Brussels Rural Development Briefings
A series of meetings on ACP-EU development issues

Briefing session n° 13

Upgrading to compete in a globalised world: What opportunities and challenges for SMEs in agriculture in ACP countries?

Wednesday 23rd September 2009 – 8h30 – 13h00

Clusters, Value Chains and Technological Capabilities Building

Prof. Carlo Pietrobelli - University of Rome 3 (Italy) and CREI

Executive Summary

In the present context of globalization, and even more in the current economic and financial crisis, the pressure to compete is especially strong also for small and medium-sized enterprises (SMEs) in developing countries.

In addition, being "competitive" is often not enough, as the advantages from exporting successfully are not equally distributed among the participants to international trade, and competitiveness needs to be looked at together with "upgrading", getting a better deal from competitiveness. In turn, this requires a remarkable process of innovation, and may take the form of upgrading of products, of processes, of functions carried out by firms, and of inter-sectoral upgrading.

The idea implicit behind this approach is that the scope and extent of benefits deriving from international trade and competitiveness are not equally distributed among countries and firms, and that some activities and business functions offer better opportunities, larger "rents" to be acquired.

However, the upgrading potential of SMEs – as well as small farmers - often remains untapped, as they operate in isolation, are locked into uncompetitive production patterns and are unable to approach dynamic business partners that could bring in new expertise and know how.

How can SMEs overcome this isolation, and operate in a business environment more favorable for their process of upgrading? The answer lays in two related and interdependent strategies: develop the linkages with local and distant partners, and invest in the creation and strengthening of "Technological Capabilities".

In the 1980s "clusters" of small firms were "discovered" in industrial countries, and their economic performance was studied to understand its determinants.

Clusters and networks of small firms became of economic interest to policy-makers, donors and international organizations because they enjoy the collective efficiency that is produced by the (complex) equilibrium between competition and cooperation, and that is itself the result of external economies and joint actions (Schmitz, 1995). However, while the former (external economies) occur automatically and are associated to productive agglomeration, the latter (joint actions) are harder to achieve, but in turn produce the largest benefits. Since then, policies and programmes were carried out to support enterprise clusters and networks.

Since the late 1990s another paradigm of productive organization emerged, and the existence of the so-called "Global Value Chains" (GVC) was noticed (http://www.globalvaluechains.org. Indeed, small farmers and producers in developing countries had to interact more and more with larger firms and buyers, and access to international markets was often governed by these players and the standards and requirements they impose.

Today global value chains are present in developing countries because of changes in national and international regulatory frameworks and in technology and management practices. They often represent one of the few options for local firms and suppliers to get access to larger markets and to new technologies. Moreover, they choose different forms of governance - i.e. organization and coordination, but also distribution of power and rents - which in turn affect the upgrading perspectives of local small firms.

While the potential benefits from GVCs for medium-income developing and emerging countries are well documented, the studies dealing with the impacts of GVCs on low-income, poorer developing countries such as the ACP are scarce. Clearly, access to these value chains per se does not guarantee much, and efforts to develop local technological capabilities are essential.

How can SMEs and small farmers benefit from such linkages? Relevant and pressing questions emerge.

First, why should GVCs spread to these countries and outsource part of their activities to their enterprises? What opportunities for upgrading would this offer to these countries' firms? Under what conditions could these opportunities be exploited? How do these opportunities differ across different sectors?

Recent evidence and research shows that these opportunities do exist, but are hardly utilised, and depend on a number of circumstances that may or may not occur. Public policies have an important role to play to improve the prospects of leveraging these opportunities and raising the probability of a positive effect on local firms. This role is especially relevant for the prospects of upgrading in natural resource-intensive ACP countries through their participation in GVCs.

Are local clusters and global value chains mutually exclusive? Clearly not. From the micro-perspective of small local firms and farmers, both forms of linkages matter, and in their every day's business they face the opportunities and the requests of other local firms and organizations providing technical and financial support, as well as of foreign buyers, agents, and transnational corporations. In order to fulfill these demands, and to exploit the opportunities for getting a better deal from competitiveness (i.e. upgrading), they also need to develop their own technological capabilities.

Among the central policy priorities we may mention the need to strengthen local capacity for policy formulation and implementation, improve the national standards infrastructure, define the research priorities and disseminate research results to SMEs, and exploit the potential for cluster-based development policies and programmes.

Selected References:

Morrison A., Pietrobelli C., Rabellotti R. (2008) "Global Value Chains and Technological Capabilities: A Framework to Study Learning and Innovation in Developing Countries" Oxford Development Studies, 36:1, pp.39–58.

Pietrobelli, C. (2008) "Global value chains in the least developed countries of the world: threats and opportunities for local producers", International Journal of Technological Learning, Innovation and Development, Vol. 1, No. 4, pp.459–481.

Pietrobelli C. and Rabellotti R. (2007) Upgrading to Compete. Global Value Chains, SMEs and Clusters in Latin America, Cambridge Ma.: HARVARD University Press, http://www.hup.harvard.edu/catalog/PIEUPG.html

Pietrobelli C. and Rabellotti R. (2004) "Upgrading in Clusters and Value Chains in Latin America. The Role of Policies" Sustainable Development Department Best practices series; MSM-124, January, http://www.iadb.org/sds/publication/publication_3586_e.htm
In Spanish (February 2005): http://www.iadb.org/sds/mic/publication/publication_159_3586_s.htm)