



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/COM.3/EM.11/L.1
1 December 2000

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business Facilitation and Development
Expert Meeting on the relationships between SMEs
and TNCs to ensure the competitiveness of SMEs
Geneva, 27-29 November 2000
Agenda item 3

**THE RELATIONSHIPS BETWEEN SMEs AND TNCs TO ENSURE
THE COMPETITIVENESS OF SMEs**

Outcome of the Expert Meeting

1. The Expert Meeting on the Relationships between SMEs and TNCs to Ensure the Competitiveness of SMEs, held from 27 to 29 November 2000 in Geneva, involved some 65 experts from developing and developed countries, as well as from countries with economies in transition. Representatives from several TNCs, entrepreneurs from small and medium-sized enterprises, and officials from SME support agencies and international bodies, such as ECE, UNIDO, EBRD and the Commonwealth Secretariat, also participated in the meeting. Nineteen experts made formal presentations during the event and more than 30 experts submitted papers to the Meeting.

2. The Expert Meeting is part of UNCTAD's analytical work and technical assistance activities aimed at both strengthening the developmental impact of foreign direct investment (FDI) and promoting SME development through linkages with TNCs. It was preceded by the Round Table on TNC-SME Linkages for Development, held during UNCTAD X in Bangkok in February 2000, and the subsequent International Workshop on Technological and Managerial Upgrading of Small and Medium-sized Enterprises through Linkages with Transnational

Corporations, organized jointly by UNCTAD and Intel Malaysia in August 2000 in Penang, Malaysia.

3. Building on the findings of the Penang Workshop, the Experts continued the discussion of policies and measures to forge linkages between TNCs & SMEs. They considered the role of government, the requirements of TNCs, and the contribution of international organizations in promoting linkages. They noted the important role of government in creating an enabling business environment, including the legal and regulatory framework, as well as the physical and educational infrastructure. It is also important for government to create the right conditions for SMEs so that they can meet the requirements of TNCs. TNCs can help SMEs to cope with the challenges of globalization by facilitating access to markets, technology, skills and finance. SMEs, to enter such linkages, need stability of vision and management. International organizations can assist this process by supporting programmes that are demand-driven and institution-building. The Experts underlined that, since everyone has a role to play in this process, linkages could benefit from various types of public-private partnerships.

4. The Experts discussed how globalization has changed the nature of transnational corporations' production and outsourcing networks, thereby promoting existing and future TNC-SME linkages; and how TNCs need such linkages with SMEs in order to implement their global strategies, which depend on flexibility, total cost and speed. A number of examples were given of the positive impact that TNC-SME linkages can have on national growth and development. In these examples TNCs acted as anchor companies or agents of change, and assisted local enterprises in technological and managerial upgrading.

5. However, some experts mentioned that many SMEs miss opportunities for linkages with TNCs because they cannot meet corporate and international standards for production in terms of price, quality, delivery, health, labour and the environment. In particular, SMEs in some regions such as Africa and Latin America function in an environment which is not favourable to entrepreneurship and often do not have the support services they require to be partnership-ready. It was also recognized that SMEs must have a vision of their own evolution and be prepared to transform in line with new opportunities in order to benefit from linkage initiatives.

6. Regarding the specific role of government, the experts discussed the possibility of targeting investors who could have a positive developmental impact on the local economy; and who have a corporate vision and mission to promote such impacts. Government can also actively encourage TNCs to make such a contribution, but such TNC initiatives should be voluntary and not externally imposed.

7. Moreover, government can act as a catalyst for linkages by providing a continuously improving physical and educational infrastructure, particularly for the development of engineering and management skills, and by easing administrative burdens on TNCs and especially on SMEs. Government, working together with the private sector, can create support institutions (e.g. skill training centres) that can facilitate transfer of technology and continuously upgrade education, thereby helping SMEs achieve the capability for continuous improvement. There is a need for government to consider measures to assist SMEs to invest in themselves, particularly in appropriate technology and R&D.

Contribution of TNCs

8. The Experts recognized the contribution that TNCs can make to the local economy by working with small and medium-sized companies for their managerial and technological upgrading. Public-private partnerships can, *inter alia*, create support institutions for which TNCs and local business share the responsibility and leadership. TNCs have benefited enormously from deregulation, privatization, trade and investment liberalization and in return should demonstrate their corporate social responsibility.

9. The experts identified a number of best practices of TNCs for the promotion of linkages, including:

- Mentoring programmes for SMEs to coach them in total quality management and continuous improvement;
- Providing SMEs with access to TNC innovation centres and corporate training programmes;

- Making available engineers and management consultants;
- Assigning staff temporarily to SMEs;
- Having regular consultations to assess progress.

10. The experts also recognized the importance of TNCs in:

- Sharing with SMEs relevant information not related to core competencies, such as market trends and future plans;
- Allowing SMEs to support operations outside the host country; and
- Providing them with additional business opportunities through business matching, brokering of strategic alliances, trade fairs, and road shows.

11. They appreciated the encouragement given by TNCs to their SME partners to diversify their customer base so as to avoid over-dependency on one linkage partner.

Role of the international community

12. While many international organizations have promoted SME development, few have actually worked in the area of TNC-SME linkages. Such programmes could make SMEs more partnership-ready and could have more of an impact if there were better coordination between donors and beneficiaries. The sustainability of SME support programmes could be improved by involving all the relevant stakeholders.

13. Experts suggested that the UNCTAD secretariat should:

- Put together a checklist of principles of best practices to strengthen competitiveness by promoting linkages for interested Governments, TNCs, SMEs and support institutions;
- Continue its research on the impact of foreign direct investment on industrialization, local entrepreneurship and the development of supplier conditions generally; and

- Engage in further study and intergovernmental discussions on topics (a) upon which there was no agreement, such as the impact of economic incentives and subsidies on TNC-SME linkages, and (b) where great interest was expressed, such as financial services and successful programmes for replicating TNC-SME linkages in regions which have not yet benefited from them.