarding the nature and appropriateness of developing countries' national policy frameworks and other limitations. This is the subject of further analysis requiring concerted efforts by national Governments to seek new policy options. Nevertheless, the international community has a responsibility to institute mechanisms to manage globalization[2] well to the advantage of all countries while as mentioned earlier national Governments would have a responsibility to formulate and implement policies to adjust their economies smoothly and efficiently to benefit from the

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1 Ramkishen S. Rajan, "Economic globalization and Asia: trade, finance and taxation", *ASEAN Economic Bulletin*, vol. 18, No. 1 (January 2001), pp. 1-11.

2 In view of the needs and priorities expressed by the Governments of Asia and the Pacific, the United Nations Economic and Social Commission for Asia and the Pacific adopted a new programme structure with "Managing globalization" as one of the main themes at its fifty-eighth session, held in May 2002. The Commission has also established a Subcommittee on International Trade and Investment to focus on globalization issues.

globalization process, especially if SMEs are to be promoted and sustained in this new economic environment.

As pointed out earlier, it is becoming obvious that globalization is driven by a variety of factors, such as the accelerated growth of international trade and foreign direct investment (FDI), and rapid development in information technology, further facilitated by the global flow of information as a result of the rapid spread of Internet use, which have far-reaching implications for SMEs. In particular, the advances in information and communication technology have driven down the costs of international transactions and exchanges and enabled the creation of the global financial system. In turn, these interdependent and mutually reinforcing global flows of products, technology, information and capital are pushing globalization further, making the whole process evolve at an accelerated pace. However, with the advent of globalization, growth has become somewhat volatile, as recently demonstrated in Asian countries, imposing additional costs in terms of reconciling growth and social development on the one hand and sustainability of development on the other.[3] This aspect is to be especially noted when examining the implications of globalization for SMEs.

Nevertheless, globalization will lead to a more liberalized and market-oriented economic process. As past experience has demonstrated, it will expedite growth and spread technology more rapidly, especially information technology. A recent study by the World Bank has also analysed the critical effect of globalization on inequality and poverty. The study identified a group of developing countries that are participating effectively in the globalization process and found a positive relationship between globalization and poverty reduction. For example, China, India and several other large countries are part of this group and well over half of the population of the developing world lives in these globalizing economies. The post-1980 globalizers have seen large increases in trade with significant declines in tariffs over the past 20 years. Their growth rates have accelerated from the 1970s to the 1980s and further accelerated in the 1990s. The post-1980 globalizers are catching up with the rich countries, while the rest of the developing world, which has not been part of the globalization process, is falling farther behind. The study also analyses how general these patterns are and finds a strong positive effect of trade on growth after controlling for changes in other policies and addressing endogeneity with internal instruments. Finally, the study examines the effects of trade on the poor. Since there is little systematic evidence of a relationship between changes in trade volumes (or any other globalization measure considered) and changes in the income share of the poorest, the increase in growth rates that accompanies expanded trade leads to proportionate increases in the incomes of the poor. The evidence from individual cases and from cross-country analysis supports the view that globalization leads to faster growth and poverty reduction in poor countries.[4] As mentioned earlier, the globalization process will also bring various volatilities in the economy with greater risks in the areas of capital and financial flows as well as in currency exchange arrangements. It is therefore urgent that certain concrete measures be taken to safeguard SMEs and make them sustainable. Furthermore, it should be noted

[3] Several international organizations have focused their activities on assisting countries in dealing with various issues of globalization processes. See World Bank, *World Development Report 2001/2002;* ESCAP, *Economic and Social Survey of Asia and the Pacific 2002: Economic Prospects: Preparing for Recovery* (ST/ESCAP/2144); and Asian Development Bank, *Asian Development Outlook 2002*. Also refer Byron G. Auguste, “What’s so new about globalization?”, *New Perspectives Quarterly*, 1 January 1998; to illustrate the decline in costs of international transactions, he notes that since 1945 average ocean freight charges have fallen by 50 per cent, air transport costs by 90 per cent and trans-atlantic telephone charges by 99 per cent. See also International Monetary Fund, *World Economic Outlook*, May 1997.

[4] For further details see, David Dollar and Aart Kraay, “Trade growth and poverty”, World Bank Policy Research Working Paper 2615. See also United Kingdom of Great Britain and Northern Ireland, “Eliminating world poverty: making globalisation work for the poor”, White Paper on International Development (available at <http://www.globalisation.gov.uk>).

that smaller firms have traditionally focused on domestic markets and many will continue to rely heavily on local assets and markets. At the same time, SMEs will be increasingly globalized. About 25 per cent of manufacturing SMEs are now internationally competitive but this share should increase rapidly. At present, SMEs contribute between 25 and 35 per cent of world manufactured exports and account for a smaller but growing share of FDI. They are becoming more involved in international strategic alliances and joint ventures both among themselves and together with the larger multinationals. More generally, networking allows SMEs to combine the advantages of small scale, e.g., flexibility, and the economies of scale and scope provided by firm groups.[5] It is also essential that some new and innovative measures be taken to improve their competitiveness in the globally integrated and highly competitive economy. Furthermore, since SMEs account for the majority of the firms in a country and have the largest share in employment and since the 2 billion urban population throughout the world will increase in the next decade, it is therefore essential that urban SMEs be promoted as major providers of employment. SMEs are also important to grow out of a stage-dominated economy characterized by government subsidy and control and, because of their independence and sheer numbers, SMEs represent a constituency of good policy and governance in many developing countries of the Asian and Pacific region.

In a recent United Nations Industrial Development Organization (UNIDO) forum on "Fighting marginalization through sustainable industrial development: challenges and opportunities in a globalizing world", the experts, while addressing the role of investment, technology and trade in promoting industrial and economic development in a globalizing world, emphasized that *technology and liberalization were the prime forces driving globalization*. Technological innovation rather than capital accumulation was seen as the main source of long-term sustainable growth and it was urged that in order to overcome the threat of marginalization, developing countries be enabled to mobilize the key ingredients of productivity-based growth, namely, information, knowledge, skills and technology, by drawing on international trade, capital/investment and technology flows. On the subject of global norms and standards in the context of development, it was agreed that developing countries were to be provided with the capacity to participate more fully in international trade agreements and environmental conventions. The forum had also highlighted the critical role of development agencies in guiding productivity-based growth in the developing world and promoting "workable" globalization. These necessities are even more forcefully reinforced when one tries to strengthen the role of SMEs in developing countries to enable them to be the forceful agents in promoting the integration of industrial activities at the regional and global levels.

Therefore, this paper has tried to analyse and suggest measures as to what strategies can be adopted to enhance the development of SMEs in the context of the ongoing process of globalization. There are many ways to approach the development of SMEs, but the paper has focused on the various ways and means to enhance the export capabilities of SMEs, in promoting cooperation and networking of SMEs to play important roles in regional/global markets, in improving various measures for the provision of business services for SME competitiveness and in promoting good management and efficient overall governance, including the provision of a legal framework to manage globalization for the benefit and efficiency of SMEs. At the end, a set of urgent measures to promote the competitiveness of SMEs is presented.

Before the analysis actually focuses on the specific issues of SMEs and competitiveness, it is relevant to present some analysis of the recent economic and industrial trends and situation of Asian and Pacific developing countries, followed by a section on the role of SMEs in selected countries of the region, so that coherent and consistent policy issues for SME development and ways to improve their competitiveness can be analysed.

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5 Organisation for Economic Cooperation and Development, *OECD Small and Medium Enterprise Outlook* (Paris, OECD, 2000).

B. Industrial dynamism, economic prosperity and economic crisis: liberalization, globalization and private sector-led industrial growth

1. Recent economic growth

The Asian and Pacific developing region has frequently been termed one of the most dynamic parts of the global economy. However, these economies again registered a decline in GDP growth in 2001 to 3.1 per cent as compared with 7.0 per cent in 2000.[6] Several economies registered a decline in their growth rate (see tables I.1 and I.2). There was also a slowdown in the global GDP growth rate. The slowdown was particularly evident in the information and communication technology sector and in economies with a preponderance of ICT-related manufacturing activities and with high trade-to-GDP ratios, as in East and South-East Asia, were most affected by the slowdown. While some economies and subregions remained relatively immune initially, the dramatic suddenness of the global slowdown and its intensity slowed GDP growth in these economies and subregions as well. The events of 11 September 2001 aggravated the slowdown through a loss of business and consumer confidence.

It should be noted that since March 2002, signs of a global and regional upturn were being seen. On balance, evidence of a gentle recovery in both the global and regional economies was becoming discernible. The majority of the ESCAP economies were expected to exceed their 2001 GDP growth rates in 2002 (see table I.2). A benign inflationary environment and comfortable external positions indicated that most economies in the region had considerable leeway to compensate for the loss of external demand through domestic stimulus measures.[7]

Thus, the Asia-Pacific region is quite resilient and is able to cope with economic problems much more quickly. In general, it managed to trigger a process of unprecedented economic growth led by industry (in particular manufacturing) among a selected few developing countries owing to a combination of appropriate policies and a conducive international economic environment during the last three decades despite catching up with the crisis in 1997. The aggregate GDP growth of the Asia-Pacific region (excluding China) grew by an annual average of 7 per cent during the period 1980-1996 but contracted by over 4 per cent in 1998 after growing 5.6 per cent in 1997. Conducive national policies aimed at successful integration of national economies into the world economy certainly played a fundamental role in explaining East Asia's success stories. Only during the last three years of the 1990s, had it become obvious that major adjustments at both the national and international levels were necessary to manage the globalization process to the benefit of all.

In the coming years, the Asian and Pacific region in general is expected to continue achieving higher growth rates, depending on the degree of development in the United States and Japanese economies. Thus, a regional economic recovery in 2003 is essentially predicated on a significant improvement in the external environment, supported by appropriate domestic policy measures. However, the pace of economic performance in general and industrial growth in particular in some developing economies of the region could remain unsatisfactory. The least developed countries and the economies in transition could achieve only marginal growth. Many such poorer economies could stagnate and remain poor, unless major economic and industrial transformations are brought about at the regional and global levels, promoting the integration of those economies. It is therefore essential that the production system at the regional and global levels be diversified, and dispersed and the production process fragmented, so that not only efficiencies and cost-effectiveness are achieved, but also the disadvantaged group of countries could somehow find niches in regional and global production and create jobs and incomes in their respective economies. It should be noted that as production becomes more and more

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6 Asian Development Bank, *Asian Development Outlook 2002* (New York, Oxford University Press, 2002), p. 4.

7 "Summary of the economic and social survey of Asia and the Pacific, 2002" (E/2002/18), 15 April 2002, p. 1.

Table I.1. Real GDP of selected Asian and Pacific economies

(Annual percentage change)

	10-year average 1982-1991	1992	1993	1994	1995	1996	1997	1998	1999
Asia[a]									
Bangladesh	4.8	4.3	4.5	4.8	5.0	5.3	5.0	5.2	3.89
Bhutan	4.4	5.0	5.1	6.9	6.0	5.7	4.6	6.5	5.26
Cambodia	4.8	7.5	7.0	7.7	7.0	1.0	1.0	4.97	4.0
China	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.1	8.0
Fiji	4.8	3.5	4.2	2.4	3.3	3.6	4.0	4.5	4.95
Hong Kong, China	6.3	6.1	5.4	3.9	4.5	5.0	–5.1	3.06	10.05
India	4.2	5.0	6.7	7.6	7.1	4.7	6.3	6.55	6.37
Indonesia	7.2	7.3	7.5	8.2	8.0	4.5	–13.0	0.85	4.77
Kiribati	–1.6	0.8	7.2	6.5	2.6	3.3	6.1	2.5	2.0
Lao People's Democratic Republic	7.0	5.9	8.1	7.1	6.9	6.5	5.0	5.0	5.7
Malaysia	8.9	9.9	9.2	9.8	10.0	7.3	–7.4	5.81	8.54
Maldives	6.3	6.2	6.6	7.2	6.5	6.2	6.0	8.55	7.58
Marshall Islands	0.1	5.4	2.7	–1.9	–13.1	–5.3	–4.3	–1.8	–
Micronesia, Federated States of	–1.2	5.7	–0.9	1.3	–0.5	–3.8	–2.8	–2.0	–
Myanmar	9.7	5.9	6.8	7.2	7.0	7.0	7.0	10.92	5.46
Nepal	4.1	3.8	8.2	3.5	5.3	5.0	3.0	3.94	5.99
Pakistan	7.8	1.9	3.9	4.1	4.9	1.0	2.6	4.33	5.09
Papua New Guinea	11.8	16.6	1.9	–2.6	2.9	–2.4	1.4	3.15	–1.21
Philippines	0.3	2.1	4.4	4.8	5.8	5.2	–0.6	3.32	3.95
Republic of Korea	5.4	5.5	8.3	8.9	6.8	5.0	–6.7	10.89	8.81
Samoa	4.1	1.7	–0.1	6.8	6.1	1.6	1.2	2.5	3.5
Singapore	6.5	12.7	11.4	8.0	7.5	8.4	0.4	5.86	9.89
Solomon Islands	9.5	2.0	5.4	10.5	3.5	–2.3	0.5	–0.5	–1.0
Sri Lanka	4.3	6.9	5.6	5.5	3.8	6.4	4.7	4.3	6.0
Taiwan Province of China	6.8	6.3	6.5	6.0	5.7	6.8	4.7	5.42	5.98
Thailand	8.1	8.4	9.0	8.9	5.9	–1.7	–10.2	4.22	4.31
Tonga	0.3	3.7	5.0	4.8	–1.4	–4.4	–1.5	–	1.5
Vanuatu	–0.7	4.5	1.3	2.3	0.4	0.6	6.0	–2.5	3.97
Viet Nam	8.6	8.1	8.8	9.5	9.3	8.2	3.5	4.2	5.5
Central Asia									
Armenia	–52.6	–14.1	5.4	6.9	5.9	3.3	7.2	3.3	6.0
Azerbaijan	–22.7	–23.1	–19.7	–11.8	1.3	5.8	10.0	7.4	10.27
Georgia	–44.9	–29.3	–10.4	2.6	10.5	10.7	2.9	2.9	1.5
Kazakhstan	–5.3	–9.2	–12.6	–8.2	0.5	1.7	–1.9	2.8	9.44
Kyrgyzstan	–13.9	–15.5	–19.8	–5.8	7.1	9.9	2.1	3.6	5.04
Mongolia	–9.5	–3.0	2.3	6.3	2.4	4.0	3.5	3.2	2.98
Russian Federation	–19.4	–10.4	–11.6	–4.2	–3.4	0.9	–4.9	3.2	7.5
Tajikistan	–28.9	–11.1	–21.4	–12.5	–4.4	1.7	5.3	3.7	8.3
Turkmenistan	–5.3	–10.0	–17.3	–7.2	–6.7	–11.3	5.0	16.0	17.6
Uzbekistan	–11.1	–2.3	–4.2	–0.9	1.6	2.5	4.3	4.4	4.0

***Source*:** IMF, *World Economic Outlook 2000*, Statistical Appendix. Available at <www.imf.org/external/pubs/ft/weo/2001/01/data/growth_a.csv>.

[a] Excluding Central Asian economies.

Table I.2. Selected economies of the ESCAP region: rates of economic growth and inflation, 2000-2004

(Percentage)

	Real GDP					Inflation[a]				
	2000	2001[b]	2002[c]	2003[c]	2004[c]	2000	2001[b]	2002[c]	2003[c]	2004[c]
Developing economies of the ESCAP region[d]	**7.0**	**3.1**	**4.2**	**5.4**	**5.9**	**2.1**	**3.1**	**3.0**	**3.4**	**3.6**
South and South-West Asia[c]	**4.5**	**4.6**	**5.5**	**6.0**	**6.6**	**6.1**	**6.9**	**7.3**	**6.7**	**6.3**
Bangladesh	5.9	6.0	4.3	..	..	3.4	1.6	4.0	..	..
India	4.0	5.4	6.0	6.3	7.0	3.7	4.2	5.0	5.0	4.5
Islamic Republic of Iran	5.9	5.5	6.5	6.5	6.0	12.6	12.0	14.0	14.0	11.5
Nepal	6.4	5.9	5.0	6.0	6.5	3.5	2.4	4.5	5.0	5.0
Pakistan	3.9	2.6	4.0	4.7	5.2	3.6	4.7	5.0	5.0	5.0
Sri Lanka	6.0	0.9	3.3	5.5	5.9	6.2	13.0	9.0	7.5	6.6
Turkey	7.1	–8.4	2.0	4.4	4.1	54.9	65.0	51.2	43.0	34.9
South-East Asia	**6.5**	**1.8**	**3.2**	**4.4**	**4.6**	**2.3**	**5.0**	**4.3**	**3.9**	**3.9**
Cambodia	5.4	5.3	4.5	6.3	6.0	–0.8	–0.6	3.0	5.0	5.0
Indonesia	4.8	3.3	3.8	4.9	4.6	3.7	11.1	9.8	6.3	5.3
Lao People's Democratic Republic	5.7	6.4	5.0	..	..	25.1	9.0	12.0	15.0	..
Malaysia	8.3	0.4	3.2	5.1	6.1	1.6	1.5	1.6	3.4	4.0
Myanmar	13.6	5.0	5.1	5.9	..	–0.1	9.6	..	..	..
Philippines	4.3	3.4	4.0	3.4	4.0	4.4	6.3	5.7	5.3	5.0
Singapore	9.9	–2.0	2.0	5.8	5.7	1.4	1.0	0.8	1.5	1.7
Thailand	4.4	1.5	2.5	2.5	3.5	1.6	1.6	1.8	2.5	3.1
Viet Nam	6.8	6.8	6.1	6.8	7.3	–1.7	–0.1	2.0	3.8	7.6
East and North-East Asia	**8.0**	**3.2**	**4.3**	**5.7**	**6.2**	**0.8**	**1.1**	**1.2**	**2.1**	**2.7**
China	8.0	7.3	7.0	7.5	7.6	0.4	0.7	1.1	2.2	2.5
Hong Kong, China	10.5	–2.0	1.0	6.0	6.3	–3.8	–1.6	–1.0	2.5	4.0
Mongolia	1.1	1.4	4.0	5.0	6.0	11.8	8.8	6.0	5.0	5.0
Republic of Korea	8.8	3.0	3.9	4.6	5.0	2.3	3.2	2.8	2.6	3.4
Taiwan Province of China	5.9	–2.2	1.7	4.0	5.4	1.3	0.0	0.0	1.0	1.5
Pacific island economies	–1.0	–1.2	2.7	2.7	2.5	7.1	7.2	8.2	7.1	5.9
Cook Islands	3.2	3.2	3.3	..	..	2.0	1.0	1.0	..	..
Fiji	–2.8	1.5	5.0	4.0	3.0	3.0	2.3	2.5	3.0	3.0
Papua New Guinea	–0.8	–3.3	1.2	1.8	2.1	10.0	10.3	12.0	10.0	8.0
Samoa	7.3	6.5	4.8	4.3	4.1	1.0	1.5	2.0	2.0	2.0
Solomon Islands	–14.5	–7.0	5.5	3.0	2.0	6.0	8.0	10.0	6.0	5.0
Tonga	6.1	3.0	2.5	2.9	3.0	7.0	8.0	3.0	3.0	3.0
Vanuatu	4.0	2.0	3.0	3.5	3.5	4.1	3.0	2.0	2.5	2.5

(Continued)

Table I.2 *(continued)*

(Percentage)

	Real GDP					Inflation[a]				
	2000	**2001[b]**	**2002[c]**	**2003[c]**	**2004[c]**	**2000**	**2001[b]**	**2002[c]**	**2003[c]**	**2004[c]**
Developed economies of the ESCAP region	**2.5**	**-0.2**	**-0.9**	**1.6**	**1.5**	**-0.4**	**-0.4**	**-0.7**	**-0.3**	**0.2**
Australia	3.8	4.1	3.0	4.1	3.6	4.5	4.2	2.3	2.4	2.9
Japan	2.4	-0.5	-1.2	1.4	1.4	-0.7	-0.7	-0.9	-0.5	0.0
New Zealand	3.8	2.6	1.9	3.3	2.0	2.6	2.7	2.1	1.8	1.8
Memo:										
Kazakhstan	9.6	13.0	6.3	6.8	7.2	13.5	8.4	6.9	6.7	7.0
Russian Federation	8.3	5.7	3.5	4.0	4.3	20.8	18.6	15.5	13.0	11.0
Uzbekistan	4.0	4.0	2.5	3.0	..	24.9	25.6	25.5	23.1	..

Sources: ESCAP, based on International Monetary Fund, *International Financial Statistics*, vol. LV, No. 1 (January 2002); Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2001* (New York, Oxford University Press, 2001) and *Asian Development Outlook 2001* (New York, Oxford University Press, 2001); Economist Intelligence Unit, *Country Reports* and *Country Forecasts* (London, 2001 and 2002), various issues; and national sources.

Notes: This table is based on data and information available up to 15 March 2002.

The estimates and forecasts for countries relate to fiscal years defined as follows: fiscal year 2001/02 = 2001 for India and the Islamic Republic of Iran; and fiscal year 2000/01 = 2001 for Bangladesh, Nepal and Pakistan.

[a] Changes in the consumer price index.
[b] Estimate.
[c] Forecast/target.
[d] Based on data for 28 developing economies representing about 95 per cent of the population of the region (excluding the Central Asian republics); GDPs at market prices in US dollars in 1995 have been used as weights to calculate the regional and subregional growth rates.

globalized and as transport and communication costs are reduced, the intensity of competition increases, and it becomes desirable to search for new economical sites to produce different products, parts and components to serve different marketplaces.

For all developing countries including the least developed ones and the economies in transitions, some form of industrialization and industrial growth must be recognized as the principal means to provide stability and economic growth. Abundant natural resources, low labour rates and even large markets are no longer indispensable factors for development, nor sufficient attractions for investors. Essential infrastructure, enhanced skills, technological capability and improved management practices constitute the key elements of competitiveness in the emerging pattern of global competition and industrialization. Industrial development continues to be the main channel for value added, together with certain related service sectors. While industry remains the principal engine for economic growth and overall prosperity, at the same time, because of the liberalized process, the increased globalization of industry and the extraordinary and rapid pace of technological innovations and adaptation, new challenges and prospects for industrialization are being created. It is therefore essential not only to reiterate the key role of the industrialization of developing countries in the new context, but it is also necessary to assess the current industrial development trend and prospects for new international relationships at the enterprise and institutional levels. As a result, industrial growth in developing countries is likely to become increasingly complex and difficult during the coming years. Furthermore, in developing countries of the region, major institutional changes and new strategies and mechanisms will be required for the successful integration of developing countries into the mainstream of international trade, investment and technological flows. Industrial policy reforms and the role of government will need major changes and adjustments to ensure that market shortcomings are adequately adjusted and corrected through appropriate policy interventions to improve long-term economic performance and ensure that economies can be truly part of the mainstream of global trade and investment. Countries must increasingly assume a leading role in enhancing both domestic and international competitiveness and the increased export orientation of local enterprises. At the same time, the growing complexity of industrialization in the light of global economic developments highlights the need for specialized institutional support at the international level to provide a range of technical services for accelerated industrialization and technological process in developing countries.[8]

2. Liberalization and globalization process and SMEs

Thus, it has to be underscored that the process of globalization and liberalization has assisted individual firms in operating across national boundaries in Asian and Pacific countries, affecting thereby the whole process of industrial development in different economies. Increasingly it is being realized that the opening of global markets through trade liberalization is not only making it easier for firms to extend their operations beyond national boundaries but also providing greater potential for expansion and growth. But all countries are not benefiting, as this will require competitive capacity and additional resources for investment, in addition to technological and marketing linkages to promote rapidly changing and high-quality products and services. This is where the importance of international and global production networks lies. It is very essential that all countries and economies be somehow linked and integrated into such production networks so that sustainable regional and global production structures could be created for everyone to play mutually beneficial economic roles.

Furthermore, as a result of globalization factors, the world has witnessed unprecedented growth in output and trade over recent decades. World output grew by an annual average of 2.7 per cent during 1981-1990 and 3.5 per cent in 1996 and 1997, before the crisis reduced growth to 1.9 per cent in 1998. However, it increased to 3.8 per cent in 2000, but fell to 1.3 per cent in 2001.[9] World trade has grown at about twice the rate, at 4.5 per cent on average during 1981-1990 and about 7.0 per cent during 1991-1997 with a growth rate of 10.5 per cent in 1994 largely owing to sustained trade liberalization. World trade volume grew by 12.4 per cent in 2000, but declined to -0.2 per cent in 2001.[10] In 2002 the world trade volume is expected to increase by 2.5 per cent. Average tariffs in industrial countries fell from 40 per cent in 1946 to about 5 per cent in 1990. By the early 1990s, world exports (adjusted for inflation) were nearly 10 times higher than 40 years earlier.[11] Even in 1998, world trade grew at twice the rate of growth in world output.[12] In 2003 world trade is expected to grow by 6.6 per cent in comparison with the world output growth of 4.0 per cent in that year.[13] Global FDI flows rose from US$ 24 billion in 1990 to US$ 120 billion in 1999. For many developing countries, private capital flows have largely replaced official

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8 Bhavani P. Dhungana, "Economic integration and industrial production networking: Asia's prospects and challenges in 21st century", paper presented at the Workshop on the Emerging Economic Map of Asia: Regional Production Restructuring, Asian Integration and Sustainable Development, Bangkok, 1-2 August 2001, p. 5.

9 UNCTAD, *Trade and Development Report 2002*, p. 5.

10 World Bank, *Global Economic Prospects and the Developing Countries 2002*, p. 3.

11 *International Herald Tribune*, 4 January 2000.

12 United Nations, *World Economic and Social Survey 1999*.

13 International Monetary Fund, *World Economic Outlook*, April 2002, p. 6.

capital flows. In 1990, official capital provided half the loans and credits to 29 major developing countries (including India, China and the Republic of Korea in Asia). By 1999 private flows totalled about US$ 136 billion to these countries compared with only US$ 22 billion in government capital flows.[14]

As indicated above, the Asian and Pacific region also witnessed rapid economic growth during the 1980s and 1990s as a result of globalization factors in combination with conducive national policies. To a large extent, this economic growth was triggered by the impressive growth of the industrial sector, in particular manufacturing, especially after the switch from import substitution to export promotion as the main development strategy adopted by most East Asian economies. This policy has proved tremendously successful as judged by the rapid export growth of selected Asian countries.

A rise in the share of manufactured exports and imports as a share of total merchandise trade would be consistent with rapid growth in manufacturing value added. Manufactured exports have indeed shown a steadily increasing share of total merchandise exports with very large increases in each ASEAN country and increases among SAARC countries as well.[15]

Indonesia had a spectacular rise in manufactured exports as a share of total merchandise exports from just 2 per cent in 1980 to over 50 per cent in 1995 and 1996. Manufactured exports had become dominant in the exports of Malaysia (76 per cent), Singapore (84 per cent), Thailand (73 per cent), India (74 per cent), Nepal (99 per cent) and Pakistan (84 per cent) by the mid-1990s. Shares of manufactured imports had also risen perceptibly in every case in ASEAN, but manufactured goods shares in imports fluctuated in South Asia. Imports of manufactured goods in much of South Asia were subjected to high tariffs and several types of controls.

However, in general there has been a dramatic shift in the pattern of developing country trade, with a shift away from dependence on commodity exports to much greater reliance on manufactures and services and the greatly increased importance of exports to other developing countries. While national-level policy initiatives remain the principal focus of trade policy reforms, developing countries have become increasingly involved in regional and multilateral trade negotiations. The multilateral system has made substantial adjustments to the increased importance of developing countries, but reforms in governance and a sharper distinction between positive and negative approaches to integration seem likely to be needed. Furthermore, between 1980 and 1985 manufactured exports and imports grew slowly in ASEAN (with the exception of Indonesia, where manufactured exports rose rapidly from a very small base between 1980 and 1985). The slow growth during the first half of the 1980s reflects the period of economic recession in the region. Import growth was sharply negative in the crisis-ridden Philippines in 1980-1985. Notably, there was a dramatic recovery of growth of manufactured imports and exports in the Philippines once the economic and political situation had been stabilized after 1986. In South Asia manufactured imports grew very slowly in Bangladesh, Pakistan and Sri Lanka during 1980-1985, but have shown higher growth since then. In Nepal, manufactured imports decelerated after 1985 and growth became negative between 1990 and 1995. Growth in imports of manufactured goods fluctuated in India. The performance of manufactured exports of India after 1990 was quite good compared with 1980-1985. Nepal steadily increased its exports of manufactured goods. The performance of Pakistan's manufactured exports fluctuated. Sri Lanka had fairly strong growth in manufactured exports during the 1980s.

Indeed, it is now widely recognized that the maintenance of an open liberalized domestic economy was decisive in explaining the growth of

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14 Institute of International Finance, as quoted in *International Herald Tribune*, 4 January 2000. Private capital flows comprise bank loans, bond financing, equity investments in local stock markets and foreign direct investment.

15 *Export Competitiveness and Sustained Economic Recovery*, Studies in Trade and Investment No. 46, (ST/ESCAP/2150), pp. 38-39.

East Asia and other successful developing countries. It not only allowed for large inflows of FDI but also for the rapid export growth generated to a large extent by foreign-invested companies. East and South-East Asia have been the leading destination among developing countries for global FDI flows. FDI inflows have been particularly high in those countries, which also witnessed large export growth. It is evident that those countries which failed to open their economies and adopt an export promotion strategy also failed to reap the benefits of the globalization process. Globalization, interpreted as constituting growing opportunities for world trade and investment, after all enabled countries with an export promotion strategy to actually increase their exports. Without globalization, individual countries, including developed countries, would have continued their protectionist policies, so common in the direct aftermath of the global depression of the 1930s, and would have prevented East Asian and other developing countries from increasing their exports at such high rates.

The latest success story in Asia with respect to export growth has been China since the country started to liberalize its economy in the early 1980s. China is a very large economy in terms of absolute size of production and trade. China has proved attractive to foreign investors as a result of its rapid economic growth, large size, abundance of low-cost labour and increasing trade orientation. Recent studies have found that Chinese manufacturing industries and firms have proven to be formidable competitors with ASEAN counterparts in both the United States and Japan. The export shares of China in labour-intensive manufactures rose sharply in the 1990s in both the United States and Japan and had an undeniable impact on the market share of ASEAN. China devalued the yuan twice in 1990 and 1994 and strengthened its competitiveness vis-à-vis the ASEAN countries as they by and large pegged their currencies to United States dollar, which appreciated strongly against the yen and most other major currencies in 1995 and 1996. The sharp currency realignments in 1997 and 1998, coupled with China's pledge to avoid competitive devaluation, had eroded this competitive advantage, however. It is also noteworthy that China, like most of South-East Asia (the Philippines being the exception), experienced an export slowdown in 1996. Thus, China is not able to avoid cyclical swings in export markets any more than other Asian economies. South Asian industries and firms may also have experienced some competitive pressure from China, particularly in markets for labour-intensive manufactures such as textiles, apparel, footwear and leather goods, toys and other miscellaneous manufactures. Nonetheless, trade with China also appears to have been expanding rapidly in the case of India between 1991 and 1997, with exports and imports both expanding impressively. China maintains a merchandise trade surplus with the SAARC region. Both SAARC and ASEAN members have an interest in the terms and conditions of China's accession to the World Trade Organization (WTO) and may wish to consider commercial benefits and costs in that context.

The growing trend of intraregional trade and investment is in fact a reflection at the regional level of global trends, which are pushed by globalization. However, as globalization is likely to continue at an accelerated pace, the implications for industrial development and restructuring in line with the requirements of globalization are wide-ranging and include both opportunities and challenges. That having been said, it should be noted, especially in the context of promoting SMEs, that a critical long-term policy challenge which the ESCAP region will face is how to manage globalization, extend the duration of the current recovery and broaden its reach so that the poor can benefit from economic growth. Much will depend on creating new sources of growth by increasing the region's export competitiveness, especially of exports by SMEs, while maintaining financial stability in increasingly open and interdependent economies.

This is the critical issue on which the competitiveness of SMEs will depend and attempts will be made to seek answers to the following questions:

(a) What are the policy reforms that will ensure that the region can sustain the international competitiveness of SMEs in a globalizing world economy?

(b) How can the productivity and efficiency of SMEs be boosted? What institutional and infrastructural factors are necessary for improving the efficiency of SMEs?

(c) What are the implications of the currency exchange rate crisis for the long-term stability and export competitiveness of SMEs?

(d) What are the implications of regionalism and multilateralism for the survival and competitiveness of SMEs?

(e) What economy-wide integrated policy issues are important for the promotion of SMEs and their competitiveness at the international market?

C. Role of SMEs in the development process: some country experiences

1. General observations

SMEs all over the world have played a fundamental role in promoting economic and industrial production. In particular, SMEs provide the necessary foundations for sustained growth and rising incomes in the less developed and transitional economies. Sustained and healthy growth of the SME sector in weaker economies is obviously necessary, as it is difficult to imagine raising overall living standards and social peace in those economies without SME development. In general, SMEs provide the bulk of the entrepreneurs and employment in those economies and they are mostly in the private sector. The development of the SMEs and their linkages with larger enterprises have also played a significant role in the highly successful business practices of the vertically integrated Japanese "keiretsu" financial-industrial groups during most of the post-war period. Similar linkages appear to have been important in recent successes of "township and village enterprises" (TVE) in China. Another quite different synergistic relationship, based on both horizontal and vertical linkages, is represented by the kind of local cooperative/competitive development common for a long time in Europe and North America, but only recently dignified with the titles of "industrial district" and "cluster".[16] However, the SME sector in many developing countries has usually been neglected and discriminated against in terms of access to government attention, access to finance, management and marketing expertise and technology, as compared with large enterprises. This has been particularly so in the economies in transition, where the large-scale State sector had assumed the major role in economic and industrial development. Private sector development in the economies in transition and in the least developed countries should, therefore, start by strengthening and promoting SMEs as to allow these enterprises to grow into medium- to large-scale enterprises and enable them to take over the functions of the previously State-owned enterprises.

Although there are variations in the proliferation of SMEs and their contributions to the economy, in recent decades there have been some efforts to improve the conditions for SME promotion in the Asian and Pacific region. Policies have been adopted and attempts made to improve the institutional facilities for their functioning. However, it also has to be noted that in the Asian and Pacific region SMEs comprise a wide range of plant sizes and technologies, both across and within countries, covering three broad tiers of activities. At the top, there is the modern SME sector, often closely linked with large enterprises as subcontractors and producing modern consumer and manufacturing products such as metal goods, paints, processed foods, plastic goods and wood products. These types of enterprises generally use more modern technology and are located nearer to cities and ports with well-developed infrastructure facilities. In addition, urbanization and localization tend to facilitate the growth of the modern SME sector. At the other extreme can be found the traditional SME sector, consisting of artisans, workshops, household units and craft industries and other industries, which are normally found in rural areas. Enterprises operating in this segment of the SME spectrum usually

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[16] Robert McIntyre, *The Role of Small and Medium Enterprises in Transition: Growth and Entrepreneurship*, Research for Action No. 49 (United Nations University, World Institute for Development Economics Research [WIDER], December 2001), p. 5.

employ rudimentary implements and rely on local markets for the supply of raw materials and the sale of the final products. Here, the agrarian nature of the economy and fragmented markets, low technology and weak infrastructure favour labour-intensive manufacturing at the household level. Between these two sets of SMEs are the agro-based industries, most often found in semi-urban areas, which utilize agricultural raw materials as major production inputs but may depend on distant markets to sell their products. These types of SMEs, clustering around townships and population centres, have a great potential in meeting some of the urgent needs of developing countries, especially those with weaker economies.

In most less developed economies and economies in transition in the Asian and Pacific region, the bulk of the industrial labour force is engaged in small- and medium-scale enterprises. Small-scale and cottage industries in LDCs usually employ around 80 per cent of the entire industrial workforce of the country. This sector also makes a valuable contribution to the industrial value added of the economy. However, most of the value added, varying from around 40 to 70 per cent, routinely originates from only a few industries, usually food and beverages, jewellery and gems, leather and leather products, jute and jute products, textiles, furniture, wood products and handicrafts, indicating the narrow base of the SMEs in the economy. In the more advanced economies, SMEs are found in a wide array of industries.

2. Selected country experiences

SMEs in *Bangladesh* have contributed significantly to manufacturing growth and employment creation. There are around 27,000 medium-sized enterprises and around 150,000 small-scale enterprises in the country. At present, 80 per cent of manufacturing establishments are SMEs, accounting for 80 per cent of the labour force and 50 per cent of the output of the sector and 5 per cent of GDP. SMEs provide vital linkages to larger enterprises, particularly in the high-growth export sector, and also form part of the core business activities in both rural and urban areas. The garments industry contributed to SME development through orders for accessories, packaging materials, etc., while the footwear industry increased subcontracts to SMEs. In addition, agro-processing and poultry have recently emerged as important activities for the development of SMEs. Over the past decades, SMEs have contributed significantly to fostering labour-intensive growth and reducing poverty. Their production processes are often marked by outdated technologies. SMEs in general cannot offer the requisite collateral and meet the transaction costs for obtaining access to institutional credit. SMEs also find it relatively more difficult to access key infrastructure, including electricity and gas. The policy environment is not conducive to the growth of SMEs. They are subject to the same procedural rigours of registration, taxation, credit disbursement, export and import as large enterprises, thus adding high costs to their operations.

In *India*, small-scale industries (SSIs) account for 95 per cent of the country's industrial units, 40 per cent of industrial output, 80 per cent of employment in the industrial sector, 35 per cent of value added by the manufacturing sector, 40 per cent of total exports and 7 per cent of net domestic product.

In *Pakistan*, the SME sector employs about 80 per cent of the industrial labour force and makes up about 60 per cent of the manufacturing sector. However, the contribution of SMEs to GDP is only 15 per cent.

In *Indonesia*, before the 1997 economic crisis, almost two thirds of small business were in the agricultural sector, over 17 per cent in trading (including restaurants and hotels), over 7 per cent in processing industries, 5 per cent in the service sector, 2.5 per cent in consultancy and 4 per cent in other sectors. Thus, although SMEs account for more than 90 per cent of the total number of companies in Indonesia, their share in the Indonesian economy is very insignificant, as 80 per cent of GDP is produced by large corporations.

SMEs constitute a large portion of *Thailand*'s national economy as they account for 70 per cent of employment in the industrial sector and 4.7 per cent of total manufacturing value added. About 98 per cent of establishments in the manufacturing sector in Thailand are SMEs,[17] which are scattered in both the Bangkok Metropolitan area and regional areas. The main industries which are dominated by SMEs in Thailand include metal and steel, plastic products, rubber and garments. The competitiveness of SMEs is thus a crucial component of the national competitiveness agenda. The SME Promotion Act was enacted in February 2000. The SME Promotion Committee, chaired by the Prime Minister, and the Office of Small and Medium Sized Enterprise Promotion, have been established to promote the development of SMEs. The SME Promotion Fund has also been established with seed money from the Government and other private sources. The Fund can be used for lending to SMEs or groups of SMEs and for funding projects of government departments, other government agencies, State enterprises and private sector organizations as approved under the SME Promotion Action Plan.

Concerted efforts are being made to support SMEs through: (a) strengthening of technological and management capabilities; (b) developing skills and knowledge; (c) enhancing market accessibility; (d) strengthening of the financial support system; (e) establishing a conducive business environment; (f) commercialization and incubation programmes; and (g) developing networks and clusters.[18] Additional work is needed on SMEs, given their potential for job creation.

SMEs in *Malaysia*, defined as companies having paid-up capital of less than M$ 25 million with not more than 150 full-time employees, are primarily involved in the manufacturing, engineering and printing areas. SMEs contributed almost 30 per cent of total output, 17.6 per cent of value added and 17.5 per cent of employment in the manufacturing sector in 1995. Figures for that year show that only 20 per cent of SMEs are involved in exports. Currently more than 80 per cent of total manufacturing firms in Malaysia are SMEs. Malaysian Industrial Development Finance Berhad, which covers the manufacturing sector, provides 60 per cent of its coverage to SMEs.

In the *Philippines*, SMEs accounted for 99 per cent of all enterprises, 45 per cent of employment and 28 per cent of value added in the manufacturing sector in the mid-1990s.

Singapore has no statistics for SMEs, but it is estimated that SMEs account for over 40 per cent of manufacturing production and over 25 per cent of value added in manufacturing.

In the *Republic of Korea*, SMEs accounted for 70 per cent of employment, 46 per cent of gross output and 47 per cent of value added in 1997. Since the mid-1990s, SME policies in the Republic of Korea have focused on fostering competitive SMEs, accelerating the shift towards a more sophisticated and value-added industrial structure through automation- and information-based processes and providing assistance for technology development and quality improvement. SMEs have been encouraged to form cooperative ties with large companies and enhance their market competitiveness at home and abroad. Short-term policies have focused on ensuring stability for SMEs in, for example, access to financing, particularly in the wake of the financial crisis. In addition, sanctions against unfair transaction practices between large companies and SMEs have been strengthened, and support for SME technology development projects has been increased. SME policies also place emphasis on promoting exports. The Small and Medium Business Administration (SMBA) was established in 1996 as the central support organization to assist SMEs. SMBA has 11 regional offices throughout the country, working in cooperation with related organizations such as the Small and Medium Industry Promotion Corporation (SMIPC), Korea Federation of Small Business (KFSB), Korea Credit Guarantee Fund (KCGF) and Korea Technology Credit Guarantee Fund (KOTEC).

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17 Korea Trade-Investment Promotion Agency (KOTRA), *A Strategy for Internationalization of SMEs in the Asia-Pacific Region: Lessons from the Empirical Study on Korean and Other APEC Member Countries* (October 1999), pp. 116-117.

18 Research Institute for Development and Finance, Japan Bank for International Cooperation (JBIC), *Issues of Sustainable Development in Asian Countries: Focused on SMIs in Thailand*, JBIC Research Paper No. 8-1 (January 2001), pp. 9-12.

In *China*, the Government has not adopted a comprehensive SME policy yet. However, the State Economic and Trade Commission has developed policies to support SMEs' management control, financing and technology development since it established its Small and Medium Enterprises Department in 1998. In March 1999, the National People's Congress recommended more reforms and restructuring of SMEs and recently government circles have started to use the term SME more frequently. It is known that measures to support SMEs, especially in financing and preferential tax policies, have been implemented actively. The large State-owned corporations' difficult management situation has prompted the Chinese Government to implement a promotion policy for SMEs. Currently there are no accurate statistics on SME exports; however, it is roughly estimated that 60 per cent of total exports from China come from the SME sector. The main area that the Chinese Government is focusing on to promote SMEs is financial support, which includes relieving SME debt through policy adjustments and providing credit and preferential tax treatment to SMEs. Especially to provide credit loans to SMEs, the Government encouraged banks to expand loans to SMEs by establishing a department that deals with SME credit loans exclusively.

3. SMEs and export promotion

In developing economies of the ESCAP region, SMEs are now exporting a wide variety of products and continue to play a crucial role in generating and diversifying exports. Although the developing countries' exports are mostly labour-intensive, as economies of the region are undergoing industrial restructuring of varying kinds with emphasis on the private sector as the engine of growth, the importance of SMEs in exports has taken on a new dimension. In particular, SMEs play a significant role in the first or early phase of an export-oriented industrialization strategy by supplying low-cost labour-intensive products such as textiles and garments, leather goods and other consumer products. Again, as SMEs begin to modernize, they have been active in producing light engineering goods such as forgings, castings, diesel engines, simple machinery, machine tools, domestic appliances and construction hardware. Electronics is in a different category, being knowledge-intensive but requiring little capital and infrastructure; it provides a valuable opportunity for a new breed of young entrepreneurs, technically and professionally qualified, to make their mark. In countries such as the Republic of Korea, China, India, the Philippines, Thailand and Indonesia, this sector is proving to be highly productive especially for exports from the SME sector. At the margin, imports of SMEs also tend to be less capital-intensive than those of large enterprises. This pattern of exports and imports not only generates additional employment, but also has a positive impact on the trade balance. In all the newly industrialized economies (NIEs), the export-oriented development strategy made a significant contribution and in that context SMEs had a major role to play. Even after Japan and Asian NIEs reached an advanced stage of development, SMEs in their economies continued to play a critical role in the export of manufactured products, especially in those that are technology- and skill-intensive such as computers and software, and specialized parts and components for the machinery, transport and aircraft industries. While promoting the ESCAP region's export competitiveness of SMEs entails creating new sources of productivity growth in the SME sector with stability and further trade liberalization and greater flow of information, the contribution of SMEs to direct exports is considerable in most economies of the region. This contribution is even higher if indirect exports are included. Statistics are usually only available to limited extents for direct exports and once again, the picture varies across countries in the region. In India, SMEs account for about 35 per cent of total exports. Since SMEs in Indonesia do not play a very significant role, only less than 5 per cent of SMEs are involved in exports but this figure is much higher when indirect exports are included in terms of export items, textiles, fabrics, garments and agro-based products. In recent years exports of jewellery products from SMEs have increased rapidly in Indonesia. In Malaysia, SME exports make up about 20 per cent of total exports. In Pakistan, SMEs exports account for about 80 per cent of total exports of manufactured products. In the Philippines, some 90 per cent of exporters fall into the category of SMEs and their contribution to exports is estimated at around 20 per cent.

In the Republic of Korea, SMEs accounted for 41.8 per cent of exports in 1996. Main export items include electric and electronic products, machinery, other household goods and plastic items. In China, textiles and light industry have emerged as SME-dominated export sectors. These two sectors now account for over one third each of the total exports of China. In Japan, although SMEs occupy a very important place, in terms of exports, they are not significant. SMEs play a very important role in the exports of Taiwan Province of China. In Singapore, as companies are focusing on direct or indirect export of goods through multinational corporations, the ratio of exports from SMEs is not high.

Other developing countries trying to repeat the success of the NIEs face vastly different external market conditions. In particular, the product structure of SMEs would have to change in line with changes in external demand. Since external demand is shifting to human capital and information-intensive products, the SMEs of the Asian NIEs are better placed than SMEs in other countries of the region to respond to this change. The newcomers, particularly countries eager to repeat the success of the NIEs, may find that their SMEs are less favourably placed. They are likely to encounter increased competition from other SMEs from outside the region. In addition, the high cost of some capital goods and exchange rate volatility add to their difficulties.

SMEs make a valuable contribution as subcontractors to large enterprises, which often tend to be transnational corporations (TNCs). They produce parts and components for large enterprises on a contractual basis, using local resources and skills. In terms of economic fluctuations, they act as "shock absorbers" for the large enterprises, adjusting their own employment and production levels to reflect changes in demand and supply conditions. In these ways, they add to the flexibility and viability not only of the large enterprise sector but also of the entire economy. While the importance of such linkages is recognized, the actual existence and utilization of the vast potential to forge and strengthen such linkages have remained limited and therefore require increased government attention.

4. SMEs and foreign direct investment

Although information on FDI by SMEs is difficult to obtain, in some cases it is obvious that SMEs are playing an increasingly important role in FDI, especially from the more advanced developing countries. However, not all countries collect comprehensive data on SME-related FDI. Exceptions in this regard are Japan and the Republic of Korea. However, there is no survey to identify inward or outward FDI by SMEs. Nevertheless, in the Republic of Korea, investment abroad by small businesses amounted to 65.7 per cent of total outward investment in 1996 or US$ 3,968 million. In 1996 small and medium-sized TNCs accounted for 55 per cent of new foreign affiliates by Japanese firms.[19] In Thailand, 46 per cent of the approximately 2,500 Japanese firms operating in the country are SMEs.[20] In 1997 the United Nations Conference on Trade and Development (UNCTAD) undertook a questionnaire survey and analysed the problems and obstacles facing investment by SMEs. This is the only comprehensive analysis on the subject.[21]

On the basis of the above analysis, it appears that SMEs are quite important in their contribution to overall development in countries of Asia and the Pacific. They have also increasingly become involved in the globalization process, which has clearly created opportunities. Internationalization of SMEs has opened up new opportunities for growth within the domestic economy through employment promotion, entrepreneurship development and exports. However, globalization also has its costs and has affected SMEs somewhat negatively, in particular when one looks at it with reference to the recent Asian crisis. Some such implications of the globalization process for SMEs are presented in the following section of this study.

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19 UNCTAD, *World Investment Report 1999: Foreign Direct Investment and the Challenge to Development* (United Nations publication, Sales No. E.99.II.D.3). UNCTAD defines SMEs as firms with 300-500 workers.

20 According to the Board of Investment in Thailand, *Bangkok Post*, 3 March 2000.

21 UNCTAD, *Handbook on Foreign Direct Investment by Small and Medium-sized Enterprises: Lessons from Asia* (United Nations publication, Sales No. E.97.II.D.4).

D. Promoting the competitiveness of SMEs within the ongoing process of globalization

The analysis and information provided in the earlier sections of this study have pointed out that globalization and its various aspects have impacted in different ways on the SMEs, which has not been positive all the time. Furthermore, in most of the developed countries, SMEs enjoyed the support of the Government in terms of appropriate legislation for the provision of credit, technical support and other incentive measures and built-up their capacity to deal with the adverse impacts of globalization. However, in developing countries, SMEs enjoy only limited support from government for the same types of facilities. In addition to the problems that the SMEs have to face in developing countries, new challenges have unfolded as a result of the globalization process. SMEs of developing countries, particularly small manufacturing firms, are facing serious challenges due to new developments at the regional and global levels, leading to severe competition in domestic as well as international markets. Some of these challenges are presented below.

1. Trade liberalization and multilateral agreements

While SMEs in Asia and the Pacific will mainly benefit in the long run from trade liberalization within the region, the various provisions of regional and multilateral agreements including the Uruguay Round agreements have led to substantial tariff cuts in developed countries, changing the structure of export markets, especially for products which are important to SMEs. For instance, above-average cuts involve seven product groups, which together account for over 70 per cent of industrialized countries' imports: metals; mineral products and precious stones; electrical machinery; wood, pulp, paper and furniture; non-electrical machinery, chemicals and photographic supplies; and other manufactured articles, all of which are sectors in which SMEs are direct producers or suppliers. However, not only SMEs in Asia and the Pacific will benefit, but SMEs from other regions will as well, which will intensify the level of competition among SMEs globally for exports to developed countries. Moreover, high tariffs are maintained in developed countries on products which are also important to SMEs, such as textiles and garments, rubber, leather, footwear and travel goods. It is also to be noted that regional economic groupings are gaining power and are changing the patterns of international trade.

For those countries with a less developed economy and industrial sector, including the LDCs in South and South-East Asia, their commitments under the regional and multilateral agreements will provide both opportunities and challenges, in particular for SMEs. While opportunities lie mainly in the necessity to upgrade national capabilities and the performance of both public and private enterprises forced by international competition, challenges include mobilizing the necessary financing, political commitment and skills to do so. While trade liberalization provides major opportunities for SMEs to increase their exports, a major challenge will be to improve their competitiveness not only for exports but also at home as SMEs have to compete with imports and larger inflows of FDI, including foreign investment from other SMEs.

One of the most significant outcomes of the Uruguay Round was the decision to incorporate world trade in textiles and apparel into the General Agreement on Tariffs and Trade (GATT)/WTO and to phase out the multifibre arrangement (MFA) over a period of 10 years ending in 2004. The implications of this measure for SMEs are considerable as they play an important role in the production of textiles and garments and related areas. The Governments of South and South-East Asia should monitor the implementation of the agreement. In the meantime, it will be essential to promote competitiveness in the region's textile industry. For SMEs, the important thing is to seek out niche markets for lower-quality low-price garments and textiles. To the extent that they are direct exporters, competition is expected to be fierce. To the extent that they are suppliers to TNCs, they will also face challenges as it will become easier for TNCs to shop around the world for the most suitable supplier. Increasingly, there will be a shift away from low-price low-quality goods to higher quality in conformity with ISO 9000 (international standards for quality management systems) and ISO 14000 (international standards for environmental management systems). However, niche markets for low-priced goods will continue to exist, in particular in the region. As a result, SMEs need to concentrate on competing at home and in the region rather than at the global level.

Technical standards are a vexing problem in expanding trade in machinery, particularly electrical machinery, telecommunications equipment, motor vehicles and transport equipment. They also are very important in food, pharmaceuticals and other consumer products, sectors where SMEs play an important role to various extents, mainly as subcontractors. As such, they are indirectly affected by technical standards. The diversity of technical standards and capabilities in the region and globally presents a formidable barrier to the free flow of trade as was recognized in the Uruguay Round Agreement on Technical Barriers to Trade (TBT). Countries are able to restrict imports through rather onerous and costly conformance requirements. Imported products may be subject to laboratory testing and other procedures that are non-transparent and add substantially to the item's cost. This has given rise to greater efforts by Governments, firms and industry associations to meet standards set at the international level and gain certification by the International Organization for Standardization (ISO).

Trade-related investment measures (TRIMs) have been included in the Uruguay Round agreements, although LDCs are exempted from implementation for a period of 10 years (up to the end of 2004). The use of performance requirements is unnecessary when outward-looking policies are already in place. However, in cases where tariff and non-tariff protection provides higher profits to domestic sales, TRIMs may be a temporary necessary evil. Regulations restricting foreign ownership are likely to be redundant unless a very high percentage of production is exported, as surveys of TNCs reveal a positive and significant correlation between foreign ownership share and export propensities in countries without export performance requirements.[22] The importance for SMEs is that investment liberalization will expose them to more intense competition from TNCs in the home market and for their export markets.

An important development is the adoption of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs). The TRIPs Agreement has incorporated all the essential provisions of the international conventions governing intellectual property protection administered by the World Intellectual Property Organization (WIPO) and made them universally applicable on a most-favoured nation (MFN) basis.[23] So far, many developing countries in the Asian and Pacific region have continued to violate intellectual property rights and incurred sanctions from developed countries, notably the United States. As many SMEs are in businesses where intellectual property rights have been violated, the implementation of TRIPs will directly affect them. It may also lead to increased investment inflows, which could crowd them out. However, opportunities are created to improve their competitiveness and their own rate of innovation. SMEs are known for their flexibility and innovativeness and TRIPs may give them an extra stimulus to undertake their own research and development (R&D). In addition, technology transfer will be facilitated as TNCs will now have better guarantees that the technology transferred will not be abused with detrimental effects to their own operations. The absence of intellectual property rights protection has been seen as a major impediment to technology transfer to developing countries.

Subsidies, safeguards and countervailing duties have been traditionally used and abused as a hidden form of trade protection. In developing countries, SMEs are major recipients of subsidies. The Uruguay Round Agreement on Subsidies and

22 Eric D. Ramstetter, "Comparisons of foreign multinationals and local firms in Asian manufacturing over time", ICSEAD Working Paper No. 98-18.

23 WIPO, "Intellectual property for business" <http://www.wipo.int/sme/en/ip_business/index.htm>.

Countervailing Measures has limited the use of these instruments but not altogether eliminated them. Major subsidy programmes in developed countries are exempted from the prohibitive provisions while countervailing duties are permitted in exceptional cases where "material injury" to domestic producers is indicated. What constitutes "material injury" will be difficult to judge and is therefore subject to different national interpretations. Developing countries should be wary of developed countries' practice of levying countervailing duties while their own practice with regard to subsidies would have to be severely restricted in order to conform to the Agreement and strengthen competitiveness in the domestic markets. A similar argument can be made with respect to safeguards. However, it will give developing countries the same tools to protect their domestic industries, including the SMEs.

In the end, trade liberalization within the region is probably of more significance than at the global level. The implementation of the ASEAN Free Trade Area (AFTA) will directly open up avenues for SMEs in the ASEAN region to increase their exports and foreign investment while also exposing them to increased FDI and imports at home from countries at similar or slightly higher development levels. Competition at this level will be the fiercest. However, less developed countries such as Cambodia, the Lao People's Democratic Republic and Viet Nam are likely to benefit from FDI from developing countries in the region at a higher development level, which may provide more appropriate competition and advantages to their indigenous business sector than similar investment and imports from the industrialized countries, with which the indigenous sector obviously cannot compete. Realizing the importance of SMEs, initiatives within ASEAN and Asia Pacific Economic Cooperation (APEC) have now been taken to improve the competitiveness of SMEs of their member States, ranging from financial support (such as venture capital) to the establishment of data banks and information centres and technology support as well as modalities for skills development and human resources development in the SME sector. In particular, SMEs will benefit from initiatives within APEC to improve the business environment through the harmonization of regulations and other measures through the Business Advisory Council. In addition, the APEC Center for Technology Exchange and Training for Small and Medium Enterprises (ACTETSME) is intended to support the sustainable development and growth of SMEs in the Asian and Pacific region and at the same time make them globally competitive. The Center is envisaged to perform the role of an information clearing house and referral facility.

While it is generally recognized that SMEs can greatly benefit from global and regional trade and investment liberalization, the actual impact on SMEs has been mixed but on the whole not very positive. For instance, it is reported that in many countries in the region liberalized imports of finished products has led to dumping at below-cost prices against which small-scale units could not compete while it shifted demand away from domestic goods to imported goods. In general, it is pointed out that SMEs have not benefited from the economic boom in various countries of the region: while they have gained better access to land and lower prices for machinery and equipment, and finance through incentives and government assistance, the cost of services has generally speaking gone up while increased competition has driven many SMEs out of business. In addition, any import benefits may not accrue in those countries, such as in South Asia, where SMEs have to go through middlemen for their imports. In those cases where import tariffs were lowered on both consumer goods (areas of activity of SMEs) and inputs such as machinery and equipment, the SMEs have suffered. In cases where tariff cuts on consumer goods were sequenced (or are scheduled) after import liberalization on input goods (such as India), SMEs have been able to survive in better shape.[24]

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24 Rizwanul Islam, ed., *Small and Micro Enterprises in a Period of Economic Liberalization: Opportunities and Challenges* (New Delhi, ILO/SAAT, 1996). This publication also notes that the sequencing of trade liberalization with respect to cutting tariff and non-tariff barriers has also shifted incentive structures for SMEs to the advantage of large enterprises in various countries.

2. Information technology and SMEs

Creativity and innovations through major breakthroughs in technology, particularly in information technology, has created many opportunities and challenges for the SMEs, bringing with them new changes in production management and commercial practice. It should be noted that in order to succeed in the emerging global economy, managers of small and large businesses alike need to redefine how they interact with their customers, suppliers and competitors. To that end, organizational strategies and interaction with other stakeholders must be continuously reviewed and repositioned with a view to the enhancement of corporate functioning and the speedy flow of information and decision-making. Information technology (IT) offers a wide variety of supports and alternatives which are of crucial importance to dynamic firm management. In that context, small enterprises have to move effectively into more integrated management methodologies using IT applications. In this process, with the advance of enterprise-wide client-server computing comes a new challenge: how to control all major business processes with a single software architecture in real time. The integrated solution, known as enterprise resource planning (ERP), promises benefits ranging from increased efficiency to improved quality, productivity and profitability.[25] A negative implication of this process is the replacement of labour by labour-saving technologies adopted by the larger enterprises, raising their productivity to much higher levels than the competing SMEs. SMEs can ill afford the high costs involved in adopting similar technologies and run the risk of being driven out of business. However, in the area of information technology, the Internet and the possibility of electronic commerce have opened up myriad opportunities for SMEs to start, operate and expand their businesses at low cost. In particular, electronic commerce will enable SMEs to strengthen customer relationships, reach new markets, optimize business processes, reduce costs, improve business knowledge, attract investments and create new products and services. In addition, e-commerce would enable them to compete against larger, more established firms and in new and previously untapped markets. While SMEs do not have the brand recognition of the large enterprises, with e-commerce they can create a presence and compete in markets that were traditionally dominated by the large enterprises. Internet use in general would also greatly facilitate communications, which would lower their operating costs.

The main challenge for SMEs is therefore to upgrade their technological capabilities with regard to Internet use and conduct e-commerce effectively. A major constraint is the lack of telecommunication infrastructure or the restrictive regimes present in various Asian economies. For instance, while computer density is 21.6 in Singapore, it is only 0.3 in Viet Nam and China. Telephone main line density ranges from 51.3 in Singapore to 1.1 in Papua New Guinea in the APEC region. Of the less developed countries in the Asian and Pacific region, Malaysia stands out with a telephone main line density of 18.3, compared with 2.1 for Indonesia, 7.0 for Thailand and 2.5 for the Philippines.[26] Government policy to provide an enabling environment is therefore crucial for SMEs to utilize the full potential of the Internet and computerization of their operations. It should be noted that in this period of knowledge-based development processes, SMEs must transform themselves as learning organizations and become increasingly knowledge-based organizations.

3. Investment flows and integration of capital markets affecting SMEs

The rapid increase of FDI flows, including intraregional inflows has major implications for the SME sector in two respects. The first respect, as indicated earlier, refers to the role of SMEs in domestic markets as suppliers of parts and components or basic services, largely on a subcontracting basis, to foreign investors. The second is

[25] ESCWA, *Potential of Manufacturing Small and Medium Enterprises for Innovation in Selected ESCWA Countries* (2001), p. 21.

[26] World Bank, *World Development Report 1998/1999* (Washington, 1999).

the internationalization and transnationalization of SMEs themselves as SMEs increasingly invest abroad. With regard to the first respect, it has been mentioned that SMEs have been integrated in complicated global production and investment networks set up by TNCs as part of their global strategic management policies. The Asian and Pacific region in particular has witnessed[27] a strong rise in the number and extent of such networks characterized by the importance of strengthened linkages of various kinds between SMEs and TNCs, which in turn have contributed to the emergence of national competitive advantages of selected less developed countries in the region in particular areas and industrial subsectors. Thus, semiconductors have become a major and leading export industry in Singapore and later Malaysia, auto parts and components in Thailand, computer peripherals in Taiwan Province of China, software design in India and textiles and garment production at various stages in many countries in the region ranging from the more advanced ASEAN economies to South and Central Asian and even Pacific island economies such as Fiji. In all these cases, indigenous SMEs have been increasingly and substantively involved as suppliers to TNCs either within the domestic market or for export to other subsidiaries in the TNC-operated regional and global production networks for further processing. More important, it can be demonstrated that those countries that have been most successful in forging such linkages between their SMEs and TNCs have done relatively better in the overall economic and industrial development process and have been able to optimize the benefits of foreign investment as such linkages ideally translate into the transfer of much-needed technology, capital and expertise and provide indigenous companies with better access to international markets. While these linkages refer mainly to backward linkages, forward linkages involving retail and service operations undertaken by SMEs have also become increasingly important and still have enormous potential, further widening and broadening global production networks.

With regard to the second respect, as pointed out earlier it can be observed that SMEs worldwide, but particularly in Asia, have increasingly become foreign investors themselves or recipients of foreign investment usually in the form of joint ventures. Interest in the role of SMEs in FDI flows derives from the potential special contribution which these companies can make to developing countries. Their relatively recent arrival as investors provides a new source of foreign capital for these countries. Their assumed specific characteristics, i.e., their greater flexibility, relatively labour-intensive technologies, greater adaptability to local economic conditions and capacity to serve small communities, could make them more suited to the conditions of most developing countries than their large TNC counterparts. Therefore, for policy makers in developing countries the FDI flows that SMEs can provide may constitute a valuable supplement to flows of more conventional types of TNCs, which, as indicated above, have been reducing their involvement in certain regions of developing countries in recent years.

In many developing economies, SMEs have now firmly begun to enter the international market. In most cases, SMEs invest abroad for the same reasons as large firms. As with large firms, they need to be close to the markets they are serving. Local production is necessary when tariff barriers exist that obstruct their imports. Also, those SMEs which supply components and other parts to large enterprises follow their clients abroad as they themselves internationalize their activities. Many TNCs now have, through the system of “partnership sourcing”, rather close relations with their suppliers. Instead of using many small suppliers, they tend to choose a few and contract with them to supply goods produced to the higher standards of design and production and delivered to strict schedules. By using these closer relations, supplier firms can follow their clients abroad, knowing that their products will have a ready-made market.

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[27] See “SME FDI in Asia: extent, pattern and trends”, in UNCTAD, *Handbook on Foreign Direct Investment by Small and Medium-sized Enterprises: Lessons from Asia* (United Nations publication, Sales No. E.97.II.D.4), pp. 27-34.

While investments from SMEs clearly have advantages for host countries, they may be a mixed blessing as on the one hand overseas SMEs strengthen national competitive advantages through their contribution to quality and exports but on the other hand they risk crowding out indigenous SMEs. A more preferable investment pattern from a domestic point of view is the establishment of joint ventures between larger enterprises from countries at relatively higher development levels on the one hand and SMEs from other countries at relatively lower development levels. The UNCTAD *World Investment Report 1999* explains that "in today's globalizing world economy, the increasing competitive pressures faced by firms of all sizes impel more and more of them to establish an international portfolio of locational assets to remain competitive. However small parent firms and their foreign affiliates may be, they are part of an increasing network of production linkages across borders". As a result, the region has witnessed significant growth in the level of intra-regional investment flows in the form of joint ventures involving SMEs. This process has been a particular feature of the development process in countries and areas like Taiwan Province of China and Singapore but recently also countries like China and countries in Indo-China have benefited from joint ventures with enterprises from neighbouring countries, often involving SMEs. Subregional economic cooperation frameworks such as ASEAN have facilitated and promoted such joint ventures through a variety of industrial complementarities and cooperation schemes. However, with respect to overall inflows of FDI, the share of FDI coming from SMEs is as yet relatively small owing to numerous problems SMEs face, not only in their investment but in their general operations. Lacking government attention and support, despite paying lip service to their cause, has prevented SMEs in many countries from growing and making up an essential "middle class" of enterprise which would facilitate their linkages with larger enterprises, including TNCs, and would ensure a much healthier private enterprise sector than is currently the case.

While it is generally understood and recognized that the promotion and attraction of FDI has great potential to favourably contribute to the national economic development process, it is most definitely not a sufficient policy in itself. The development of national entrepreneurial activity and capabilities resulting in the formation of healthy domestic enterprises which are able to compete internationally is probably even more important. Only with a strong indigenous enterprise sector is FDI likely to make a positive impact with less potential to crowd out domestic investment but more potential to transfer technology, capital and expertise either separately or as a convenient package. At the same time, the chance that mutually beneficial linkages between the indigenous business sector, which consists mostly of SMEs, and TNCs can be successfully forged is much higher. Governments and private sector institutions alike have a role in formulating and implementing policies and strategies to attract and promote FDI and promote their domestic SME sector with the objective of establishing a healthy business sector at the national level which includes an environment that ensures fair competition between foreign and domestic companies and facilitates and promotes linkages between the two sectors to the extent that such linkages are indeed useful. As far as the Government is concerned, support for SMEs does not necessarily have to come in the form of direct financial and technical support but rather in providing a conducive macroeconomic and legal framework which does not discriminate unfairly against SMEs but, as indicated above, creates a level playing field for large and small companies and domestic and foreign companies alike. SMEs should be assisted in such a way that they can help themselves. Assistance should mainly consist of clearing unnecessary hurdles and obstacles, which are mostly of a legal and financial nature, rather than subsidies and other forms of handouts. Supporting policies should also ensure a free flow of information and strengthen countries' institutional capabilities in both the government and private sectors. Chambers of commerce and other private sector institutions could set up extensive data and information networks which SMEs can tap at little cost on such issues as market access and technology availability among others. At the same time, Governments need to develop comprehensive national policies for the development of SMEs, which involves focusing on specific subsectors and cluster formation in line with a country's national competitive advantages. In this context, the establishment of specific industrial parks for SMEs in particular industrial subsectors which have access to adequate infrastructural facilities and which are in close touch with R&D institutions and centres of excellence and higher learning as well as with foreign companies could be considered. As part of such policies, the consolidation of SMEs and the forging of horizontal linkages among SMEs should be encouraged in line with the global merger and acquisition trend among TNCs. With TNCs getting bigger and bigger, SMEs cannot afford to stay behind. Lastly, active measures to improve the quality of SME products and services need to be taken which would make them more responsive to consumer needs both at home and abroad but would also make them more attractive partners for TNCs.

The integration of capital markets for SMEs has opened new avenues for financing. Traditionally constrained by adequate access to financial resources, the liberalization of financial markets has enabled the larger SMEs to tap international capital markets. In fact, the larger presence of foreign banks in domestic economies facilitated foreign investment of SMEs following their larger counterpart abroad. As such, FDI by large enterprises is followed by FDI by banks and SMEs conveniently replicating similar business networks existing at home. However, for the majority of indigenous SMEs, access to finance remains a problem as most are not aware of the financing options available or are simply too small to tap either domestic or foreign capital markets, although the establishment of over-the-counter (OTC) markets in selected countries, particularly for high-tech SMEs, has improved the situation considerably. These SMEs also benefit from increasing capital available from global venture capital funds which are roaming the world for investment. The formation of joint ventures between SMEs has also provided new ways for financing SME activity through capital brought in by the foreign partner.

E. Conclusions and recommendations

1. Conclusions

It is obvious that globalization and its manifestations have already had clear impacts on SMEs of Asia and the Pacific, which have not altogether been positive, despite the great potential for SMEs. In recent years, while it is easier to point to market forces as the ultimate saviour of development and growth including the development of SMEs, there is a general consensus that rapid and not well-thought-out means of liberalization of trade and investment, including too rapid and inappropriate sequencing of reform measures, will do more harm than good, especially for SMEs. While market forces would squeeze out inefficient SMEs and would, at least in theory, improve economic efficiency at the national level, the social consequences of overreliance on the market and uncontrolled liberalization measures should be the major consideration to continue active government support for SMEs in developing countries, to allow them at least time to adapt to changing global and regional economic realities. One of the major challenges for Governments in developing countries is the evaluation of various economic policies affecting SMEs. In many cases, policies do not effectively address the key problems confronting small firms, and measures taken in different areas are inconsistent. Assessing the real impact of each policy measure is not easy and has been attempted in a rather haphazard manner in several countries. Nonetheless, all Governments in developing countries of Asia and the Pacific can benefit from sharing their experiences on both successful and unsuccessful practices, with insights of the private sector to inspire more mutually beneficial policy frameworks for globalizing small firms. Effective benchmarking is one way to highlight weaknesses and help to build momentum for shaping policies that can allow for greater benefits from cross-border business networking. It can also help Governments to address the costs and challenges which arise from global industrial restructuring affecting SMEs. In so doing, Governments need to realize that SMEs have already changed themselves to some extent along three major lines:

1. There is a growing "professionalism" in SME management as well as more dependence on formal financial institutions;

2. SMEs are increasingly diversifying their products into knowledge- and skills-based sectors such as electronics, informatics, precision components and parts;

3. SMEs are increasingly diversifying their markets away from domestic markets to overseas markets.

However, the share of SMEs actually involved in more sophisticated and higher value-added activities remains as yet small in most countries of the region. There is therefore a need for a comprehensive and well-integrated package of measures and incentives, both on the supply side and on the demand side, to foster the growth of a vibrant SME sector and improve the competitiveness of SMEs in both domestic and international markets. In developing such a comprehensive and well-integrated support package, careful consideration should be given to several aspects. *First*, the ever-present temptation to create new organizational structures would have to be resisted, and existing institutions, suitably reorganized, reformed and strengthened, should be utilized to extend support services and input to the SMEs. In that regard, decentralized organizational structures should be used to reach out to the SMEs. *Second*, support measures should be extended only to deserving SMEs and not to those which are likely to waste resources. Perpetual support and subsidies should not be granted to inefficient SMEs. *Third*, promotional measures should be development-oriented rather than protective or restrictive. In a development-oriented approach, market structures that increase competitiveness, innovation and resilience are emphasized so that SMEs can become self-reliant and an effective source of competition for the large enterprises. *Fourth*, incentive measures should be direct and use prices and markets as far as possible. *Fifth*, there may be instances where the Government finds it difficult to reach the SMEs, especially those that are located in rural and remote areas. In such instances, government agencies should actively seek to involve non-governmental organizations (NGOs) in developing programmes and delivering support services to the SMEs. In low-income countries such as Bangladesh and Nepal, some NGOs have proved to be highly effective in delivering credit and providing other kinds of support to rural-based small and craft industries. Overall, the ability of SMEs to compete in the global marketplace depends on their access to certain critical resources, the most important of which are finance, technology and managerial skills. TNCs have been an important means for SMEs to gain access to new technologies and management know-how. The shift in corporate production strategies from simple integration to more complex integration has widened the opportunities for SMEs while at the same time raising the requirements for entering TNC networks. The current challenge for developing countries is first to adopt policies to deepen the developmental effects of FDI by attracting TNCs willing to forge such linkages and then to undertake measures to promote such linkages between TNCs and SMEs.[28] Specifically, the support measures for the improvement of competitiveness of SMEs can be categorized as follows:

(a) Organizational and policy support measures

All countries of the region have evolved institutions to support SMEs. In particular, in the developing economies of the region, organizational support has assumed two distinct roles, which can be classified as (a) regulatory and (b) promotional. The regulatory role is concerned with aspects such as a framework of laws and regulations for registration and licensing, maintenance of statistical records, regulation of foreign investments, prevention of misuse of concessions and concentration of economic power, and reducing locational

[28] UNCTAD, "Enhancing the competitiveness of SMEs through linkages" (TD/B/COM.3/EM.11/2), paper presented to the Trade and Development Board Commission on Enterprise, Business Facilitation and Development Expert Meeting on the Relationship between SMEs and TNCs to Ensure the Competitiveness of SMEs, Geneva, 27-29 November 2000.

constraints. The promotional role is the positive role with respect to inputs such as infrastructure, financial support, training, technology and marketing. The regulatory and promotional aspects are applicable to both new entrants and existing units.

In almost all countries there is either a separate policy statement for SMEs (or for cottage and small industries) or a general industrial policy statement with some portions of it relating to this sector. There is a ministry or a department in overall charge of industry and a host of institutions dealing with or extending support to SMEs. Very few Governments have, however, enacted special legislation to back up SMEs.

There is a perceived need for individual economies to set up focal points for SMEs at the national level which are linked to other similar focal points in neighbouring countries and other countries in the region and even outside the region. Such linkages provide for quick and efficient information exchange on trade and investment opportunities for SMEs. In this context, extensive use could be made of the Internet. Such focal points could also provide training and information on sources of technology and finance and act as instigator for setting up and strengthening linkages among SMEs under cooperative marketing and joint manufacturing arrangements and linkages of various kinds between SMEs and large enterprises, both domestic and foreign. Subsidiaries of such a focal point could be set up in various areas of a country. Thus, the Governments in developing countries should adopt a comprehensive set of selective support measures for linkages between SMEs and large firms as well as TNCs. Business associations should also play an important role in facilitating such linkages, as well as networking of SMEs.

The globalization process has called for a drastic reorientation in terms of domestic economic policy issues calling for a change in the Government's role towards SMEs. One of the principal measures in support of the SMEs would have to involve the attenuation of macroeconomic and sectoral policy biases against them which have accumulated over the years in many developing countries of the region. The elements of these policies and their consequences are fairly well known. Trade and exchange rate policies in support of rapid industrialization efforts often give rise to overvalued exchange rates, which make the exports of SMEs non-competitive in international markets. Tariffs and taxation are important elements of policy in all countries. However it has been found that in most cases they benefit large industry and not necessarily SMEs. It has been established that import regimes (including tariff rates) are inherently biased in favour of large industry. As far as tax concessions are concerned, only in a few countries like India does exemption from central excise tax seems to be directed to SMEs. In most other countries, tax concessions seem to be given on the basis of considerations other than size. Investment incentives are generally scale-based, favouring large projects and enterprises and capital-intensive production techniques over small-scale and labour-intensive technologies. Macro policies also tend to protect large enterprises against competition from SMEs.

It is therefore necessary to define new key elements in policies and in the role of the Government in adopting measures to remove the barriers that prevent SMEs from prospering. The elements relate to self-reliant policy (helping SMEs to help themselves); stronger private sector empowerment (membership organizations, self-regulation, policy-making); private and non-governmental business development services (with government funding but without direct government intervention); information technology-driven assistance (use the information superhighway); greater linkage between SMEs and large enterprises (creating the missing middle); and industry clusters for critical mass.[29] Such measures should lead to a reduction in biases in terms of access to economic inputs such as credit, training and technology. Reforms towards low and uniform tariffs and quotas, realistic interest rates and relaxing physical controls on size and output go a long way towards

29 UNIDO, *Proceedings of the Asia-Pacific Regional Forum on Industry*, Bangkok, 23-24 September 1999, p. 23.

harmonizing macro and sectoral policies with measures designed to benefit SMEs. On the demand side, macro and sectoral policy measures should aim at fostering agricultural and rural development, especially in raising rural incomes and encouraging exports so as to harness the potential of external demand to the maximum. In low-income economies, macro and sectoral policies favouring agricultural development have particular relevance, for such policies can increase rural income, thereby creating demand for income-elastic SME products. In addition, economic liberalization and deregulation measures should take into account the situation of SMEs and proceed in an appropriate way of sequencing which would not unduly harm the SME sector.

(b) Entrepreneurial and managerial skills

SMEs which are trying to enter global markets require good entrepreneurial and management skills. Thus, any support, including infrastructural support, would have to be combined with sound institutions in developing an efficient SME sector through measures designed to support the development of SME entrepreneurs and managers who have great potential in generating benefits not only for the SMEs but also for other enterprises. In general, entrepreneurs in the SME sector are often "home-grown", acquiring their skills and leadership qualities in their own workplace and business environment. Beyond a certain point, this "learning by doing" approach becomes less and less useful in assisting small enterprises in graduating into modern small enterprises, equipped with newer forms of technology and marketing skills. Furthermore, SME management needs to be experienced and able to communicate both inside the enterprise and with outside parties. Therefore, training and support programmes may be needed to improve the quality and skills of both employees and management. Moreover, SMEs would need practical assistance in legal and consulting services to negotiate for better terms in international business transactions. In designing these support services, careful attention would have to be paid to ensure proper operational linkages between service providers and SMEs. Failure to develop such links frequently led to rigid application of rules and regulations, institutional inertia and an inability to respond to changing requirements through innovation and foresight. The prime objective of forging such links should be to make the entire effort a two-way process in which the supporting institutions and SME entrepreneurs find themselves in a continuous dialogue. This is especially true for rural and remotely-based SMEs whose needs are too often neglected.

One of the most critical areas in which strong support needs to be extended to the SME entrepreneur is in access to information. Access to strategic information, e.g., on potential foreign business partners, regulations and business environment issues in foreign markets, is another challenge for SMEs. These barriers need to be addressed as they can prevent SMEs from participating in international alliances and other global business linkages. In fact, the intensity of strategic partnering tends to rise with the size of companies, indicating that larger firms actively seek and find external opportunities through strategic linkages. Government Internet home pages for SMEs and other private services (e.g., market research) can improve small-firm access to business-related information in foreign markets.[30] Thus, SMEs often fail to prosper because they have limited access to information. This may be because information is controlled or available but not accessible because of ignorance or relative isolation from information centres and sources. Computerization and the introduction of the Internet would go a long way towards providing SMEs with proper access to information, although in many countries Internet use is still controlled while SMEs may not have the necessary skills and other resources (e.g., capital) to acquire this technology and effectively utilize it. Governments and private sector institutions such as chambers of commerce could assist in setting up data and information banks on markets, technology and other areas of concern to SMEs. Regional centres in rural areas for information dissemination should also be set up.

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30 Kentaro Sakai, "Global industrial restructuring: implications for small firms", STI Working Papers 2002/4 (OECD, Paris, February 2002), p. 33.

(c) Provision of finance

The most pressing problem faced by SMEs in improving their competitiveness is the lack of adequate financing facilities. All countries of the region recognize the importance of this vital input and have created a network of financial institutions and banks, and many of them have created specialized institutions to meet the specific needs of SMEs. However, the traditional small-scale enterprises relied little on external finance. In recent times there has been an increasing tendency on the part of SMEs in developing countries to seek finance from banks and other financial institutions. In virtually all countries, however, there are numerous complaints about the paucity of loan funds available to SMEs and the onerous terms imposed for accessing formal finance, thereby restricting the possibilities of improving the competitiveness of SMEs. Additionally, despite increasing awareness of the need for a seed capital scheme and venture capital, the institutional framework for these cannot be considered well developed. In some countries, supervised credit in its commonly applied form of supply of machinery on a hire-purchase basis has been introduced. Supervised credit also sometimes takes the form of assistance in the purchase of raw materials and intermediate inputs.

Some countries have adopted fiscal policies or provided tax relief directed explicitly at SMEs or at firms contributing in some special way to the development effort, regardless of size. In India, for example, small-scale industries are exempted from the payment of excise duties on production up to a certain limit. Tax holidays are given in Malaysia and other countries.

There are several issues in the area of providing development financial assistance to SMEs which require careful consideration. Regardless of the stage of development of the economy, a number of factors determine the accessibility of organized finance for SMEs, including the structure of financial institutions, the terms and conditions of credit and the diversity of the financial instruments offered. Generally, these are geared to serve the financial needs of large enterprises and better-established public sector enterprises with which the SMEs lack both the managerial resources and informational advantage to compete effectively.

While it is widely recognized that SMEs may indeed qualify for institutional finance, the interest rate policy generally works against them. Most countries of the region offer finance at subsidized rates to their industry. One consequence of a subsidized interest rate policy is the creation of excess demand over supply. Faced with such an excess demand, financial institutions are forced to ration out the credit at their disposal. One criterion used in the choice of clients in a rationing scheme such as this is enterprise size, where the large-scale sector has an advantage. At times, their size is taken by financial lenders as an indicator of their profitability and hence the lenders consider the risk of loans advanced to them to be lower. In the process, SMEs progressively get squeezed out of the organized sector and many of them find themselves dependent on the informal sector for external finance, especially those that are located in townships and rural areas.

This raises an important question relating to mobilization of financial resources for SMEs. The mobilization of financial resources for SMEs can be an uphill task given the intense competition for domestic resources in all the developing countries of the region. While the majority of small enterprises depend on retained profit and informal sources of credit for expansion, the need for external finance increases rapidly with the growth in size, first as working capital and then as fixed capital. The latter requirement for external finance is found mostly in the modern and better-established segment of the SMEs. The response of the developing countries has been the establishment of a variety of institutions and agencies, as indicated above, with varying degrees of success.

In recent years, following the successful example of Japan in mobilizing savings, many countries in the region have introduced savings schemes and experimented with a wide array of new financial instruments and innovations. Along with efforts to boost savings mobilization, measures have been adopted to increase the accessibility of SMEs to organized finance. One such measure has involved the growing use of guarantees for loans advanced to SMEs.

Many countries have also tried to restrict the activities of informal credit intermediaries. However, given the inability of the formal sector to meet the credit requirements of SMEs, it may be more useful to increase the complementarity between formal and informal credit markets. In that regard, the banks could lend to the informal credit intermediaries for on-lending to small enterprises, thereby reducing the administrative and other costs of the formal sector's direct lending.

(d) Technology capacity-building for SME competitiveness

One of the most important factors in capacity-building for improved competitiveness of SMEs is through technological upgrading. The need to apply modern efficient and relevant technology in order to survive in an increasingly competitive environment has never been so urgent. It is often stated that globalization and liberalization have opened new opportunities for firms in developing countries to acquire technology from abroad and that increased competitiveness in technology markets has made technologies cheaper and more accessible. This may indeed occur in some industries and sectors, while in others technology remains costly and access is still difficult for SMEs in the developing world. Acquiring technologies and the technological capacities needed to master technologies involves time, effort, cost and risk and complex interactions between firms as well as between firms and institutions. Very often the transfer of technology to solve the problems of industries is available. However, transfer agents are needed to make it accessible to these industries, which also have to be assisted by dissemination of information on choice of technology, source of equipment, know-how and "show-how". It should also be noted that every effort should be made to promote the wider applications of information technology in the SME sector. However, lack of finance and skills has constrained this. Although information and communication technology (ICT), including the Internet, has great potential for allowing SMEs to expand their customer base, enter new product markets, rationalize their businesses and search globally for potential business partners, many small firms have not fully exploited these opportunities owing to a lack of awareness and skills and the necessary resources to make initial investments. Costs of installation, access and use of ITC, which vary widely across countries, present barriers for small firms. Governments have to make special efforts to enhance small-firm awareness and skills for the use of ICT and electronic commerce. In this context, there is an equally urgent need on the part of multilateral and other international agencies, to assist countries in promoting the application of ICT for SME use.

Available evidence indicates that technical information and technology for SME use obtained from countries at similar stages of development are more useful and relevant. However, some of the major impediments in this respect include lack of local capacity and the skills required to select, acquire, adapt and assimilate technologies, financial constraints and lack of awareness of, as well as relevant information on, available technologies. Few SMEs have the networking and monitoring capabilities that would enable them to access and evaluate technological information. SMEs, be they in developing or developed countries, generally tend to be risk-adverse, particularly when it comes to the introduction of innovations based on new technologies. Despite these limitations, new forms of inter-firm technology cooperation are beginning to emerge that involve longer-term mutual benefits and go beyond short-term financial gain. The common feature of these new forms of cooperation is the sharing of capabilities to develop new products, technologies and processes, or to produce and market new products. It is in consideration of these factors that increasing emphasis has to be placed on technical cooperation among developing countries (TCDC) and economic cooperation among developing countries (ECDC) with the active cooperation and assistance of the developed countries and multilateral and bilateral aid agencies in implementing TCDC and ECDC projects.

The need for technological upgrading has become more urgent in a globalizing world. SMEs can ill afford to be left behind in the process of technological upgrading and the information technology revolution, which has led to an ever-increasing use of the Internet for companies' communication and information needs. Sustained programmes with specific focus on SMEs need to be adopted by Governments to allow the introduction of computers and other information technology in the private sector while adopting the necessary legislation to that effect.

(e) Regional cooperation measures for SME competitiveness

The potential of intraregional trade and investment flows, as a means to spur the growth of a modern, export-oriented SME sector is awaiting full utilization. Regional cooperation in SME development is based on the premise that it will enable them to take advantage of economies of scale. At the national level, cooperatives have historically been viewed as conduits to assist SMEs in reaping economies of scale in marketing and purchasing. Regional cooperation can extend this process, enabling national SMEs to take advantage of scale economies more effectively. Additionally, regional cooperation in SME development can improve the prospects of developing countries to create the necessary conditions for the growth of a viable and modern SME sector. This in turn can stimulate the development of a vibrant industrial sector. Subcontracting systems at a regional level can also be utilized, thus promoting closer interface and interdependence between large enterprises and SMEs. However, it is essential to identify priority industries in devising regional cooperation measures.

There are three broad possibilities here which could be pursued on a regional basis. First, specific SMEs with export potential could be identified, in such areas as textiles, leather goods and electronics. Once such an identification is done, each industry could be closely evaluated to see where and how it needs assistance in product development, standardization, technology upgrading and skills development. Second, once these industries are identified for assistance, regional initiatives could be launched to develop arrangements through which market-sharing schemes can be designed. In this way, much wasteful competition for foreign markets can be replaced by cooperation for access to these markets on an equitable basis. Third, in the area of forging linkages between large industries and SMEs, specific industries from Japan, China and the Republic of Korea can be studied to see how such linkages were developed, what risks did they face and how they succeeded. Lessons thus gathered can then be disseminated to other developing countries. Technology flow, technical and financial assistance, improved supply and marketing arrangements, promotion of industrial activities and training of personnel are a few areas where such schemes may be formulated to foster such cooperation.

Regional cooperation measures would have to be supplemented by measures at the national level, particularly by removing those barriers that hinder the growth of SMEs. These measures would include removal of obstacles in obtaining access to inputs such as technology, credit and training, reforming tariff structures and removing quotas, introducing realistic interest rates and dismantling physical controls on size and output. Four specific areas where regional cooperation can be enhanced are:

1. New and emerging technologies for SME-development;
2. Support to SME entrepreneurs and managers for enterprise development;
3. Skills development for SME growth;
4. Mobilization of financial resources as both fixed and working capital.

The role of national focal points and subregional and regional networks of such focal points for SMEs was discussed before. As far as finance is concerned, the establishment of subregional development banks or even a regional development bank for SMEs in Asia and the

Pacific, with financial and technical support from and under the auspices of the Asian Development Bank or International Finance Corporation of the World Bank for instance, could be considered. Technology information and supply centres are currently managed by regional organizations such as ASEAN and APEC while at the regional level at large the Asian and Pacific Centre for Transfer of Technology (APCTT) plays a fundamental role. In the long run, as such subregional cooperation widens to a larger level, such centres could be integrated and consolidated into truly regional centres which are electronically linked to global centres and data banks.

2. Recommendations

The previous sections presented the current situation of SMEs in Asia and the Pacific and prospects and challenges facing them in a globalizing world. At the moment it seems that SMEs are negatively affected by globalization as the policy environment in which they have to operate at the national level is often not conducive. While Governments pay lip service to their cause, the ruling elites in many countries often have stakes in the large enterprises and as a result the SMEs find themselves on the losing end. Even potential linkages with TNCs are not entirely the result of the efficiencies of the market subject to political will and commitment. While globalization is forcing Governments to take more integrated action to help SMEs – the recent Asian crisis made their importance painfully clear – there is a risk that the big money attached to TNCs and large-scale operations will divert Governments, banks and major business concerns (with often overlapping interests) once again away from attention to the SME sector. There are clearly exceptions. In economies like Malaysia, Singapore and Taiwan Province of China, SMEs have been a fundamental cornerstone of development success. The relative neglect of the SMEs in a country like the Republic of Korea was certainly part of the process that set the crisis in motion. In fact, various studies have indicated that SMEs, in particular the smaller ones, were more affected by national and local conditions than by globalization per se.

While Governments play an important role in supporting SMEs, the SMEs themselves cannot sit idle and wait until they get some support which may never come. In fact, the most successful SMEs are those that are actively seeking partners and support themselves and realign their competitive strategies to the realities of the global marketplace. It is important for SMEs to adopt modern financial management techniques and actively look for suitable technology that is affordable and would improve their productivity. They need to be ready to take risks as risk-taking is the main characteristic of the successful entrepreneur, in exploring overseas markets for exports or even for direct investment. In this context, the proper selection of partners for joint cooperation schemes in financing, management or technology, both at the national level and across borders, is very important. However, it is imperative for SME entrepreneurs to overcome their pride and reluctance to give up management autonomy in their own, often family-owned businesses. After all, TNCs will not enter into joint ventures and mergers unless there are clear advantages to doing so. Given the surge of mergers and acquisitions between large TNCs at the global and regional levels, SMEs cannot afford to lag behind as huge TNCs will not be able to do business with tiny enterprises. Even the SMEs that cater for domestic demand will find themselves ultimately linked in a larger enterprise network which comprises other SMEs and large enterprises, including TNCs, in an economic environment which can be truly termed global.

Thus, there is an urgent need to improve the competitiveness of SMEs in this globalizing world. This aspect has to be dealt in a comprehensive and coherent manner encompassing policies, institutions and other support measures. Specifically, the following urgent actions are required:

1. National Governments have played a crucial role in the growth of SMEs through a variety of support programmes such as credit and reservation policies as well as mandatory procurement programmes and technology support.

In order that SMEs continue to operate effectively, Governments in Asia and the Pacific need to provide a conducive economic environment with a minimum of restrictions on production, trade and investment. They also need to implement the right macroeconomic policies to maintain price, exchange rate and interest rate stability, appropriately liberalize trade and investment regimes and provide a proper financial, legal and institutional framework. In this task, Governments may decentralize decision-making mechanisms to be as close to the SMEs as possible and involve industry associations and NGOs to a greater extent;

2. For the above-mentioned purpose, Governments may review the policy frame followed in their countries relating to the SMEs (specially in respect of export-oriented units) so as to take into account the many changes that inevitably take place in the next few years as a result of the multilateral agreements including the Uruguay Round and the new round of agreements. Governments may also make the SMEs in their countries fully aware of the implications of those agreements (through workshops and seminars) and prepare them adequately to meet the challenges of increased competition both at home and abroad. Such a comprehensive and critical review should also take note of the need to harmonize these challenges with the social and economic compulsions in those countries;

3. The SMEs in the ESCAP region have demonstrated a proven capability to export a wide range of products particularly in textiles (and ready-made garments), leather and leather products, light engineering (including electrical appliances), agro-based products and electronic items (including computer software). They contribute in many countries as much as 50 per cent of industrial production, 60 per cent of employment and 40 per cent of direct exports;

4. Policies may be reoriented to strengthen the export sector through effective marketing information networks, assisting SME delegations in going abroad to study at first hand opportunities for export and also organize joint marketing through collective action and launch awareness campaigns on the need to maintain quality and environmental standards by conforming to widely accepted standards such as the ISO 9000/14000 series;

5. Governments have a critical role to play in providing the necessary infrastructure – both physical and social – to enable SMEs to operate efficiently and provide them with a skilled workforce that can function with high productivity. Private sector assistance could be enlisted in this task through carefully designed fiscal policies and tax incentives. Vocational training programmes for workers and improved entrepreneurial and management skills for supervisory personnel have to be organized in close cooperation with industry associations and training institutions;

6. It is now widely recognized that low wages, by themselves, cannot sustain for long a viable growth process, which can only be done by continued technology upgrading and exposure to improved management and organizational techniques. Governments have to set up (if not already existing) suitable national R&D centres for each relevant subsector where relevant innovation practices could be developed and diffused widely throughout the industry and the sector as a whole, as has been done effectively under the Sparks Programme in China. It is necessary, however, to ensure that such technologies are eco-friendly and attempts should be made to acquire them for dissemination throughout the country. In this connection, APCTT may function as a focal point in providing information to member countries on the availability and suitability of such technologies;

7. One method that has proved effective in several developed countries as well as in some countries of the ESCAP region is to enhance the collective efficiency of SMEs through operation in clusters specializing in a specific product. Such clusters can consist of both large and small enterprises and other units to provide specialized services. Each cluster can have a resource centre

to coordinate the activities of the cluster, collect and disseminate information and generally function as the brain of the cluster. While such clusters need to arise on their own, Governments can provide support services to enable them to operate efficiently preferably by cluster industry associations. Current international economic realities demand a holistic view of trade, technology, investment and capital flows, not only for large industries but for SMEs as well;

8. It is noted that a number of regional arrangements such as APEC, AFTA and SAPTA (South Asian Preferential Trading Arrangement) could provide greater opportunities for SMEs in the region to come together. In addition, subregional groupings (in the shape of growth triangles or quadrangles) could be proposed where SMEs may find it easier to work in close cooperation. In such groupings, an inventory of the SMEs with the capability to participate in regional networking arrangements for production and exports can be made and publicized widely. Within this context, local authorities may consider networking themselves to make this idea more effective;

9. Any such regional networking would, however, require some concrete steps to be taken such as: (a) uniformity in standards and testing procedures; (b) compatible management and operational styles; (c) liberal tax laws (including avoidance of double taxation); (d) clearly defined pricing policies and arbitration procedures; (e) supportive R&D as well as entrepreneurship development programmes and vocational skills development programmes; (f) clear agreement on the terms of technology transfer (such as royalties, know-how fees, etc.); (g) inculcation of an entrepreneurial spirit that blends cooperation and competition; and (h) a nodal agency in each country which can help to coordinate efforts;

10. It is noted that easy access to credit on reasonable terms continues to be a major problem for SMEs in most countries. In that context, governments may advise the financial institutions in their countries to provide deserving SMEs with long-term as well as short-term credit so as to be able to operate to their full capacity;

11. The heartening feature of the SME scene in many countries in recent years is the involvement and participation of women both on the shop floor and entrepreneurs managing small businesses. It is felt that the presence of women in the industrial field will have a beneficial effect on the economic and social life of society as a whole and Governments may therefore provide special support to such women entrepreneurs through various incentives and exemptions. Efforts should be made to organize women's entrepreneurship programmes at the national and regional levels and facilitate training programmes and other supporting activities as extensively as possible. Regional organizations such as ESCAP and the Asian Development Bank (ADB) should assist countries in such activities;

12. Ultimately, it is the entrepreneurs who will have to adopt the right strategies to compete successfully in a changing economic environment. To this end, they need to focus on specialization strategies, be responsive to market needs, seek out market niches, adopt superior and relevant technologies, develop higher skills levels and generally cultivate an attitude which would combine a competitive spirit with a willingness to cooperate with other units in joint collaborative arrangements;

13. It should be noted that regional cooperation programmes could be initiated under the auspices of various regional organizations and regional arrangements, aimed at strengthening national capacities in promoting SMEs in general and export-oriented ones in particular. In this respect, regional bodies such as ESCAP and ADB and regional and subregional bodies such as APEC, ASEAN and SAARC should also initiate and strengthen their activities aimed at assisting Governments in undertaking reviews of their policy directions, organize training in specific areas such as financial and marketing management and technology transfer, strengthen selected institutions for the SMEs and help to foster subcontracting through a network of clusters. ESCAP may consider promoting networking of SME associations through appropriate projects. Particular attention should be paid to the needs of the LDCs, Pacific island economies and economies in transition so that the growth process is accelerated to keep pace with the rest of the region;

14. The most important aspect in enhancing the global competitiveness of SMEs is to make them attractive business partners for foreign firms. SMEs do not necessarily have to establish foreign facilities for production to become more international. Small firms can export their products and services through exploiting international distribution networks. Governments can help small firms to compete globally by ensuring easy access to strategic business information.[31] Therefore, Governments need to play a proactive role in supporting SMEs by helping them to improve their competitiveness in a globalization process.

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[31] Ibid., p. 30.