How SMEs and Small Farmers Can Improve Their Position in Global Value Chains

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Evolution of global industries - the rise of GVCs

- Phase I (1960s): vertically integrated national firms and industries
- Phase II (1970s): global dispersion through offshoring by MNCs
- Phase III (1980s): geographic and organizational fragmentation: outsourcing *and* offshoring
- Phase IV (1990s): A new consolidation, global suppliers, the rise of China
- Phase V (2000s): Services offshoring, distributed R&D and design, global knowledge and innovation networks, the rise of India
- Phase VI (2008-2010): Radical consolidation, supplier deaths (spike in protectionism did not occur, but industrial policy is back on the agenda)
- Phase VII?: Resource constraints, fiscal crisis of the state, maturing of value chain modularity, industrial policy enters a new, more aggressive phase in large countries?

Cross-cutting trends

- Increased outsourcing
- Computerization of product design
- Computerization of process technology
- Formalization and segmentation of work tasks (e.g., services offshoring)
- Increasing market volatility and industry clock-speed (Fine)
- Increasing geographic scope of production systems
- Better integration of geographically dispersed production systems
- Increasing services trade
- The rise of a new, global-scale supply-base
- Rising affiliated trade (but may be global suppliers…)
- Organizational and geographic consolidation: the importance of scale

✓ *The **global value chains framework** is an overarching rubric that can help to tie these trends together*

✓ *New features are **global suppliers, global buyers,** and **value chain modularity**, which eases coordination between the two.*

25 fastest growing perishable exports, 2001-2011

Product Description	Sub-sector	Export Value 2011	% Annual Growth 01-11
Cranberries and blueberries	Edible Fruit	$1,219,804,264	24%
Bulbs and tubers, in growth or in flower	Live Trees and Other Plants	$555,315,364	21%
Raspberries, blackberries, mulberries and loganberries	Edible Fruit	$725,397,065	20%
Meat of bovine animals	Edible Meat	$287,673,496	20%
Meat of goats	Edible Meat	$281,618,480	20%
Avocados	Edible Fruit	$1,974,994,954	19%
Garlic	Edible Vegetables	$2,782,880,371	18%
Other Edible Offal of Swine (Frozen)	Edible Meat	$3,109,897,524	18%
Boneless sheep/goat	Edible Meat	$495,685,694	18%
Of bovine animals, fresh or chilled or frozen	Edible Meat	$823,166,614	17%
Cut Flowers and Flower Buds	Live Trees and Other Plants	$525,302,069	17%
Skipjack or stripe-bellied bonito	Fish and Crustaceans	$675,182,587	17%
Pig or poultry fat	Edible Meat	$1,053,404,378	17%
Potatoes and Leguminous vegetables	Edible Vegetables	$145,161,576	16%
Carcasses and half-carcasses of sheep/goat	Edible Meat	$257,023,687	16%
Fresh cheese	Dairy and Eggs	$5,177,978,770	16%
Pork	Edible Meat	$404,670,523	16%
Salmon	Fish and Crustaceans	$7,380,893,506	15%
Trout	Fish and Crustaceans	$340,534,087	15%
Haddock	Fish and Crustaceans	$193,682,834	15%
Cherries	Edible Fruit	$1,505,109,581	15%
Wild, Cultivated Cherries: Sweet varieties, Tart varieties	Edible Fruit	$2,053,805,780	15%
Peas	Edible Vegetables	$276,915,491	14%
Apricots, Prunes	Edible Fruit	$430,835,936	14%
Strawberries	Edible Fruit	$853,614,369	14%

Source: UN Comtrade

Top 10 Global Food Retailers, 2011

Rank	Company Name	Ownership	Revenue 2011 (USD Million)	CAGR 2006-2011	Global Presence (Countries)
1	Wal-Mart Stores, Inc.	USA	$446,950	5.1%	28
2	Carrefour S.A.	France	$113,997	0.9%	33
3	Tesco P.L.C.	UK	$101,574	8.3%	13
4	The Kroger Co.	USA	$90,374	6.5%	1
5	Costco Wholesale Corporation	USA	$88,915	8.1%	9
6	Schwarz Unternehmens Treuhand	Germany	$87,841	8.0%	26
7	Aldi Einkauf Gmbh & Co, oHG	Germany	$73,375	5.5%	17
8	Groupe Auchan S.A.	France	$60,515	4.8%	12
9	Aeon Co. Ltd.	Japan	$60,158	1.5%	9
10	Edeka Zentrale AG & Co. KG	Germany	$59,460	6.1%	1

Source: Deloitte. (2013). Global Powers of Retailing: 2013 and Beyond. Deloitte Touche Tohmatsu Ltd.

The top five food retailers in the U.S. held 27% of total food sales in 1992, 38% in 2001 and 60% in 2009, with Wal-Mart accounting for 30% (Wood, 2013)

Global buyers…

- Retail consolidation
  - Fewer, larger buyers
    - Rising standards
    - Specifications more precise
    - Requirements for suppliers more elaborate
    - More explicit coordination needed
    - Opportunities for adding more value arise
  - Favors
    - Larger scale
    - Direct buying, rather than from auctions
    - Vertical integration
    - Upstream consolidation (growers and processors)
    - Roles for intermediaries shifting: provide full service or be cut out

Challenges posed by GVCs

- Outsourcing and supplier consolidation
  - Reduces or eliminates participation of local firms, especially SMEs
  - Increased scale difficult to reach, e.g., land, equipment, input, material purchasing
  - SMEs and small farmers must negotiate with global suppliers and intermediaries rather than lead firms (however, may provide access to new lead firms in different markets)
- Modularity
  - High value business functions stay in international locations
  - Rationalization of supply chains can exclude intermediary layers and entrenched interests
  - Intermediaries cut out or asked to provide full services
- Cost reduction
  - Price squeeze (especially as R&D costs rise)
  - Ultra-rationalization and cost visibility (ICT)
  - Competition from lower cost locations

Policy Impact of GVCs

- Loss of direct control
  - Key actors located outside of country
  - Fewer degrees of policy freedom (?)
  - More international competition
  - More technology and knowledge partitioning
- New focus on suppliers and supply base
  - Added complexity creates policy stretch
  - Creates policy space because focus is less on national champions and more on groups of firms and industry support policies
  - New opportunities and new barriers to entry

Success stories

- Manufacturing (Vietnam motorbike supplier)
  - Captive supplier to Honda (knowledge partitioned)
  - Leveraged new capabilities to develop own products for the local market (white goods)
  - Non-competing with Honda
  - Owner scored high on entrepreneurial orientation scale
- Horticulture (Brazil Arabica coffee growers)
  - Global buyer (Illycaffe) key actor in setting high standards, consolidates roasting and branding
  - Codified by government program (Apex Brasil)
  - Disseminated by industry group (BSCA I)
- Horticulture (Columbian chili paste supplier)
  - Began as supplier for Tabasco
  - Upgraded to meet consistent standards
  - Expanded to supply many other brands
- Unclear role for small farmers (Daterra became a significant player, conditions and terms for chili farmers unknown, more research needed)

Success story flavors

- Niche to global supplier path
  - Begin by combining local market with work for global lead firm
  - Focus on technological learning, engineering, and in-house design
  - Leverage local linkages to serve global markets
  - High entrepreneurial orientation

- Associational supplier path
  - Begin by combining <u>local market</u> with work for global lead firm(s)
  - External programs required to build specialized cluster
    - complementary competencies,
    - certification, and
    - reputation and territorial “brands” or appellations

Three Main Policy Foci

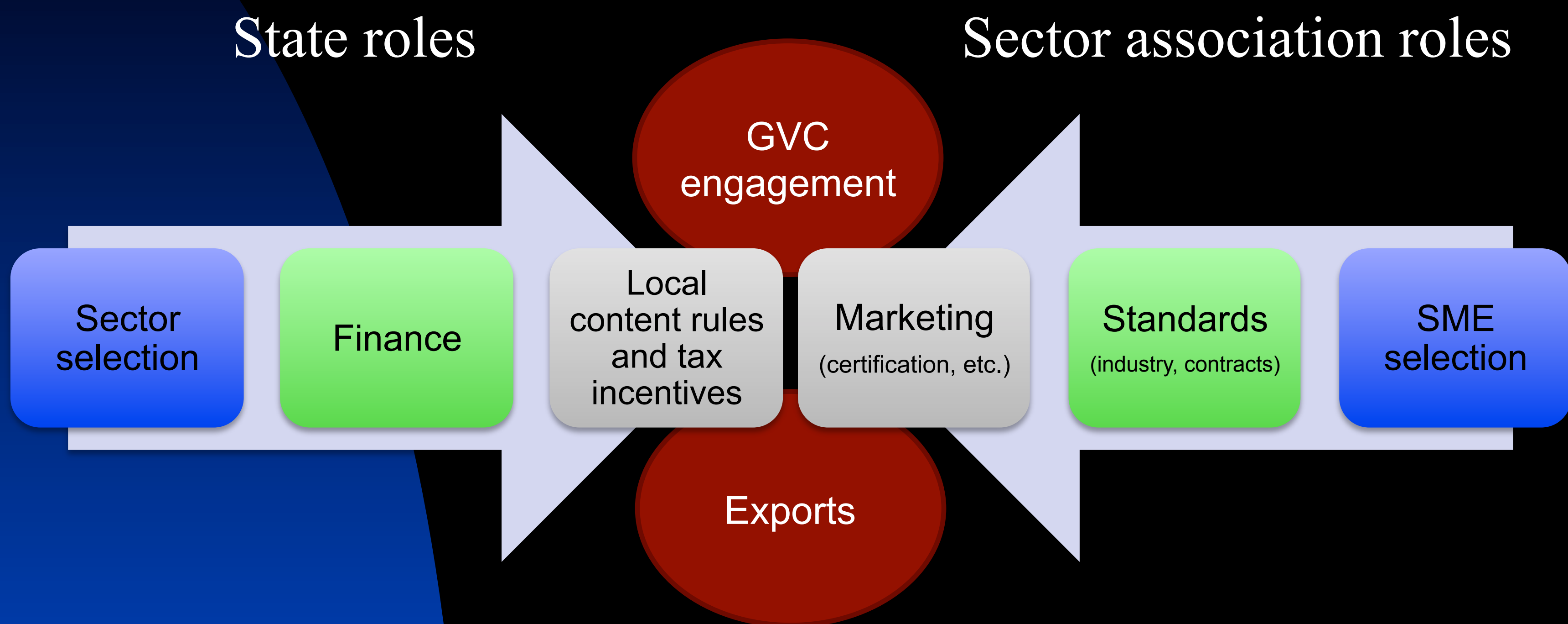
1. Policies to attracting foreign investment into specific sectors and specific geographic areas, especially tax incentives and tariff barriers.
2. Policies and programs that promote exports in specific industries, including tax incentives and subsidized credit.
3. SME support and upgrading programs, especially sector-specific public-private partnerships.

- These are traditional tools of ISI, EOI, and industrial policy
- The GVC difference is a focus on niches, suppliers, and supply-bases that link to global lead firms and suppliers rather than national champions and vertically integrated industries

Recommendations

- Infrastructure!
  - Movement of goods
  - Communications
  - Immigration and Emigration policies
- Finance!
  - Export (broadly defined)
  - Ease public listing requirements for knowledge-based firms
  - Financing for consortium and rapid scale up
  - FDI (targeted attraction and retention)
  - Non-equity ties (targeted GVC linkages)
- Standards!
  - Monitoring and dissemination of global standards
- Branding and Marketing!
  - Country-level
  - Regions (appellations)
  - GVC niche (consortium and industry groups)

Supply base scale up, GVC engagement, and export promotion



In this context, how do development projects engage with the private sector?

Thank you!