

Enhancing the Role of SMEs in Global Value Chains

Tokyo, 31 May - 1 June 2007



**OECD TOKYO STATEMENT ON
STRENGTHENING THE ROLE OF SMEs IN
GLOBAL VALUE CHAINS**



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経済産業省
Ministry of Economy,
Trade and Industry

THE OECD TOKYO ACTION STATEMENT
FOR STRENGTHENING THE ROLE OF SMEs IN GLOBAL VALUE CHAINS

adopted at the OECD Global Conference in Tokyo, on 1 June 2007

Background

At the invitation of the Japanese Government, the OECD Global Conference on Enhancing the Role of SMEs in Global Value Chains (GVC) took place in Tokyo on 31 May- 1 June 2007. Convened within the framework of *the OECD Bologna Process on SME and Entrepreneurship Policies*, the meeting brought together members of the international business community, including SMEs, international organisations, and senior government representatives from members of the OECD, as well as non-member economies.

The business challenges of the acceleration of globalisation, aided by rapid developments in information and communication technologies, improved transport facilities, behind the border regulatory reform, and tariff reductions- affect SMEs and large multinational enterprises differently. The current phase of globalisation, characterised by the globalisation of production processes, has required important modifications in the relationships among partners throughout the value chain.

Participation in global value chains can bring stability to SMEs and allow them to increase productivity and to expand their business. This is often accomplished by the upgrading of their technological and human capital, as a result of their greater exposure and facilitated access to information, new business practices and more advanced technologies. Co-operation with a network of upstream and downstream partners can enhance a firm's status, information flows and learning possibilities and increases the chances of success of small firms in the value chain.

However, SMEs' involvement in value chains usually entails greater demands on their managerial and financial resources, and pressures on their ability to upgrade, to innovate and to protect in-house technology. SMEs may be limited by their inability to undertake R&D activities and training of personnel, and to comply with the growing number of requirements of product quality standards demanded by others in the GVC. Insufficient working capital can also be a barrier to SME participation in global value chains, in terms of their ability to upgrade technologies and services. Cash-flow can also be affected adversely through delayed payments from international partners. Moreover, in order to upgrade its position in the value chain, a small firm may need to take-on a larger and more complex set of tasks: for example, in addition to manufacturing a product or providing a service, it may involve contributing to the product development, organising and monitoring a network of sub-suppliers, implementing internal systems of quality control and assuring compliance to an increasing set of standards, and ensuring delivery and quality at competitive costs.

The Conference found that governments, multinational enterprises, business associations and international institutions could play a significantly greater role in assisting SMEs to enter and to rise to the challenges of active participation in global value chains and so **recommended this ACTION STATEMENT¹**

POLICY RECOMMENDATIONS

Governments, the business community, and international organisations can facilitate SME gainful participation in global value chains through policies, practices and targeted support programmes including:

i) Policies for a conducive entrepreneurial business environment

As highlighted in the *Istanbul Ministerial Declaration*, an enabling business environment is a necessary condition for promoting SME integration into the global market. That environment depends on *stable macroeconomic policies and well-designed structural policies* associated with competition, international trade and investment, financial markets, labour markets and education, including human resources capacity building for internationalisation. *The transparent and equitable application of laws and regulations* together with *light, low cost and predictable administrative procedures* represent a second critical pillar, encompassing the licensing and permit system, tax system, property rights law, standard compliance certification procedures, efficient dispute settlement procedures and bankruptcy law.

ii) Targeted support programmes

In designing targeted programmes, OECD member and non-member economies are advised to give consideration to the reasons for market failure in relation to existing market mechanisms and to include consideration of complementarity and displacement when formally evaluating government assistance programmes. The categories of support that may be appropriate include:²

- **Raising awareness of the opportunities for participating in global value chains through:**
 - *Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners* through market reports and data bases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.
 - *Encouraging SMEs to call in external consultants* for the implementation of feasibility studies and market research in order to support FDIs.
 - *Encouraging SME investment* by facilitating companies' efforts to expand their business globally through information services and other means.

1. Which builds on the outcome of the first OECD Conference for Ministers responsible for SMEs on “*Enhancing the Competitiveness of SMEs in the Global Economy: Strategies and Policies*”, held in Bologna on 13-15 June 2000, the second on “*Promoting Entrepreneurship and Innovative SMEs in a Global Economy*” in Istanbul on 3-5 June 2004, the *Hanoi Declaration on Strengthening SME Competitiveness for Trade and Investment* issued on 29 September 2006, and the *Athens Action Plan for Removing Barriers to SME Access to International Markets* on 8 November 2006.

2. Examples of specific country/economy, company and international institutions support programmes are provided for consideration in the Annex.

- *Facilitating information flows* (including information sharing about needs between upstream and downstream partners) throughout the entire GVC and in particular encouraging MNEs to share their road-map in terms of future product and process development with their SME partners.
- **Increasing participation in global value chains through collective action and co-operation by:**
 - *Supporting the establishment and development of industry groupings* (i.e. clusters) on regional, cross-regional, or cross-border levels.
 - *Facilitating SME consortia jointly to bid, produce and market*, particularly in relation to government procurement programmes.
 - *Promoting clusters and networks* to improve SME participation in GVCs through fostering and strengthening links at the local level among universities, research institutions, laboratories and SMEs including for example, funding co-operative research programmes.
 - *Targeting support for clusters in selected technologies*, particularly where there is substantial potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation.
 - *Promoting business linkages between MNEs and SMEs* through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures.
 - *Encouraging MNEs to adopt transparent selection criteria when consolidating their supplier networks*, providing SMEs fair warning of such consolidation practices and allowing them reasonable time to adapt their offerings.
 - *Facilitating supplier development programmes, where SMEs are coached and mentored in key areas* such as design and production engineering (this may include sending in technical teams to advise on upgrading).
- **Promoting the capacity for innovation by local SMEs through:**
 - *Supporting training and capacity building via skill development programmes and business development service programmes* so that SMEs can acquire the specific technical skills and business services required to partner with MNEs.
 - *Establishing logistic technology centres as demonstration and testing facilities* to accelerate the rollout of supply-chain management technologies and processes including the use of electronic tags for creating a seamless distribution network.
 - *Facilitating the technological upgrading of products and processes* through providing access to information on world best technologies and processes and support to procure them.
 - *Promoting partnerships between SMEs and organisations overseas* that can develop or transfer world-leading technology, products, processes or management practices.
 - *Encouraging broader ICT uptake for promoting SME innovation capacity* through marketing and organisational assistance to implement new ICT systems.

- **Enhancing SMEs' value obtained from intellectual assets and intellectual property (IP) through:**
 - *Promoting enhanced intellectual asset-based management by SMEs and developing systems to value intellectual assets adequately*, for instance by facilitating SME marketing of their intellectual assets, when appropriate, in order to maximise their investments in them.
 - *Raising awareness about the nature of IP rights* and how they benefit SMEs.
 - *Creating and promoting online IP marketplaces* where SMEs can showcase their IP offering easily and inexpensively.
 - *Facilitating the filing of patents by SMEs.*
 - *Providing guidance, financial and legal instruments for SMEs* to acquire or adopt intellectual assets and IP rights developed in universities and research centres.
 - *Preparing guidelines to encourage fair transactions and fair treatment by MNEs of IP developed by SMEs*, for example through business codes of practice, including in the OECD Guidelines for MNEs.
 - *Providing SMEs with the legal means* to appropriately protect their IP rights in international markets.
 - *Encouraging SMEs participation in negotiations for IP rights* in the establishment of treaties or international agreements.

- **Facilitating the adoption of product quality and process standards through:**
 - *Providing information and professional training* to implement product quality standards required for exports.
 - *Encouraging SME participation in the standard-setting process* through the provision of information on standardisation and accreditation activities.
 - *Promoting the adoption of harmonised standards by MNEs* in procurement procedures and the diffusion of that information to SMEs.
 - *Ensuring that national certification systems do not impose excessive burdens on SMEs for compliance procedures* and that group certification for SMEs in the same geographic region is promoted to lower costs while ensuring that there is trust in the control mechanisms as well as promoting labelling initiatives to give added, low cost assurance.

Recommendations for further work by the OECD

Participants called upon the OECD Working Party on SMEs and Entrepreneurship (subject to the availability of resources) to co-operate closely with the work in the core committees [Committee on Industry, Innovation and Entrepreneurship (CIIE), Committee for Scientific and Technological Policy (CSTP)] that will be required to carry out the OECD Innovation Strategy, launched by the 2007 OECD Council at Ministerial level and to co-operate with the Investment Committee, and all other relevant policy communities, to further develop work on the role of SMEs in global value chains and to assist policy makers through promoting work in the following areas:

- Collation and assessment of best practice policies to assist SMEs in successfully participating in global value chains through all internationalisation channels. (The *Athens Action Plan for removing Barriers on SME Access to International Markets* and the upcoming *OECD Framework for Evaluation on SME Programmes and Policies* provide a good basis for this work.)
- Assessment of the impact of MNE-SME linkages on SME development and review of best practice policies for promoting and implementing such linkages with a view to establishing a checklist of principles related to such practices.
- Analysis of the adequacy of current dispute resolution procedures between SMEs and MNEs.
- Analysis of the impact on SMEs of sustainability standards (e.g. environmental, safety, security, health, labour, human rights) required in global value chains and review of good practice policies and programmes for helping SMEs meet such standards.
- Analysis of the business environment for SMEs in developing countries, within the context of *the OECD Bologna Process on SME & Entrepreneurship Policies*, which promotes a policy dialogue among OECD countries and non-Member economies and permits an exchange of best practices and international co-operation.

ANNEX:
**Examples of Specific Country/Economy,
 Company and International Organisations (IOs) Support Programmes¹**

| Categories of support | Country/ Economy or Company or IOs Examples |
|---|---|
| Raising SME awareness of the opportunities for participating in global value chains | |
| <p><i>Facilitating access to accurate information on market opportunities for subcontracting and on potential foreign partners through market reports and data bases, trade fairs, exhibitions abroad and electronic trading platforms or subcontracting exchanges.</i></p> | <ul style="list-style-type: none"> • Canada's Trade Commissioner Service provides enterprises that have selected their target markets with market reports and access to offices in cities abroad. • The Czech Republic maintains a database of exporters that can be used during trade fairs and exhibitions as well as a website of enquiries, tenders and offers. In case of a specific demand, the foreign enterprise is given a list of potential Czech suppliers. • Japan subsidises strategic IT use by SMEs by funding their expenses to adopt EDI systems and IC tags in order to allow SMEs to engage in B2B. In addition Japan provides a data base of market reports, regulations, trade fairs and other information on trade and investment. • Mexico's Programme for Commercial Missions organises commercial missions abroad and gives systematic training to enterprises on establishing contacts with foreign buyers. • New Zealand's Market development Assistance scheme assists firms to undertake strategic international market development activities such as market visits, in-market advertising, and attendance at trade fairs. The Beachhead Programme assists companies in specific sectors to establish a presence in export markets. • Slovakia uses Euro Info Centres sponsored by the EU Commission to facilitate contacts for Slovak SMEs in the EU countries. • Turkey provides extensive support to enterprises to participate in national and international trade fairs as well as to undertake specific export business trips abroad. • RosettaNet, an example from the business community, is a non-profit organisation that seeks to implement a protocol enabling enterprises to overcome the barriers to conduct business over the Internet by establishing a global language for e-business. |

¹ For more information, hyperlinks to the various country programmes listed in the Annex will be added.

| Categories of support | Country/ Economy or Company or IOs Examples |
|---|---|
| | <ul style="list-style-type: none"> The Business and Industry Advisory Committee (BIAC) to the OECD is in the process of putting in place the BIAC SME Web Portal that will provide SMEs with information and contacts they need to help support their internationalisation. |
| <p><i>Encouraging SMEs to call in external consultants for the implementation of feasibility studies and market research in order to support FDIs.</i></p> | <ul style="list-style-type: none"> Austria has a government grant instrument, the Austrian Study Fund, which allows for these types of studies. |
| <p><i>Encouraging SME investment by facilitating companies' efforts to expand their business globally through information services or other means.</i></p> | <ul style="list-style-type: none"> Austria employs investment promotion programmes which provide guarantee facilities to protect SMEs against failure of FDIs as well as low-interest facilities. |
| <p><i>Facilitating information flows (including information sharing about needs between upstream and downstream partners) throughout the entire GVC and in particular encouraging MNEs to share their road-map in terms of future product and process development with their SME partners</i></p> | <ul style="list-style-type: none"> Japan supports organisations involved in the formation of networks between upstream and downstream sectors in order to increase SME opportunities to obtain information to enhance competitiveness and collaboration between members of GVC. Malaysia's SME Business Coaching Programme links SMEs with MNEs that coach their SME partners so that they can better position themselves to meet changing demands. |
| <p>Increasing SME participation in global value chains through collective action and co-operation</p> | |
| <p><i>Supporting the establishment and development of branch groupings (i.e. clusters) on regional, cross-regional, or cross-border levels.</i></p> | <ul style="list-style-type: none"> The Czech Republic gives grants for infrastructure enabling multi-sectoral groups to establish a cluster. New Zealand's Enterprise Networks Programme helps groups of businesses build business capability and/or undertake international market development activities |
| <p><i>Facilitating SME consortia jointly to bid, produce and market, particularly in relation to government procurement programmes.</i></p> | <ul style="list-style-type: none"> The United States National Aeronautics and Space Administration (NASA) promotes such consortia including SMEs and MNEs. |
| <p><i>Promoting clusters and networks to improve SME participation in GVCs through fostering and strengthening links at local level between universities, research institutions, laboratories and SMEs including for example, funding cooperative research programmes.</i></p> | <ul style="list-style-type: none"> Australia's Intermediary Access Program supports the Innovation Xchange and the Australian Institute for Commercialisation which are intermediaries expert in linking SMEs with both public researchers and MNCs. Austria's Protec 2002+ facilitates the transfer of technology from external sources to SMEs, diffuses new innovative management tools and sets up networks to raise the level of innovation in SMEs. Japan has funded Industrial Cluster Projects which set up networks between SMEs, government, institutions, laboratories and universities. |

| Categories of support | Country/ Economy or Company or IOs Examples |
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| | <ul style="list-style-type: none"> • Mexico's National Network of Productive Associations establishes horizontal and vertical links between SMEs, governments, institutions and intermediate organisations. • The World-Class New Zealanders programme connects high potential New Zealand-based businesses and sectors with internationally-recognised experts in relevant areas for business growth. |
| <p><i>Targeting support for clusters in selected technologies, particularly where there is substantial potential in knowledge-intensive and export-oriented market segments and for supporting R&D for continuous innovation.</i></p> | <ul style="list-style-type: none"> • In Canada's Technology Clusters Initiative the National Research Council stimulates the growth of world-class technology clusters by putting its leading-edge research to work in innovative communities across Canada. • Greece has created the Hellenic Technology Clusters Initiative which fosters clusters that can compete at an international level, attract FDI and develop a value-added services market. • Mexico uses its National System of Business Incubators to support intermediate and high technology SMEs. • Slovakia has established technological incubators and business incubators where start-ups are given suitable infrastructure, consulting and training support for 3 years. • Brunei Darussalam's Business Incubator Programme targets SMEs in four sectors (agriculture, fisheries, manufacturing and services). |
| <p><i>Promoting business linkages between MNEs and SMEs through identifying and matching potential partners while ensuring diversification of partners to avoid becoming dependent on one partner. Helping SMEs to develop their negotiating capacities and skills with MNEs through institutional support (awareness building) and training measures</i></p> | <ul style="list-style-type: none"> • France's Partenariat is a public-private partnership based on piggy-backing ("portage" in French) involving the active role of MNEs assisting SMEs to overcome barriers to their internationalisation. • Mexico's National Programme of Supplier Development supports strategic alliances between large and small enterprises. • Malaysia's SME Business Coaching Programme, run by the Penang Skills Development Centre, matches SMEs with potential with MNEs. |
| <p><i>Facilitating supplier development programmes, where SMEs are coached and mentored in key areas such as design and production engineering (this includes sending in technical teams to advise on upgrading).</i></p> | <ul style="list-style-type: none"> • Australia's Industry Capability Network Limited/Supplier Access to Major Projects helps maximise opportunities for Australian suppliers to be part of major domestic projects and global supply chains. • India's Tata Motors is an example of a company programme that mentors SMEs. |

| Categories of support | Country/ Economy or Company or IOs Examples |
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Promoting the capacity for innovation by local SMEs

Supporting training and capacity building via skill development programmes so that SMEs can acquire the specific technical and business skills required to partner with MNEs.

Many countries have programmes that offer business services and training to SMEs:

- The **Czech Republic's** Inovace II builds managerial and technical skills needed for upgrading.
- **Mexico's** the Business Development Centres Network—particularly CDE's Plus provides services to innovative investment projects.
- **Portugal's** programmes, INOVJovem and INOVContacto assist SMEs to acquire skills to increase their capacity for innovation.
- **Turkey's** KOSGEB pays for consultancy services and training for SMEs from approved business service providers.
- **Brunei Darussalam's** Entrepreneurship Development Program provides entrepreneurship orientation, skills training, and fosters SMEs capabilities for intra-firm networking and linkages.
- **Kenya's** Micro, Small and Medium Enterprises Competitiveness Project provides SMEs with business services and training to improve performance at critical points in the GVC.
- **Malaysia** has created the Penang Skills Development Centre that provides specialised training in basic engineering, business administration, microelectronics, photonics, and telecommunications which meets the needs of local and foreign enterprises.
- **Vietnam** is being assisted by GTZ to improve business development services for quality management and production, meeting standards, marketing and design and trademark and brand development.

Facilitating the technological upgrading of products and processes through providing access to information on world best technologies and processes and various financial support measures.

Financial innovations which facilitate such upgrading are found in a number of programmes:

- **Greece** provides financial support to SMEs in the area of industrial subcontracting to help them modernise their productive processes, improve know-how and adopt innovative methods.
- **Japan** has initiated a Global Fund for SMEs that seek to internationalise. In addition Japan has advanced financing programme that provides unsecured loans to SMEs.
- **Poland's** Structural Funds Assistance which provides grants for advisory services that facilitate upgrading by firms and or industrial parks/incubators.

| Categories of support | Country/ Economy or Company or IOs Examples |
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| | <ul style="list-style-type: none"> • Turkey provides financial support to enterprises to engage in product development within the context of its technology centres and incubators. It funds common use workshops and laboratories for the commercialisation of new products and processes. It also supports qualified personnel to work within enterprises to upgrade technology. • Brunei Darussalam's Enterprise Facilitation Scheme provides financial support to SMEs to upgrade their business operations. |
| <p><i>Promoting partnerships between SMEs and organisations overseas that can develop or transfer world-leading technology, products, processes or management practices.</i></p> | <ul style="list-style-type: none"> • The UK Department of Trade and Industry facilitates such partnering through its Global Watch Technology Partnering. |
| <p>Enhancing SMEs' value obtained from intellectual assets and intellectual property (IP)</p> | |
| <p><i>Promoting enhanced intellectual asset-based management by SMEs and developing systems to value intellectual assets adequately.</i></p> | <ul style="list-style-type: none"> • Japan has issued the Intellectual-Assets-Based Management Manual and held an SME Intellectual Asset-Based Management Workshop. |
| <p><i>Raising awareness about the nature of IP rights and how they benefit SMEs.</i></p> | <ul style="list-style-type: none"> • The Australian Patents Office (IP Australia) produces various publications, fact sheets and resources on its website, to promote public awareness and education of the importance, value and strategies involved in IP protection and commercialisation. The 'IP Toolbox' and 'Smart Start' are products directed specifically at the needs of SMEs. As appropriate, IP Australia also conducts seminars and other related activities. • The Canadian Intellectual Property Office has a series of outreach products and activities aimed at increasing IP awareness among SMEs. • Hong Kong, China's Intellectual Property Department programmes organises events to help SMEs understand the importance of IPRs as a business development tool and educates them in the proper management of software assets. It conducts annual benchmark surveys to evaluate the change in IP awareness. • WIPO's Best Practice programme identifies successful mechanisms for making IP rights more accessible and relevant to SMEs. |
| <p><i>Facilitating the filing of patents by SMEs.</i></p> | <ul style="list-style-type: none"> • Turkey funds the expenses of enterprises for one year to obtain a patent, a certificate or registration within or outside Turkey. |
| <p><i>Preparing guidelines to encourage fair transactions and fair treatment by MNEs of IP developed by SMEs.</i></p> | <ul style="list-style-type: none"> • Japan has issued Guidelines for the Prevention of Unintended Outflow of Drawings of Metal Moulds or Metal Mould Processing Data as well as a report by the Committee on the Establishment of Guidelines for Transactions in the Formed and Fabricated Materials Industries to prevent the unauthorised use of IP particularly by companies that use metal moulds. |

| Categories of support | Country/ Economy or Company or IOs Examples |
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| <p><i>Providing SMEs with the legal means to adequately protect their IP rights in the international markets.</i></p> | <ul style="list-style-type: none"> • Through business codes of practice, including in the OECD Guidelines for MNEs. • Austria's Innovation Protection Programme (IPP) supports SME to protect and use their IP in emerging markets. • Portugal has formed a National Network of Units for Industrial Property Promotion to foster industrial property promotion actions aimed at strengthening the competitiveness of Portuguese enterprises. • Japan's project to Promote Countermeasures Against Pirated Products is establishing offices in major Asian cities to collect information, to support lawsuits and to survey cases of IPR violations. |
| <p><i>Encouraging SMEs participation in negotiations for IP rights in the establishment of treaties or international agreements.</i></p> | <ul style="list-style-type: none"> • The Australian Patents Office (IP Australia) seeks to represent Australian interests in such negotiations as they relate to industrial property matters. • Mexico's Institute of Industrial Property represents and promotes Mexican interests in such negotiations. |
| <p>Facilitating the adoption by SMEs of product quality and process standards</p> | |
| <p>Providing information and professional training to implement product quality standards required for exports.</p> | <ul style="list-style-type: none"> • Mexico's Impulsoras Programme provides tailor-made consultancies to inform exporters about technical specifications, regulations and quality requirements. PYMExporta Centres Network gives assistance to exporters to develop export projects taking into account regulations and product requirements in foreign markets. • Turkey provides support for expenses relating to product testing, certification and inspection. • Brunei Darussalam's National Accreditation and Standard Center provides training and experts in the area of food safety. |
| <p>Promoting the adoption of harmonised standards by MNEs in procurement procedures and the diffusion of that information to SMEs.</p> | <ul style="list-style-type: none"> • Australian Industry Participation Plans require the diffusion of such information to SMEs. • Covisint is an internet hub launched by the auto sector to allow collaboration along the entire value chain by setting up a global exchange market place. • RosettaNet develops and promotes universal standards for e-business in global supply chains ensuring that one set of governance rules applies worldwide. |

