


**OPINION
PIECE**

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MSMES and services trade: A pathway to inclusive growth in developing economies?

There is a general consensus that micro, small and medium-sized enterprises (MSMEs) play a critical role in countries' economies, offering employment to significant numbers of people across a diverse range of professions and trades (Aga et al., 2015).

MSMEs are also widely viewed as holding the key to inclusive growth, which is so frequently spoken about but remains an elusive goal.

Yet it is worrying that a large proportion of MSMEs, despite their recognised potential, fail to become productive and sustainable sources of economic value.

Among the factors holding MSMEs back are inadequate human and financial resources and a policy and regulatory environment that tends to be far better suited to large

enterprises (Parry and Markowitz, 2016). In fact, MSMEs generally receive little attention at the official policy level. Where they do, it rarely translates into concrete and viable forms of support. Not surprisingly, these sorts of problems are more pronounced in developing countries than developed countries.

The exponential growth in global services trade could, however, be a game-changer for MSME communities in developing countries, particularly as many services are more accessible to entrepreneurs and small firms than manufacturing, mining or agriculture, which generally require considerable investment.

Information and communications technology (ICT), financial services, transport and hospitality are among the services sectors that hold particular potential for MSMEs,

while also conveniently laying the foundation for a well-functioning society. That is not to say that services do not require investment in resources such as financial and human capital, but start-up costs are often relatively low, and trading across borders has become a more realistic option given the developments in e-commerce and the relative ease of communicating and transacting via digital platforms.

Advances in technology, which are having such a dramatic effect on how people live, work and interact, have been the key driver behind the global value chain (GVC) phenomenon. GVCs, which have blurred the lines between tangible goods and services trade, have created many opportunities for MSME service providers to act as links in the chain – even on a modest scale, operating from their home base. In this way,

they gain access to an extended market which, had they had to face the costs and logistical hurdles of shipping goods across borders, might not have been possible.

MSMEs have much going for them in the services arena. With the right resources, they tend to be flexible and able to adapt quickly to changes in the marketplace, whereas in larger firms, decision-making is more cumbersome. This flexibility is often the product of an entrepreneurial spirit and/or a youthful fascination for things that are new and innovative (Ata, 2019).

MSMEs are not the exclusive preserve of young people, but in a world where jobs in large, established companies are becoming increasingly scarce, they constitute an important source of employment for young people with good ideas and a desire to succeed.

The need for flexibility will, of course, intensify as automation, artificial intelligence and other technological developments continue to transform the world of work and erode the pool of more traditional jobs. Many services are powered by digital technologies, thus putting tech-savvy MSME service providers in an excellent position to leverage the continuously unfolding opportunities. The rapid spread of mobile banking services in East and Southern Africa in recent years is an example of how advances in technology have helped to fan entrepreneurial ideas and create new, high-growth industries that have international reach.

In addition, many women who, given their multiple roles in life, have

not fitted comfortably into formal corporate structures, are finding new economic purpose in service sectors such as education and accountancy, which lend themselves to flexible, online delivery.

It has been argued that the development of the services sector in developing countries that are still agriculture- or mining-dependent can clear the way for the country to “leapfrog” manufacturing, which would be the next logical stage in the economic development process. This view appears to have some merit if the unprecedented growth in mobile phone usage and the growing popularity of online business and leisure services are anything to go by.

However, a services sector cannot thrive in a vacuum, devoid of a supportive policy environment and regulatory framework and well-functioning infrastructure, notably in the telecommunications and energy spheres.

MSMEs, in turn, need special types of attention and assistance, particularly if they are to make inroads into regional or international markets. MSMEs often lack market knowledge and international business skills, but as they are not well understood or properly catered for in developing countries, they are often confronted by the same rules, regulations and challenges as those faced by larger firms. The services sector is notoriously regulated and requires informed and skilful navigation. A lack of finance, compounded by weak creditworthiness, is another perennial problem. Faced with these

challenges, many MSMEs simply retreat into the informal sector where their economic potential remains stunted (Grater et al., 2017).

MSMEs need to be given serious attention if developing countries are to make headway in their frequently expressed desire for inclusive growth and sustainable development. Although stories abound of small businesses in Africa, Asia and other developing regions that have made impressive strides in building a regional or global presence, these are more often than not “pockets of excellence” which do not realistically reflect the status quo. Left on their own, most MSMEs will be unable to grow and reach their full potential.

While opening doors to new sources of finance and building knowledge and skills are critical steps, creating a strong cohort of MSME service providers also depends on a country having an entrenched services culture, from which different services sectors and individual providers can take their nourishment. This implies that while there may be merit in “leapfrogging”, it does not include taking short cuts.

Clearly, developing countries (government, business and civil society) need to devote much more time and effort to researching, understanding and unleashing the potential of MSMEs in high-potential service sectors, failing which technology giants and other major economic players could crowd out smaller local entities and set an economy on a course that simply entrenches inequality.