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Promoting SME product clusters for regional Value Chain Integration

Promotion of new clusters and development of existing ones are important for overall development the economy of a country. Therefore, policy support to ensure development of clusters in a country can go a long way in improving their competitiveness and integrating them into regional and global value chains. Therefore, for a country it is important to allow existence and growth of sufficiently integrated SMEs clusters in different sectors of the economy. The paper deals with major policy issues related to strengthening of product clusters in the CLMV.

Background:

The small and medium sized enterprise (SME) development experiences shows that SME clusters and export consortia development are a noteworthy form to enable the SMEs to link and integrate to regional and global value chains. They critically function as a means to improve the competitiveness of SMEs within the domestic and regional economy. Clusters of SME firms offer important advantages to SMEs since they help stimulate enterprises to achieve dynamic competitiveness collectively, rather than as individual enterprises. SME cluster development is an effective method to support SMEs growth and increase export markets. Cluster development approach enables to build up synergies between providers of business development services and SMEs in the clusters and facilitate the industry in improving its competitiveness.

The above discussion reflects the importance of studying the status of SME clusters in the Greater Mekong Countries (GMS). With this backdrop, an action research was conducted in Cambodia, Laos, Myanmar and Vietnam (CLMV) with the aim to document the process of SME product cluster formation and integration into regional and global value chain. The research was undertaken in different product categories namely silk and rattan in Cambodia, silk and furniture in Lao, Mango and fishery products in Myanmar, Tea and ceramic in Vietnam. This study in particular looks at the aspects of SME agglomeration in these countries and sheds light on issues that need to be addressed on a priority basis.

Study approach

The action research was conducted with the following objectives and study methodology

- i. To study the status of the cluster actors in selected SME clusters of the CLMV countries.
- ii. To investigate the functioning of the cluster value chain in each selected cluster towards meeting the quality and quantity demanded by markets.
- iii. To explore the factors preventing the SMEs from forming a cohesive and vibrant cluster.
- iv. To understand the ways and means required in tackling factors that make both actors and the value chain uncompetitive.

The methodology adopted in this study, involved a process of researcher's self-reflective cycles of planning a change, acting and observing the process with consequences of the change, reflecting on these processes and re planning, acting and observing and thereby creating the required knowledge based on enquiries conducted within the framework of the research objectives. The study made use of both primary and secondary data. The selected

clusters were the focal study areas for collecting primary data from the value chain actors of the concerned cluster besides industry association and relevant local government agencies etc. For the study secondary data were also collected from official websites, government agencies, NGOs, and associations.

Key Findings

The study observed that the cluster concept and practice as a tool for the SME enterprises development is at early stages in most of these countries. However, in Vietnam the concept of craft village functions similar to cluster with strong inter firm linkages. The craft village concept in Vietnam is a unique form of SME clustering where lead firms are actively pursuing to make cluster growth inclusive. The lead firms of ceramic craft village source international buyers and execute production with collective participation and profit sharing. The existence of big and small players in the ceramic craft village has paved the way for the smaller ones to learn from the large firms which are considerably efficient in terms of production. Since, often the big supply orders are distributed amongst the small ceramic producers; the bigger ones voluntarily come forward and share their experiences of productivity enhancement with the smaller ones. The smaller units in the ceramic cluster have the problem of poor equipments and low technology. These results in high defect ratio accompanied with increase cost of low-value products.

The tea cluster of Vietnam, however, is not practicing collective effort as that of ceramic cluster. The tea cluster is old and less production efficiency. No concerted efforts are noticed to put new tea plantation in place. At the same time, cultivation techniques are outdated, fertilizer is used inappropriately and pesticide tends to be over used in some commercial areas with adverse effects on the environment and productivity.

The rattan cluster in Cambodia has both internal and external issues. This include seasonality of raw materials, absence of product variety resulting in limited market, low product quality due to inadequate treatment process and use of old technology leading to waste.

In the silk cluster of Cambodia, the problem is more acute as farmers' lack interest in mulberry cultivation thereby resulting into shortage of silk yarn. Mulberry tree cultivators are switching from growing mulberry trees to cassava plantation for exporting to Thailand for higher income. Lack of mulberry leaves for raising silkworm coupled with lack of disease control measures has affected the supply of raw silk to the weavers. The production efficiency has suffered due lack of upgraded skill of the weavers and traditional weaving methods. In addition, the weavers consider weaving as secondary activity.

In silk cluster in Lao PDR, the shortage of domestic silk yarn is a chronic problem of the weavers. Limited area under mulberry cultivation affected the silk worm rearing which in turn affected the production of raw silk. The silk products from Lao PDR like eco-textiles and home decorations are in demand and providing important export earnings and niche market opportunities.

In the wood and furniture cluster of Lao PDR, the government control on deforestation has put an end to the illegal cutting of trees from the forest. The cluster development efforts in the silk and wooden furniture from the government in Lao PDR are minimal. All efforts in these two vital sectors are driven by large companies and the cluster did not increase in size with

the inclusion of more cluster actors. The lead companies operate their business with salaried weavers and farmers.

In Myanmar, the mango cluster in Mandalay has more than 1,000 acres of mango plantation and increasing under the patronage of the association of mango producers. The mango and fishery products of Myanmar are being marketed almost locally. The mango productions are exported to China through Muse border indicating market acceptance of the product abroad. Myanmar fresh water fish are in great demand and well accepted in many countries.

The two selected sectors of study in Myanmar i.e. mango and fishery are facing inefficient marketing strategies. Mango from Mandalay region is heavily dependent on the cross border Muse market with China. In the fishery sector, the possible international markets are not known to the fishery producers leading to distress sell at times.

Key observations:

In general, the action research found that the product clusters are in the early stage of cluster development process, except the ceramic cluster in Vietnam, and hence the firms are not even aware of the cluster concepts and benefits associated with it. Weak inter firm linkage, inefficient networking among firms, seasonality of the raw materials, low technology adoption due to inadequate access to finance coupled with domination of few lead firms with major market share are key issues for policy consideration.

Policy Recommendation:

The policy for promoting SME clusters in CLMV and improving their global competitiveness through cluster development approach and provisioning of business development services should encompass macro and cluster-specific issues.

Vision for the Cluster Policy Framework:

The CLMV countries industrial and services sector economy could develop into an inter-connected array of clusters with a strong and enabling all round environment around them to achieve higher levels of global competitiveness with inclusiveness and sustainability. The cluster initiatives should not only ensure greater economic growth but also ensure value chain integration and improved global competitiveness of the cluster firms.

Macro Perspective of the Cluster Policy:

Policy framework at the macro level should be designed primarily to facilitate creation of an enabling environment through which (i) new clusters are formed and developed, (ii) existing clusters flourish, grow and (iii) becomes important partners in the local, national and global value chain. The cluster policy framework should enumerate role of the national and provincial Government in promoting existing SME clusters and growth of new clusters for development of the local and national economy. It should deal with the bottlenecks of cluster promotion and create a road map for development of SME clusters and integrating them into regional and global value chains. Role of different public and private institutions and R&D centres in bringing innovation in technology, productivity, process and other areas should be emphasised here. The cluster policy should have long term perspective and have synergy with

other national policy like SME policy, economic policy, HR, finance and business policy of a country. It is important to mention here that the Cluster Policy should be (i) coherent with macro policy agenda of inclusive growth, (ii) compatible with current national enterprise structure and (iii) strategic to address the critical gap.

The Cluster Policy apart from creating an enabling environment for formation of new clusters and development of existing ones should also enumerate role of the following stakeholders;

- Government
- Development agencies/ implementing agencies/non-government organisations
- Private sector companies/SMEs

Policy at the Cluster Level:

The policy framework at the cluster level should focus on strengthening the cluster eco-system and establishing linkages amongst actors in the eco-system so that an enabling environment is created for development of SME clusters in CLMV. It should emphasis on developing social capital base of the clusters and inculcating dynamism in the same. Roles of different cluster stakeholders including private and public business development services providers (BDSPs), business membership organisations (BMOs) in ensuring holistic development of clusters are to be seriously considered. A structure for dialogue and cooperation between firms, as well as between firms and other support institutions would go a long way in developing cluster efficiently.

The issues which can be addressed through a comprehensive cluster policy are as under;

- (i) Cluster mapping and creation of knowledge base
- (ii) Creation of new Enterprises/ Entrepreneurship
- (iii) Networking and formation of clusters
- (iv) Raw material, finance, Technology
- (v) Achieving collective efficiency in procurement, finance, technology, marketing, brand building, export- consortia
- (vi) Infrastructure- industrial estates, export procession zones
- (vii) Provisioning/ up-gradation of BDS
- (viii) Strengthening BMOs
- (ix) Technical/ support, R&D institutions
- (x) Business responsibility and inclusive growth
- (xi) Adaptability and sustainability
- (xii) Benchmarking and creating 'best practices'
- (xiii) Documentation and leveraging benefits

Policy Agenda for Action:

The areas where cluster policy could play an important role are indicated below;

1. Undertaking a national cluster mapping exercise
2. Developing HR, cadre of Cluster Development Executives (CDEs)
3. Developing special financial products suited to clusters
4. Drawing up road map for helping clusters innovate and upgrade their value chain

5. Augmenting supply of skilled manpower
6. Facilitating science-industry interplay:
7. Supporting cluster specific transportation, communication, other infrastructure
8. Undertaking national initiatives on export promotion
9. Initiatives to strengthen capacity of BMOs and involving national level chamber of commerce and industry
10. Augmenting supply of quality BDS
11. Establishing cluster oriented free trade/ export promotion zone
12. Setting up Cluster Development Cells in provincial government
13. Creating a national resource centre and establishing inter-ministerial co-ordination Focal Point

1. Undertaking a national cluster mapping exercise:

Attempts should be made to conduct a national cluster mapping exercise. Concerned agencies should be engaged in identification of SME clusters and their mapping. Understanding the clusters eco-system and linkages amongst the members in the eco-system is of paramount importance. Factors like number of SMEs in a particular product sector, employment, turnover, export, factors of production, existing value chain and possibility of value chain up-gradation, availability of support institutions, government agencies etc. need to be considered for the cluster mapping exercise.

The standard data collected through usual government process and the statistics generated thereof may not necessarily uncover the requirements in specific areas like 'pressure points' in the value chain etc. Therefore, there is a requirement for specific public efforts to collect and organise relevant statistics. This may include collecting information to map the development of clusters, examination of their constituents, and communication of their properties in a periodic manner and thereby ensuring strategic intervention required for realisation of the benefits of clusters.

2. Developing HR, cadre of CDEs:

HR is one of the critical areas for initiating cluster development activities in a country. Unless right persons are placed in right job, the entire process of cluster development initiative can go into jeopardy. Therefore, attempts should be made to develop a cadre of professionals known as Cluster Development Executives (CDEs) through a well structured training intervention. Generally a three phase training programme is conducted to develop a cadre of CDEs in a particular country.

3. Developing special financial products suited to clusters:

Availability of finance is critical to support emergence of new cluster and growth of existing ones. The national Government could issue guidelines to the banks so that they can provide finance to the clusters SMEs in easy terms. Support for term loan, working capital loan and loan to bolster innovation, R&D, technology up-gradation and expansion are needed. There are examples wherein financial institutions in some countries introduced new financial instrument/product for supporting SME financing. Learning from those cases can be used here in CLMV after appropriate necessary modifications based on the local situation.

4. Drawing up road map for helping clusters innovate and upgrade their value chain:

Innovation and value chain up-gradation are important yardsticks to measure dynamism of a SME cluster. Through carefully designed action plan, activities and programmes, attempts should be made to inculcate a spirit of innovation and value chain up-gradation. Efforts can be made to make the clusters integrate in the regional and global value chains. The core competencies of the clusters could be further fine tuned and improvement in technology, management and other functional areas could lead to product and process innovation and value chain up-gradation.

There is need to have increased openness to new ideas and innovative solutions. The literature on innovation suggests that informal, unplanned, face-to-face, oral communication is critical to the innovation process. Clusters facilitate this type of communication. The geographic concentration of firms, suppliers, and buyers in the cluster provides short feedback loops for ideas and innovations. Clusters provide opportunity to access specialised information about markets, technology, competitive strategies etc.

5. Augmenting supply of skilled manpower:

Shortage of skilled manpower is one of the factors which can constrain promotion of new cluster and development of existing ones. In some cluster there is non availability of skilled personnel in specialised jobs. The problem is higher in underperforming cluster where because of less remunerating nature of job, the attrition rates of workers are quite high.

Therefore attempts should be made to ensure supply of skilled personnel to the clusters. Establishment/strengthening of technical, vocational schools for technical and vocation training and management school to ensure smooth flow of trained managers are required. If required, curriculum of the engineering and other colleges could be modified to suit the requirements of the local industry/clusters. In addition, industry-institution/college interface could be organised periodically where representatives of SME clusters/industry meet the Faculties in the engineering/management institutions so that they better understand each other's requirements.

6. Facilitating science-industry interplay:

SME clusters require access to updated technology on a continuous basis. Therefore attempts should be made to provide information on latest technology and actual provisioning of the same for the benefit of the cluster firms. The role of public authorities is crucial at this stage. Tools like reward system and incentive structure can be adopted to establish university-industry linkages.

7. Supporting cluster specific transportation, communication, other infrastructure:

Attempts should be made to development transportation facilities to speed-up mobility of goods and services and improve communication and infrastructure facilities in and around the clusters. This is especially needed to support growth of clusters and integrate them into national, regional and global value chains.

8. Undertaking national initiatives on export promotion:

Market especially export development is generally pursued very seriously in many countries as part of cluster development. Through, export facilitation and export development, clusters' integration into global value chain can be smoothened. Therefore the policy perspective should try to support promotion of export from the clusters and this way they can contribute in local economic development (LED).

There is a need to support internationalisation process of clusters through export consortia. Clusters operating in CLMV are expected to be connected with the regional especially ASEAN economy. The elimination of trade barriers and strengthening of transport and communication systems, along with the harmonisation of market regulations in the GMS countries have, however, greatly improved framework conditions of resource flows and enhanced specialisation of value chains across regional countries. The clusters operating in the region must be able to take advantage of the situation by 'twinning' of the clusters irrespective of country of operation through sharing common transferable resources and replicating 'best practices'. The cluster association need to be coached and trained towards forming effective export consortia. Examples of support measures towards export consortia includes export networks development, support of delegations to international trade shows, public sponsoring of joint branding and marketing campaigns.

9. Initiatives to strengthen capacity of BMOs and involving national level chamber of commerce and industry:

Capacity building of the cluster specific business membership organisations and linking them with national chamber of commerce and industry are needed. It is imperative to mention here that the BMOs should go beyond their routine advocacy role with the Government and focus on provisioning of value added services to their member firms. In addition to providing value added services, they could link the cluster with other clusters in the same country or in a different country and thus facilitate cluster twinning. Therefore, programme could be designed to support capacity building of BMOs in a strategic manner.

10. Augmenting supply of quality BDS:

Provisioning of quality business development services (BDS) is very much important for infusing dynamism in a cluster. Since many SME firms do not have in-house expertise to address their many functional and management problems, they need support of BDS providers. Moreover, BDSPs can support growth of SMEs and their integration into global economy. However, it is observed that quality BDSPs is not available or linked to the clusters. Therefore, capacity building of existing BDSPs, introduction of new service products and linking up BDSPs with the cluster should be done prudently.

11. Establishing cluster oriented free trade/ export promotion zone:

Establishment of cluster specific free trade, export promotion zones would support business growth and export development of the cluster firms. The establishment of such zones fall under the purview of the Government.

12. Setting up cluster development cells in provincial Government:

Cluster Development Cells (CDCs) can be set up in the provincial Government. This Cell should support all kinds of development activities under cluster mode. Starting with selection

of clusters training of cluster development executives (CDEs), diagnostic study, value chain mapping, technology up-gradation, export development, regional and global value chain integration etc. can be managed under this Cell. The Cells should be managed by the competent experts specialising in cluster, private sector and local economic development.

13. Creating a national resource centre and establishing inter-ministerial co-ordination Focal Point:

Creation of a National Resource Centre (NRC) and support cluster development at the national level is of paramount importance. This Centre can provide technical, advisory and strategic services to the provincial Government/CDCs in terms of promotion of new clusters and development of existing ones. They could facilitate CDCs in developing concrete action plan for value chain integration in regional and global context. Creating a national agenda for cluster development, cluster twinning can be taken up under the aegis of NRC. They can also work as a think tank, knowledge centres in terms of conducting research on clusters, BDS, value chain, export, global economic integration, cluster twinning etc. The NRC would facilitate cluster benchmarking and leverage learning from 'best practices'. The NRC can exercise monitoring and evaluation to ensure that the implementation of the agendas in the cluster policy is done as per the plan. The NRC should evolve strategy to deal with 'high-end' innovative clusters as well as 'low-end' clusters.

Since cluster development involves inter-disciplinary work, the other policies of the national Government will have repercussion on the cluster policy and performance. Therefore, an inter-ministerial co-ordination Focal Point (FC) can be set up separately. Alternatively, NRC could play this role. The FC would ensure that the issues of clusters are properly addressed in the national plan and programme. Lastly it could supervise convergence of different Government schemes and support mechanism for development of clusters in the country.

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