

# Globalization, the Knowledge Economy & SME Development



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*Competitiveness: Key to the SME Development Agenda  
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**In 1995 the *Economist* announced  
on the cover of one of its issues:**

***“The Death of Distance”***



*The Economist, October 25<sup>th</sup>, 2003*

# The end of the Oil Age



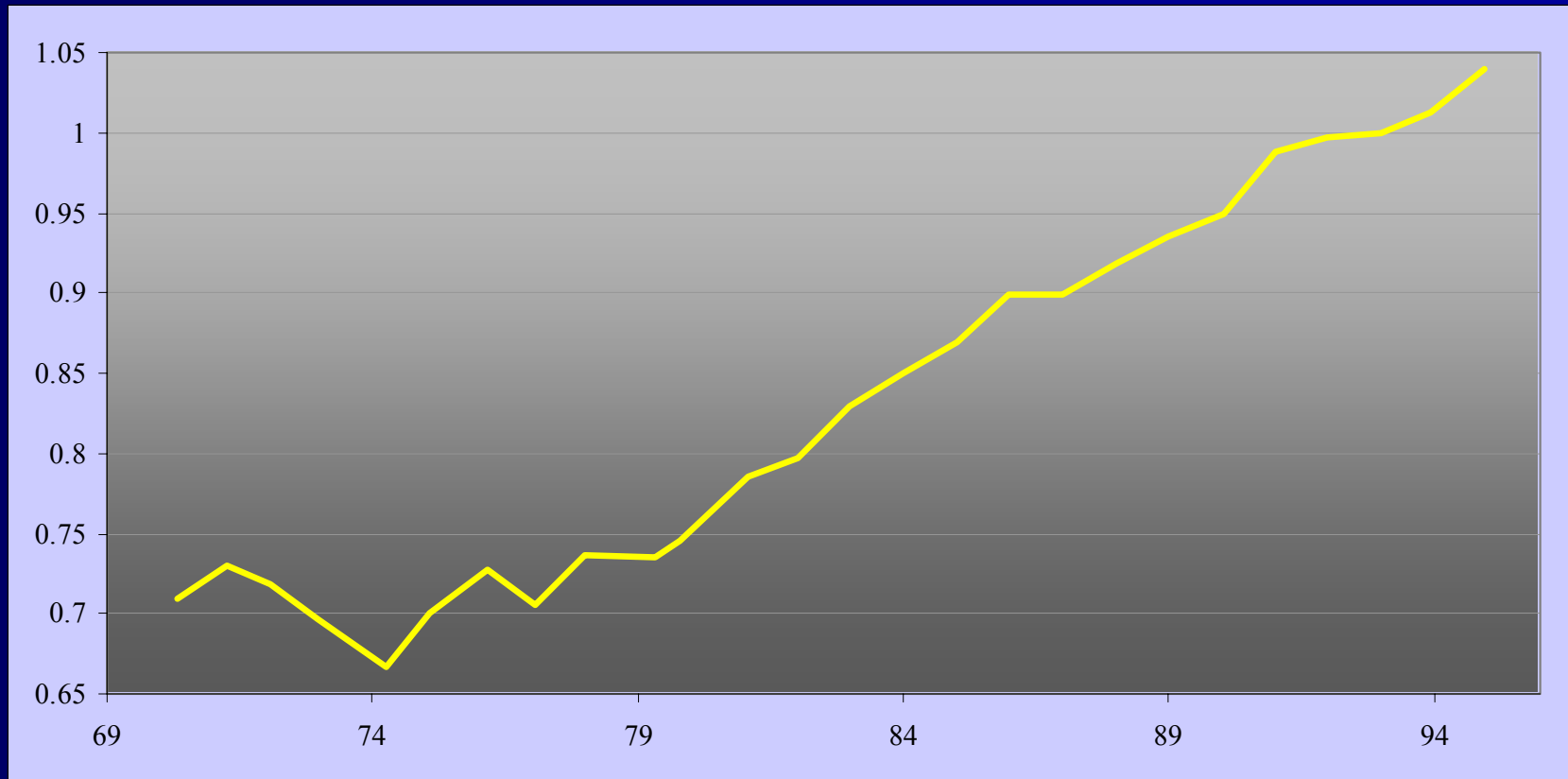


# Globalization

- **Internationalization of Production.**
- **Intensification of Trade.**
- **The Knowledge Economy.**
- **New Management Systems.**
- **New Division of Labor**
- **Increased Capital Mobility.**
- **New Determinants for Competitiveness.**

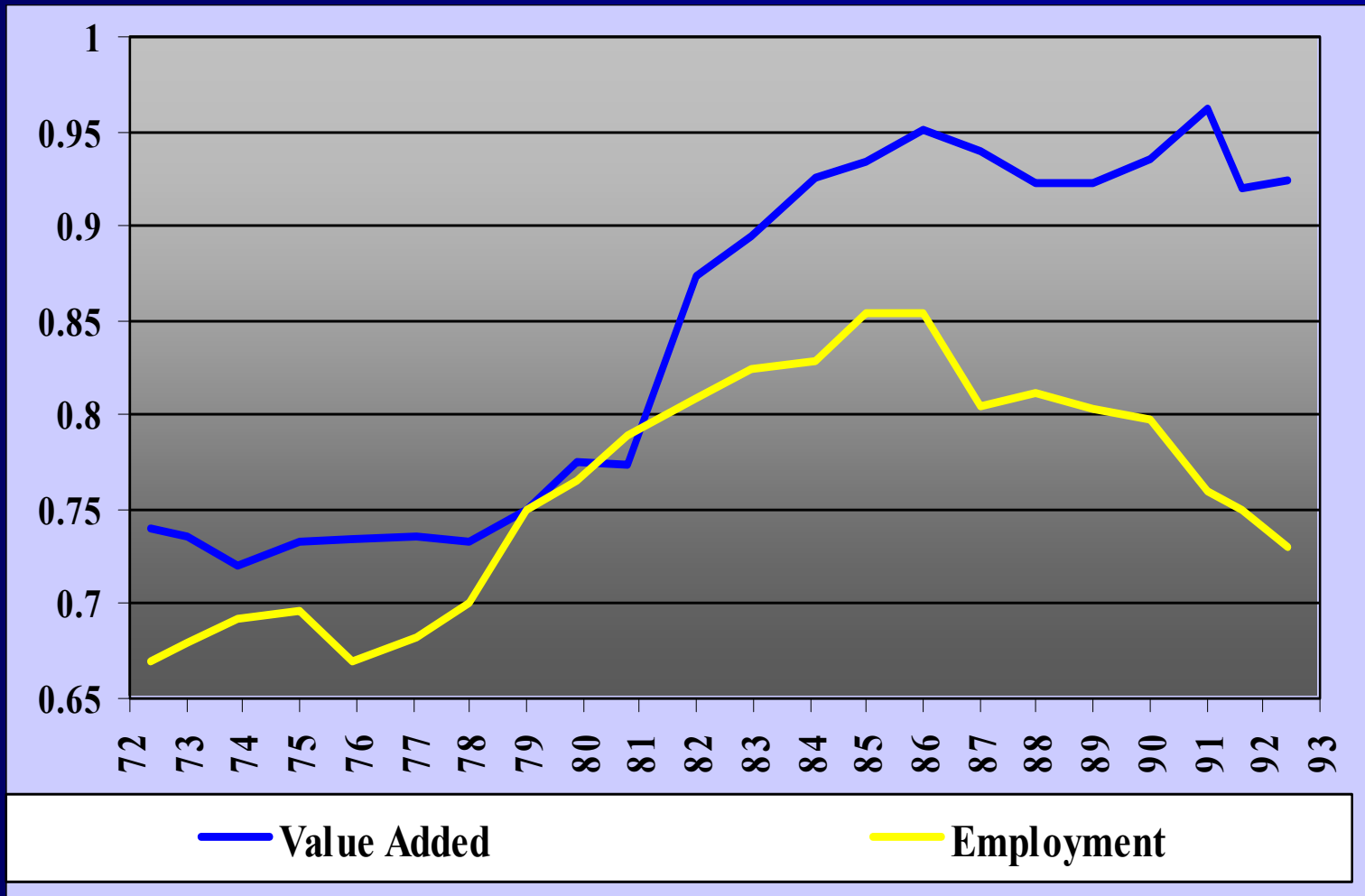


# The Knowledge Economy



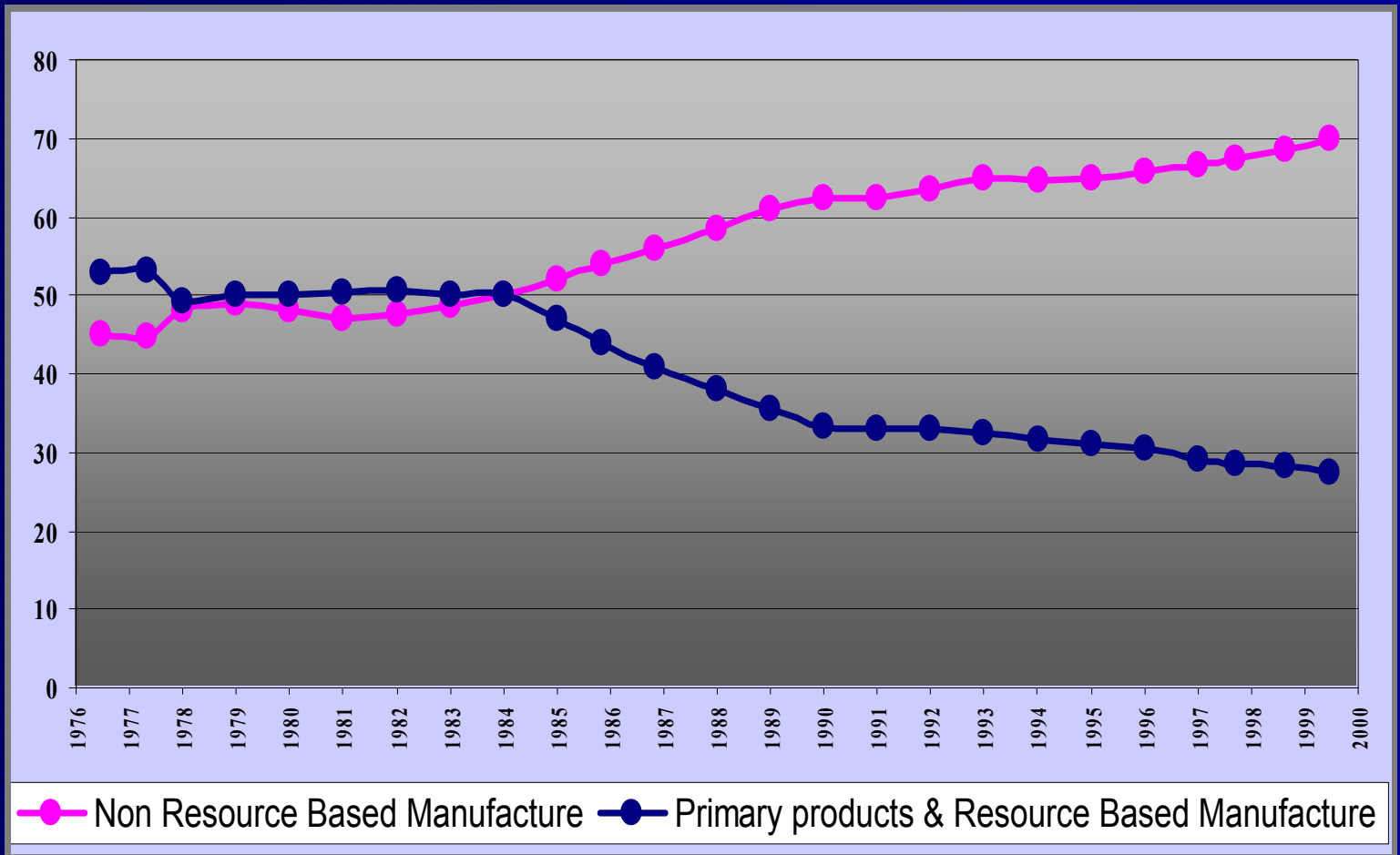


# The Global Knowledge Economy



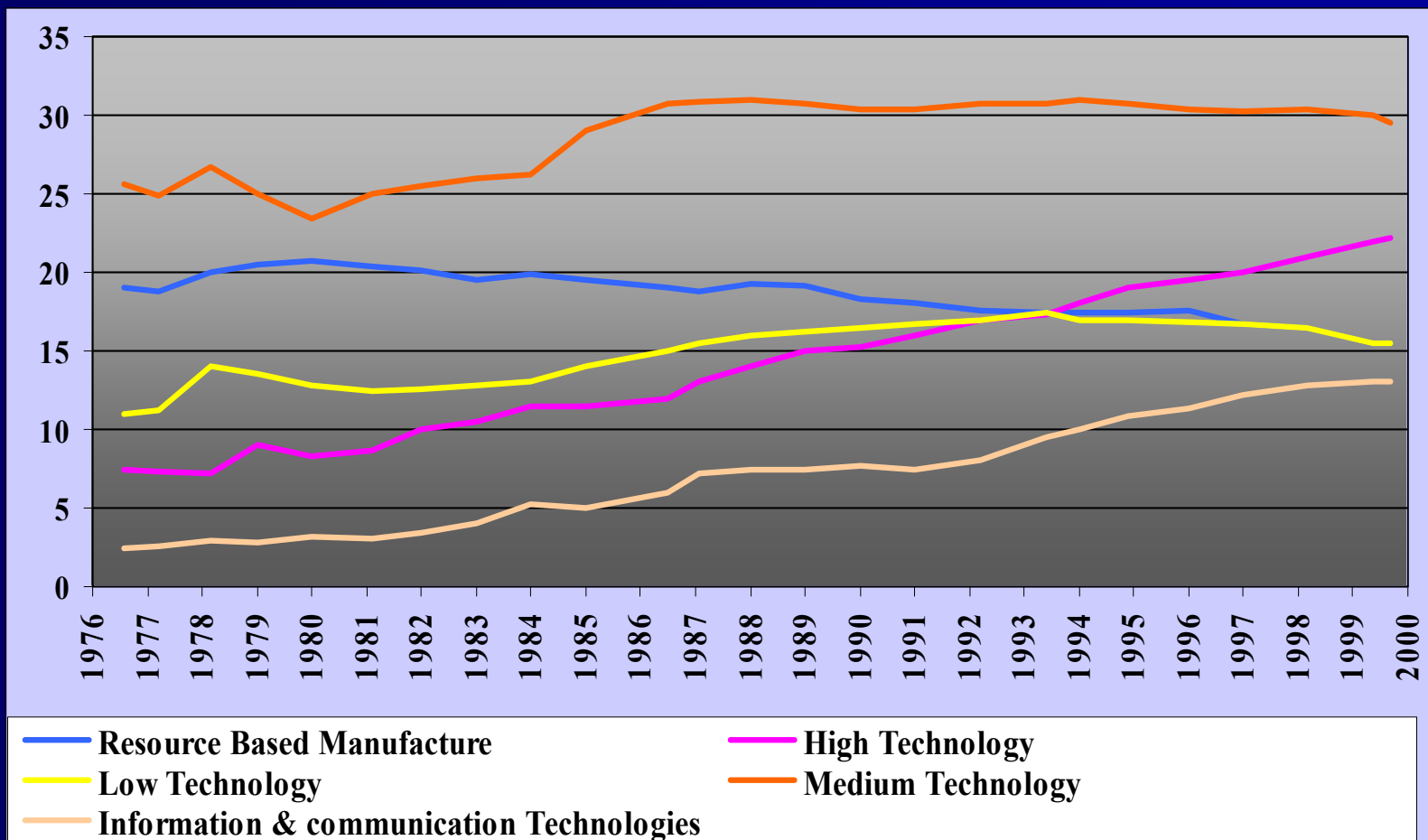


# Global Economic Trends





# Technological Composition of World Exports







# Competitiveness

- **Low Road:**

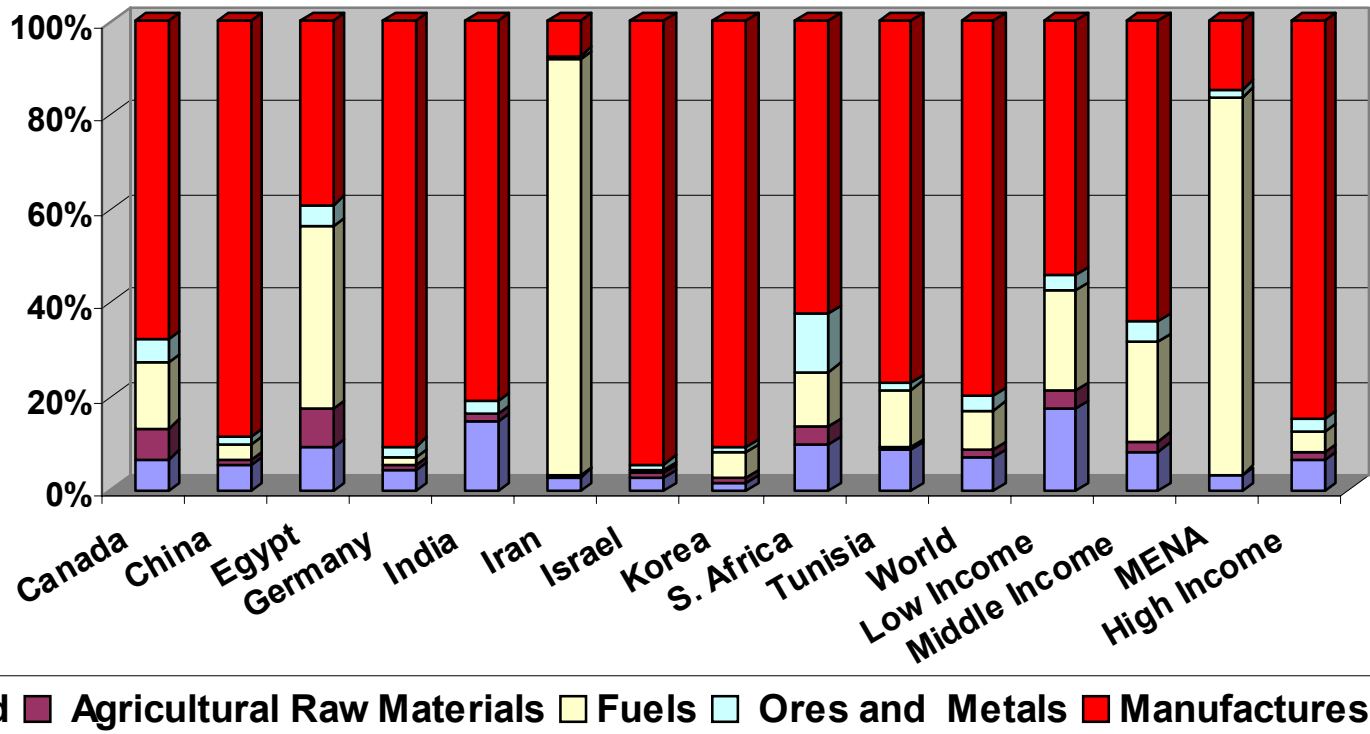
- **Natural Endowment.**
- **Labor intensive industries.**
- **Low-entry barriers industries.**
- **Price Competition.**
- **Race to the bottom**

- **High Road:**

- **Value competition**
- **Knowledge**



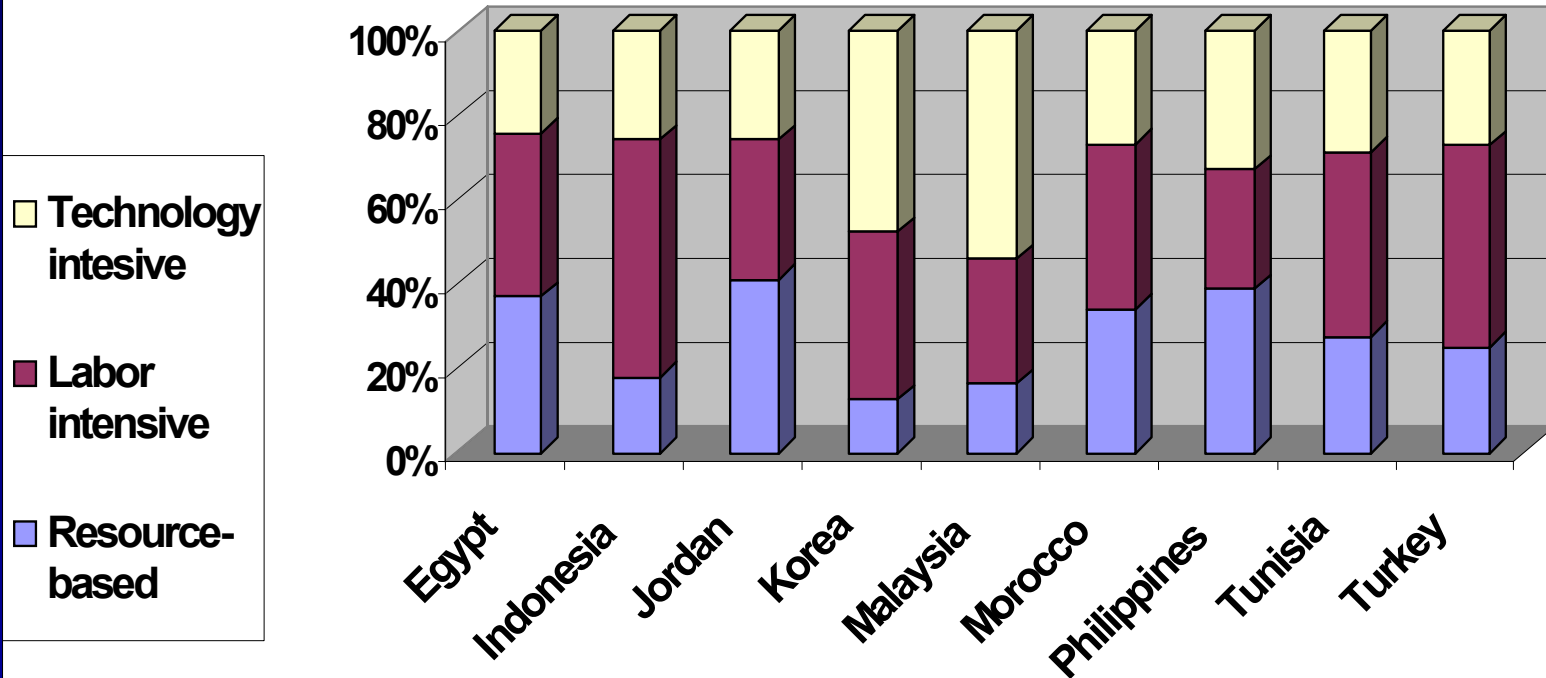
# Arab Countries & Global Economic Trends





# Arab Countries' Technological Composition of Industrial Production

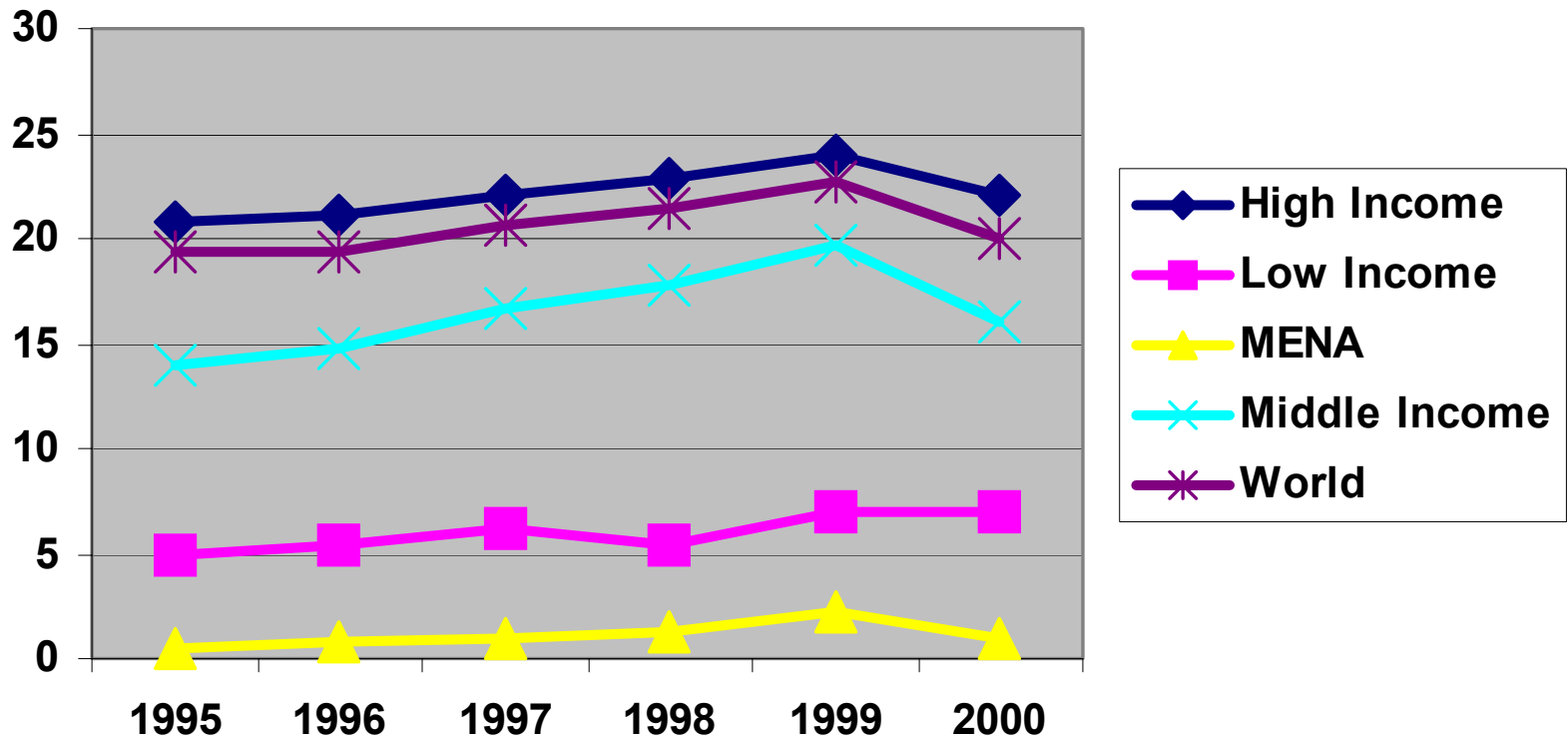
## Technological Composition of Production





# Arab Countries' Hi-Tech Exports

## High-Tech Exports (% of Manufactured Exports)





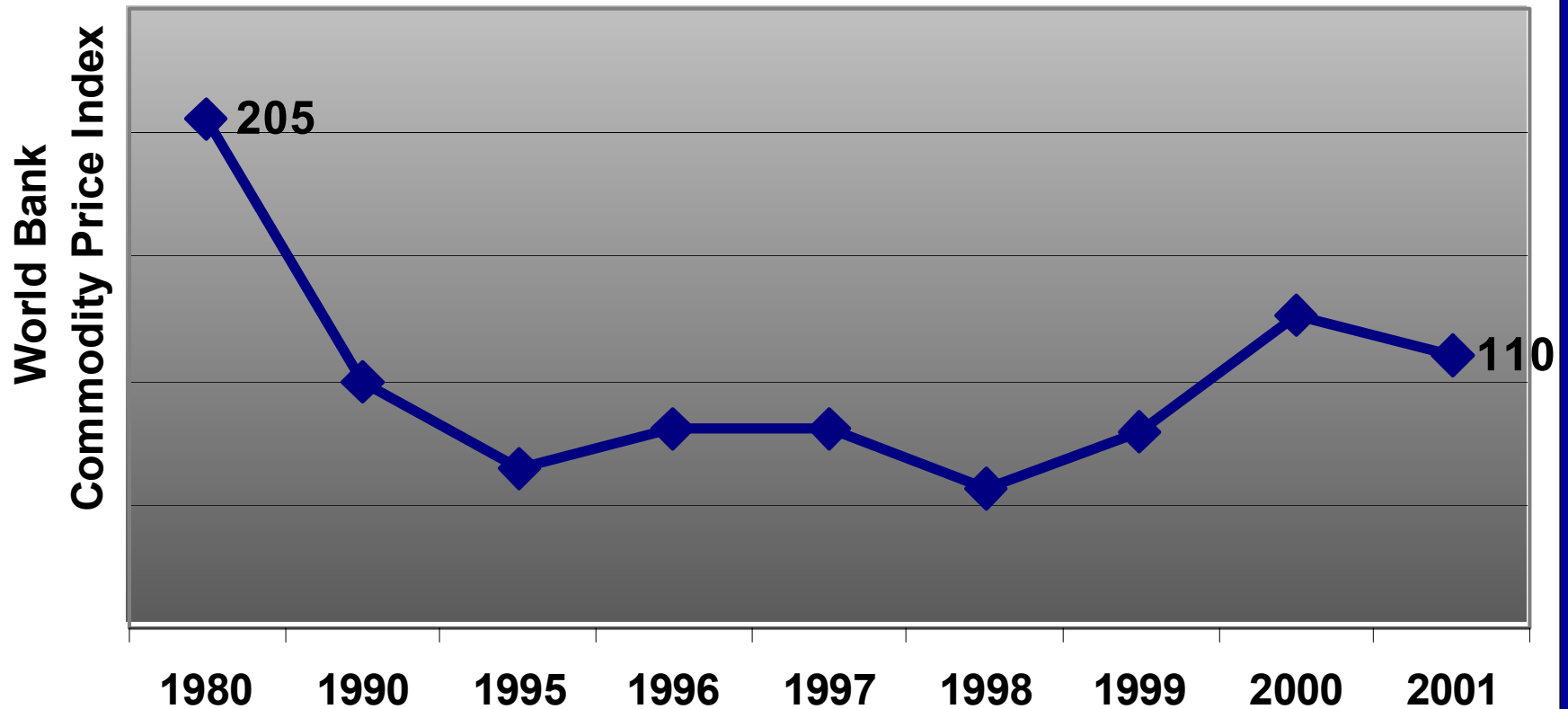
# Performance of Arab Countries

- **Excessive reliance on Oil and primary products, &/or Cheap Labor**
- **Revealed Comparative Advantage (RCA) Focused on Factor Endowment & Low-skill Labor-intensive Industries**
- **Low product diversification**
- **Slow and Small Shift in the Technological Composition of Exports**
- **False Advancement**



# The Race to the Bottom: Oil

Price of Petroleum (1980 - 2001)





# The end of the Oil Age

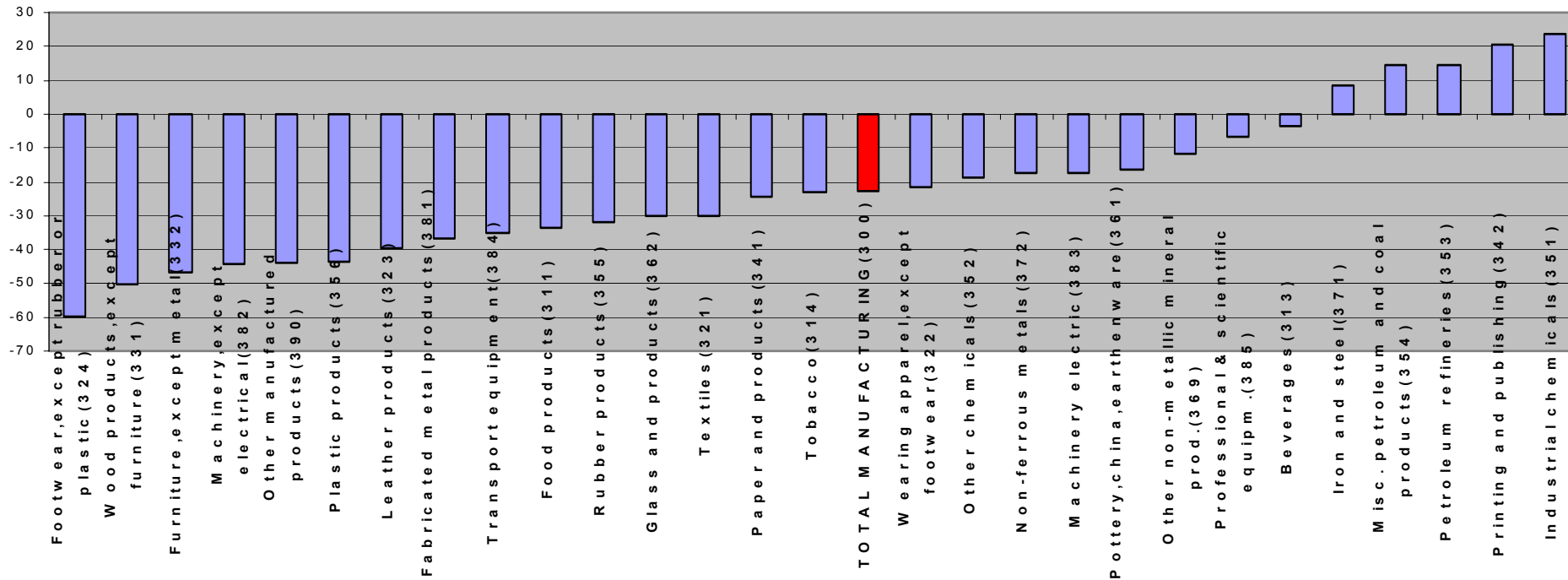
“The Stone Age did not end for lack of stone, and the Oil Age will end long before the world runs out of oil.”

*Sheikh Zaki Yamani, Ex-Minister of Petroleum, KSA*



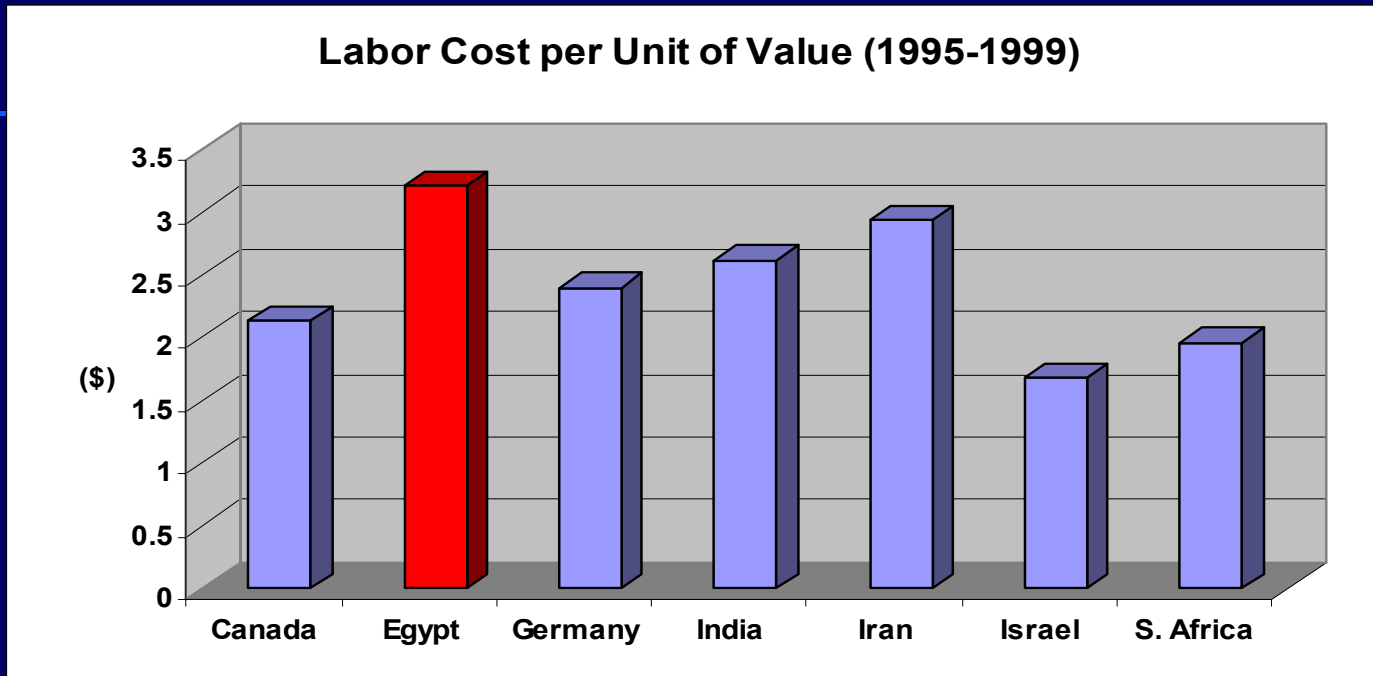
# The Race to the Bottom: Cheap Labor

Percentage Change in Real Wages in Manufacturing Activities (1985 : 1999)





# The Myth of Cheap Labor Competitiveness



- Egypt's labor productivity is less than 1/6th that of Korea and Argentina
- Wage rates in Romania are half those in Egypt.
- Many EU Countries are 6 or 7 times higher than Egypt in labor productivity.
- From 1985-1999, the Egyptian worker recorded a negative average annual growth rate in value added per employee in 17 out of 29 manufacturing activities.



# New Factors of Competitiveness

## (The High Road)

- **R&D and Innovation**
- **Technological Development**
- **Continuous Product Improvement**
- **High Skill HR Base**
- **Technical Capacity**
- **Systemic Factors**
- **Financial Systems**



# Global Developments & SMEs: The Reality

- **Most SMEs, whether in developed or developing countries, are facing more intense competition and pressures.**
- **The majority of small enterprises perform poorly on the world market .**
- **Trade dynamism is less associated with direct SME exports, than with their indirect role through linkages with larger firms.**
- **Those most likely to survive are the medium enterprises that have export and growth potential.**
- **Modern SMEs typically stand a better chance of surviving the competition.**
- **Less than 20% of European SMEs can be considered modern.**



# Global Developments & SMEs: Some Successful Strategies

- **The Innovative Strategy**
- **The Information Technology Strategy**
- **The Niche Strategy**
- **Flexible Specialization**
- **Networking**
- **Clustering**
- **The Foreign Direct Investment Strategy**



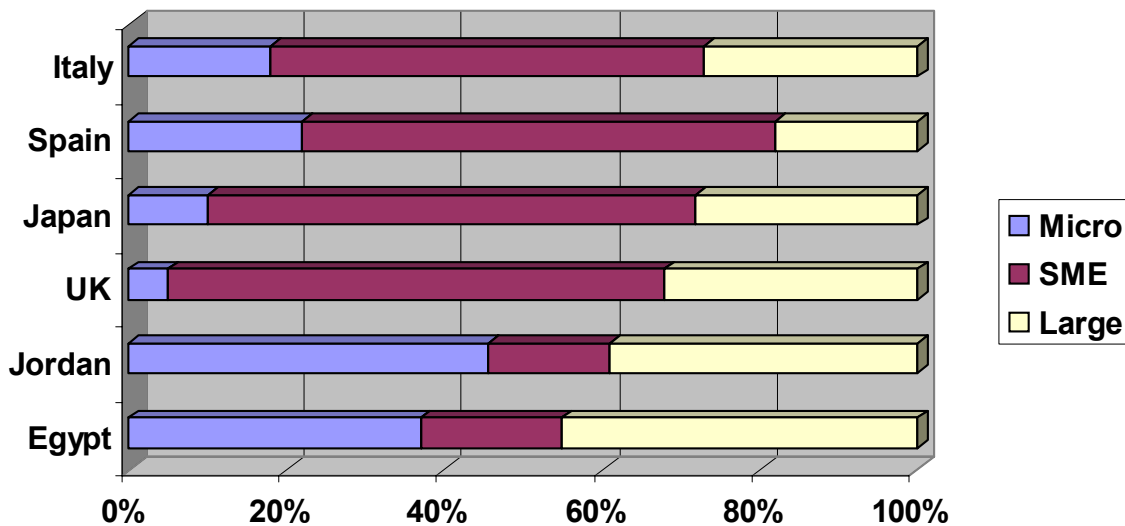
# Global Developments & SMEs: Opportunities & Challenges

- **Size-related Challenges**
- **Market Distortions / Failures**
- **Policy Biases**
- **SMEs are at a disadvantage with regards to R&D.**
- **Relatively low technological capacities.**
- **More intense competition.**



# Enterprise Size Structure: The Missing Middle Syndrome

The Missing Middle: The Share of Manufacturing Enterprises in Employment



- **Lack of linkages between SMEs and large enterprises.**
- **Lack of flexibility and competitiveness of large enterprises.**
- **High import content of production.**
- **High susceptibility of the economy to economic downturns.**



# Characteristics of SMEs in Arab Countries

- **Concentrated in labor-intensive traditional activities.**
- **Predominantly serving local markets**
- **Low levels of productivity**
- **Little technological dynamism, if any.**
- **Lack of Innovation**
- **Reliance on personal savings.**
- **Traditional Management**
- **Poor product quality.**
- **Lack of cooperation & trust among entrepreneurs.**
- **Geographic & sectoral dispersal**



# The Way Forward: The Fundamentals

- **New Economic Strategies.**
- **Investing in Knowledge & Human Capital.**
- **Reorienting Scientific & Academic Institutions.**
- **Separating Myth from Reality regarding SMEs.**
- **Policy Coordination in industrial development, S&T, trade, education, SME Development...etc.**
- **Financial Deepening.**
- **Legal & Regulatory Reform.**





# The Way Forward: Old Bottles, New Wine

- **Collaborative Synergies.**
  - *Networking*
  - *Clustering*
  - *Linkages & Subcontracting*
- **Information Communication Technologies.**
- **Financing SME Development.**
- **R&D**
- **Access to Technology**
- **New Challenges for BDS**
  - *Information*
  - *Quality Certification*
  - *Product design & development*
  - *Benchmarking*
- **New Forms of FDI**