

Analysis of Government Procurement Market in Emerging Countries and Implications for Small and Medium Enterprises

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I. Introduction

The purpose of this study is to derive implications for SMEs through analyzing the openness of the government procurement market in emerging countries, the prospects of these markets opening up in the future, and the overall possibility and plans of Korean SMEs to enter these markets. The procurement markets of international organizations and advanced countries are already saturated with competition, and it is difficult to expand in the procurement market of advanced countries such as the United States, Canada and the EU as they are strengthening their preferential purchasing system in line with protectionist trade policies. Therefore, this study aimed to find a market for

competitive companies in Korea by comprehensively grasping the current situation, openness, growth potential, and potential market demand of emerging markets. In particular, we focused on analyzing the possibility of Korean SMEs advancing into the government procurement market of emerging countries, and to offer suggestions on the direction of procurement policies and trade policies in order to effectively advance into these emerging markets. This study analyzed six emerging regions which are either considering WTO-GPA membership or negotiating FTA agreements with Korea: China, Southeast Asia and India, Eurasia, the Middle East, Middle Eastern Europe and Latin America.

II. The openness of the government markets and entry conditions

The results of a comprehensive analysis of the openness of the government procurement markets and entry conditions of SMEs in each region are as follows. First of all, Southeast Asia and India have a large trade volume with Korea and present favorable conditions in terms of proximity and cooperative relations, but the procurement systems in the region show a rather low level of internationalization. The barriers are still significant in terms of language and procurement procedures, making these a more difficult market for SMEs to enter. Eurasia has high barriers to entry in the procurement market, as evidenced by its priorities, certification barriers, SMEs preferential treatment and exclusive practices. Most Latin American countries have open procurement markets in the region and have established RTAs with offshore countries, thus making their procurement systems and procurement market environment very open. However, it is difficult for Korean firms to secure price competitiveness in these markets due to logistics costs arising from long distances and high language barriers. In China, the indicators of openness are very low and procurement barriers are very high despite the high demand. The prospects for entering the Chinese procurement market are not bright as China is not a GPA member and operates a much closed procurement system. The procurement markets in Central and East Europe are being opened through GPA/FTAs, and the procurement system follows the EU procurement guidelines. The procurement system is also very advanced, and prospects are fair for suppliers who understand the market and have effectively expanded their network. The Middle East shows similar indicators in terms of openness and barriers. The region's procurement market is open in some aspects, but it is a difficult market for

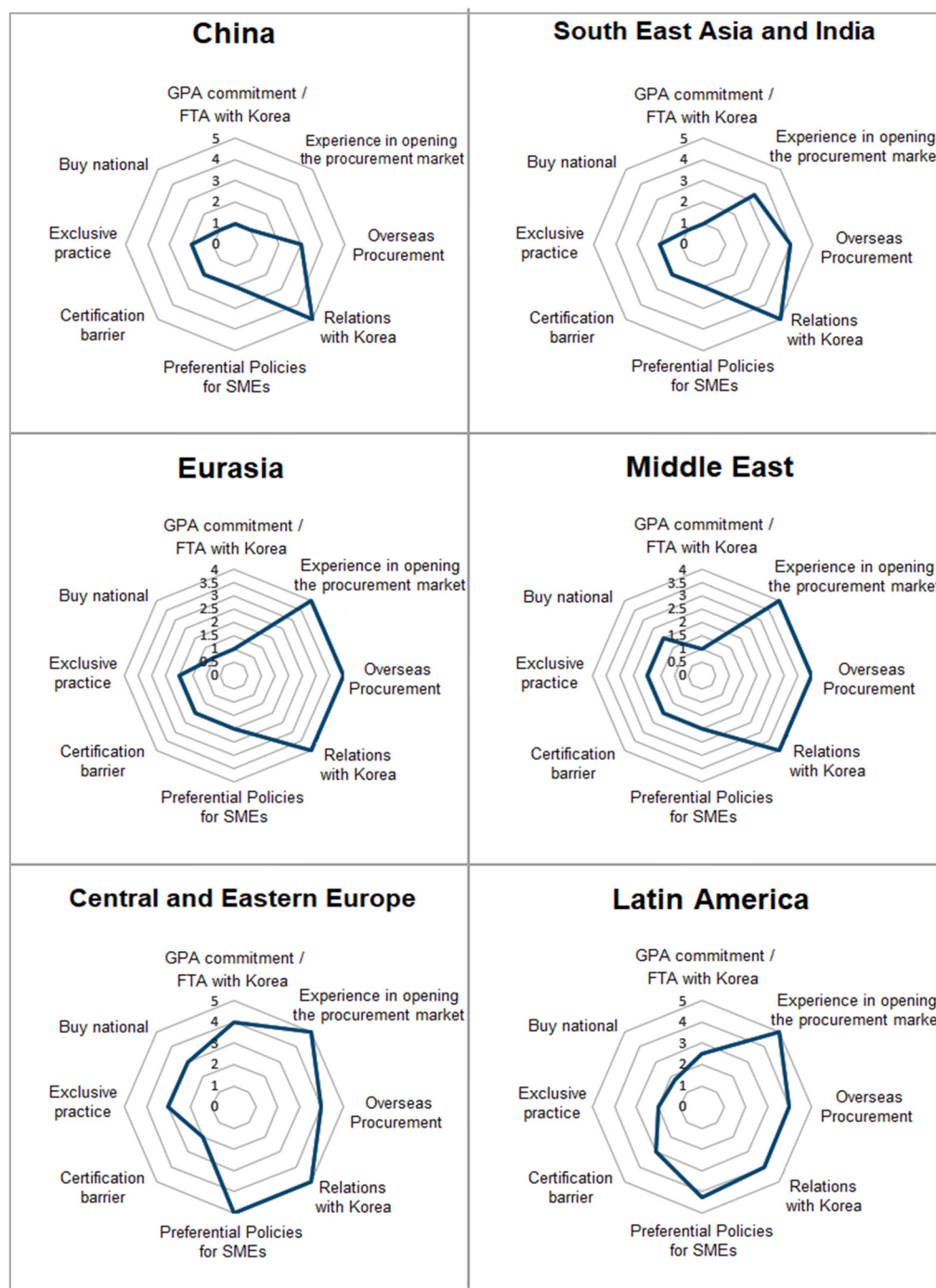
SMEs to enter on their own due to certification issues, domestic priority purchases, etc.

The major emerging economies in this study are all non-WTO-GPA members, except for Poland, Czech Republic, Romania and Central and Eastern Europe. Currently, only China and Russia are in negotiations. Accordingly, it was found that Korean SMEs in the region were not active, as the level of opening in the government procurement market was limited to foreign companies. In particular, cases of advancing into the government procurement market of Eurasian countries – including Russia, Uzbekistan, Kazakhstan – where the remaining elements of the previous socialist system and closed economic policies persist, were relatively rare. The Middle East government procurement market, which is considered to offer ample opportunities, has only been entered in the form of partnerships with large business construction projects, and only a small number of SMEs have entered the Latin American government procurement market. In Southeast Asia, there were some cases of Korean firms entering the government procurement market in the construction sector. However entry by SMEs is not active when considering the market potential, mostly due to the conservative nature of government procurement markets and low level of openness. China is currently negotiating access to the WTO-GPA, and the prospects of these talks remain uncertain. Korean SMEs were very rare in China because of the high barriers for foreign companies to enter the government procurement market. Emerging economies in the Middle East and Eastern Europe (Poland, Czech Republic, and Romania)

are all members of the GPA, and Korean SMEs are relatively more successful than other regions but independent advancement into the market is quite rare. In order to overcome these practical limitations and take into account the

opening conditions and prospects of major emerging economies' government procurement markets, it is necessary to look into the future strategies of Korean SMEs to enter into these markets.

Figure. Analysis on the openness of government procurement market by emerging region



Source: Authorized.

III. The policy implications for SMEs

The policy implications of this study are as follows. First, one-stop services are needed to support entry into the overseas procurement market. In particular, it is necessary to provide one-stop services led by the Ministry of SMEs and Startups or offer additional information easily accessible from the website of each support organization. Second, there is a need to coordinate overlapping projects among various supporting agencies. Institutions are conducting overlapping research on each country's market environment, selecting companies to support, supporting certification schemes, establishing overseas private networks, and developing market pioneers independently. These measures need to be adapted to the strengths and characteristics of each institution. Third, coordination between government administration departments is necessary along with such overlapping tasks. Basically, a one-stop system should be set up and government ministries should coordinate their duties to support firms' advancement into overseas procurement markets. Fourth, we should focus on expanding the openness of government procurement markets in emerging countries by actively utilizing our FTA policy with emerging countries. In other words, in FTA negotiations with emerging economies, we need to establish strategies for entry into emerging markets and specialized foreign economic policies that can enhance accessibility of government procurement markets. Fifth, there is a need for a sustainable SMEs support policy that accurately reflects the realities in the market. Korea provides the greatest amount of support in terms of the

number and types of support systems and policies it provides for its SMEs. However, while most SMEs in Korea are involved in the production of intermediate goods rather than final consumer goods, almost all SME support policies are aimed at SMEs producing final consumer goods. Therefore, policies for SMEs in Korea should be designed in a direction to match these firms with new global cooperative partners who can ensure more efficiency and secure competitiveness for these SMEs participating in various GVCs at home or abroad. Sixth, the factors that lead these SMEs to successfully entering the government procurement market is, in the end, quality competitiveness and the ability to respond agilely to the procurement process. Government support for the procurement process (local information, preparation of bidding documents, guarantees, funding, etc.) has already been fully made. The fundamental support system should be transformed into a Public Procurement of Innovative Solutions (PPI) system that enhances the competitiveness of SMEs and products and enables SMEs to participate in domestic and overseas procurement markets. PPI is a system in which the government supports and induces technological innovations from suppliers and acts as a leading buyer of products developed by SMEs. Seventh, with regard to government procurement-related trade policies, the government must make efforts to increase market access to the government procurement market in emerging economies with trade strategies differentiated by emerging countries. For example, the Chinese government procurement market has great market potential, and the Korean government should actively participate in international discussions to encourage China to join

the GPA as soon as possible. In preparation for future opening of China's procurement market, we should support continued research on institutions and markets. On the other hand, Latin American countries are already opening up government procurement markets among countries in the region. Therefore, in order to enter these procurement networks, it is necessary to actively use procurement cooperation channels negotiated by joining the PA member states and effectively utilizing the procurement cooperation channels established when signing FTAs with these economies.

Recently we are seeing various international discussions on the role of SMEs in government procurement. Korea should actively participate in research on government procurement and small businesses conducted by the OECD or the Small and Medium Business Work Program at the WTO. These international discussions mainly share best practices and advanced systems related to SMEs, thus allowing Korea to benchmark developed countries' practices and systems and actively participate in international discussions to obtain information on global procurement trends and promising items. **KIEP**