



INNOVATIVE SMES IN THE GLOBALISED ECONOMY

Boris Chistruga,

Phd Professor

ORCID iD: 0000-0001-7312-9946

Abstract *The current stage of development of the world economy places new demands on all economic units, but particularly on transnational corporations and small and medium-sized enterprises. Globalisation supports and promotes innovative enterprises, whether large (TNCs) or small (SMEs). It is a two-way process, with both sides winning. In this context, the external factor is a determining factor in the development of innovative SMEs, which contribute to the expansion of 'globally born firms'. And their participation in global value chains is the best way to be competitive and to ensure an export potential adequate for sustainable economic growth. In this context, identifying priority development directions and analysing export potential become the main issues for small economy countries, which would focus on stimulating the performance and innovation of economic units, primarily SMEs.*

Key words: *globalisation, innovations, small and medium-sized enterprises, global value chains, export potential.*

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It is undeniable that at the core of the functioning of the world economy are such fundamental processes as internationalisation, globalisation, transnationalisation and integration. These are objective economic processes, which take place regardless of man's attitude and desire, his subjective perception. The explanation is as simple as can be. The transition from one stage of development to another ensures a level of productivity that is clearly higher than the previous stage, and is the determining factor in economic growth and prosperity in the world economy.

It should also be noted that the current stage of globalisation, which is the upper stage of internationalisation, is characterised by a complex combination of transnationalisation and integration. Both one process and the other have produced results that are hard to dispute. The formation of strategic alliances between transnational corporations, the expansion of global production and distribution networks, global value networks, the establishment of the economic and monetary union - the European Union, are indisputable results of the process of internationalisation in the world economy, which, I repeat, have enabled mankind to achieve labour productivity unimaginable a few decades ago.

This rise of mankind has, regrettably, been halted for some time now (see Table 1). The reasons are many and varied. A general one, from a philosophical-economic point of view, relates to the delay in perfecting economic relations between the subjects of the world economy system (the set of interdependencies) in relation to the level of development of the productive forces based on the results of scientific-technical progress... But there is another reason that emerges from the political aspect - an unprecedented sharpening between democracy and autocracy (totalitarianism), linked to the need to change the set of values with the transition to another cycle of modernity.



But these are separate issues that could be the subject of another article.

The global crisis of 2008-2009 was a serious warning that the world economy is facing very serious problems. The evolution of the indicators of the development of the world economy in the next period, 2010-2020, confirms this conclusion. The outlook for 2021-2023 is not very encouraging either. Some of them (the results for 2021 and the forecast for 2022) confirm that the negative trends have worsened and the consequences may be far-reaching. One of them could be that investors withdraw their investments from areas that have already become traditional to safer areas, thus causing the already high degree of uncertainty in the world economy (see figure 1). The most vulnerable in this respect remain developing countries and primarily small economies.

Table 1. Evolution of world real GDP from 1971 to 2021, %.

	1971-1980	1981-1990	1991-2000	2001-2008	2011-2021	2022	2023 outlook
World	3,51	3,39	3,61	4,11	3,0	3,0(3,2)	2,2(2,7)
OECD	3,5	3,16	2,78	2,44	1,66	1,7(2,4)	1,9(1,1)
UE27	3,36	2,42	2,23	2,0	1,2	1,2	1,3
USA	3,19	3,34	3,45	2,51	2,21	2,3(1,6)	2,5(1,0)
CHN	-	-	10,13	10,7	7,63	3,2(3,2)	4,7(4,4)

Source: (FMI-real GDP)

The world economy is paying a high price for the pandemic and energy crises of 2020-2023. As the impact of the COVID-19 pandemic persists, the war drags down growth and puts additional pressure on prices, especially for food and energy. Global GDP stagnated in 2022 and output also declined in G20 economies. High inflation persists longer than expected. In many economies, 2022 inflation was at its highest level since the 1980s. With a worsening of recent indicators, the global economic outlook has darkened. There are some conclusions to be drawn in this context. The global economy is slowing more than expected supplemented (accompanied) by much higher inflation. Over time inflation will come down, but will remain at fairly high levels caused also by energy shortages. To overcome these negative trends it is necessary to revive production, diversify the product portfolio...

Similar problems could occur in financial markets. First of all, we refer to a possible increasing outflow of capital from high-risk countries. The Managing Director of the International Monetary Fund, Kristalina Georgieva, warns "...of possible much larger disturbances in financial markets in the coming period, including a sudden loss of appetite for emerging market assets, leading to large capital outflows as investors retreat to safe assets" [3,p.16]. To guard against possible turmoil in international financial markets, especially for small economies, their central banks should increase their foreign exchange reserves and reduce external debt. Particular attention should also be paid to the foreign currency debt of private capital, which could also be a vulnerability for the economies of these small countries. All this is exacerbated by the fact that the national currencies of small countries are usually pegged to either the US dollar or the euro, and the appreciation of the latter could also be a high risk for national currencies. In the same vein, we could also examine the impact of rising export inflation as a result of rising interest rates...

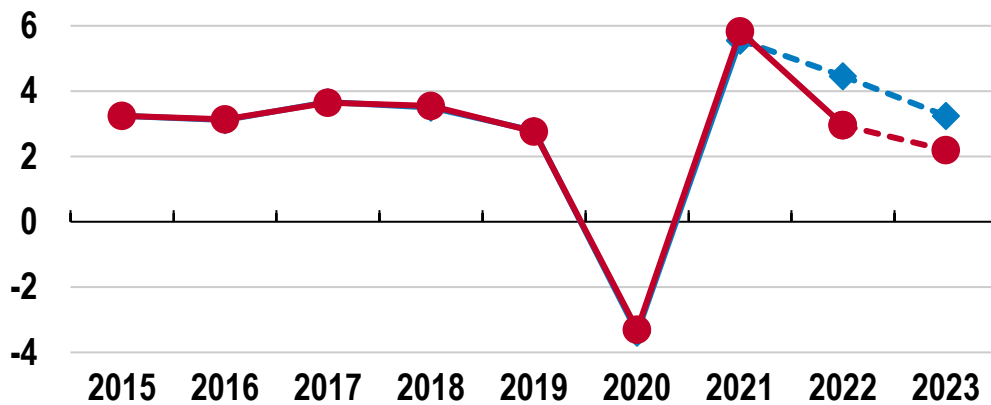


Figure 1. FDI flows, overall and by economy group, 2005–2020 (mld. USD și %)

Source: Outlook, December 2021

The activity of all economic units in the world economy is primarily marked by the moments mentioned above. Transnational corporations, together with other large enterprises, assisted by a multitude of small and medium-sized enterprises, which in many cases formed global value chains, were the real sources of prosperity in many countries of the world. The processes of globalisation, transnationalisation and integration provided a strong foundation for all economic units to expand and diversify production based on innovation, with considerable support - technical and scientific progress.

At the present stage of global confrontation on all the above-mentioned dimensions, it is all the more necessary to formulate and establish on the right basis the ways of activating international business and the MSI in particular. To this end, it is necessary to mention those basic concepts that would facilitate the analysis proposed in the article. First of all, 1) sustainable economic growth, which in the context of this research is based on two main moments.

The performance and financial possibilities of economic units (primarily MSIs) compared to their competitors and the level of innovation they engage in. In the following we will first look at the role and place of innovation in sustainable growth, i.e. their ability to offer customers unique products and/or services, develop revolutionary marketing programmes and adopt the latest technology in their industry.

Secondly, of unquestionable importance is 2) the societal impact of business units in terms of alignment with the Sustainable Development Goals (SDGs) through the development of specific outcome indicators to measure their positive contributions to the SDGs, stakeholder engagement and the inclusion of social and/or environmental considerations in their performance and strategy.

Thirdly, we consider 3) the adaptability of MSMEs to the need to restore their performance lost during recessions, their resilience to economic and social shocks, their capacity (ability) to react quickly to changes in consumer demand, reacting positively to new product or service launches and reinventing and/or redesigning their products, services or processes to better serve the market.

All three aspects mentioned above bring innovation and export orientation to the fore as the main tools to synchronise the achievement of the three notions (aspects).



Innovative SMEs.

Promoting the development of small and medium-sized enterprises (SMEs) in the context of internationalisation, globalisation, transnationalisation and integration is vital and absolutely necessary, primarily because of their economic importance in most countries of the world. Small and medium-sized enterprises (SMEs) account for around 90% of all firms globally, provide around 70% of all jobs and, according to some estimates, contribute up to 70% of global GDP. But there is also a very important point that SMEs are making them more inclusive in their economic growth by moving to an even higher level of productivity and competitiveness. Achieving inclusive growth is one of the most pressing issues on the policy agenda for the 21st century. At the aggregate level, these enterprises play a significant role in enabling, constraining and shaping the nature of growth, innovation and sustainability in our global, regional and local economies.

The Internationalization (Globalization) process supports and promotes innovative enterprises, be they large (TNCs) or small (SMEs). TNCs expand their activities in local markets and local enterprises have the opportunity to enter global markets. It is a two-way process. In this sense the external factor is a key determinant of the development of innovative SMEs, going through some basic stages: Information and Communication Technologies > Raising the professional level of managers > Internationalization of local firms > Participation in Global Value Chains (GVCs). At the core of these is the binomial: Innovation - Competitiveness.

It should be noted that of the 59.4 thousand MSMEs in Moldova, which constitute 98.4% of all reporting enterprises in 2021, only about 450 consider themselves innovative. A tiny number, which is also decreasing in recent years.

Table.2 Innovative enterprises, 2015-2020

	Total	including IMM	Total	including IMM	Total	including IMM
	2015-2016		2017-2018		2019-2020	
Innovative enterprises-total	673	609	605	541	448	392
Innovative product enterprises	57	53	51	48	32	31
Innovative process enterprises	56	50	37	32	24	21
Product and process innovative enterprises	42	35	31	27	18	15
Innovative organisational enterprises	72	68	81	73	33	31
Innovative marketing enterprises	99	94	91	84	56	52
Innovative organisational and marketing companies	71	67	70	63	62	55
Enterprises that have achieved more than one type of innovation	276	242	244	214	223	184

Source: data from the National Bureau of Statistics of the Republic of Moldova

Regrettably, there are no clear criteria for awarding the "innovative enterprise" label and SME activity in patenting inventions is extremely low compared to trademark and industrial design registration. Despite the high share of SMEs, they make insufficient use of IP potential.



According to Eurostat data, around 50% of SMEs in the EU are engaged in innovation activity: technological or non-technological. It is interesting to note that an OECD survey carried out as early as 2011 indicates a surprisingly high level of innovation activity among SMEs in Moldova: some 54% of SMEs reported having introduced a new product or service in the last 3 years. This confirms that not all economic units understand the notion of "innovation" correctly. Dexonline proposes the following definition of innovation: change, introduction of something new in a system, practice, activity, technical operation, etc. So an enterprise could be considered innovative if the result of the activity is a new good (product or process) or a substantial improvement, a substantial change in organisation or marketing.

At present, the encouragement of innovative activity by SMEs is in the form of: grants, tax breaks, reduced fees for IP legal services: fees for inventions are only 15% of the usual fees, for industrial design - 35%, for trademarks - 50%.

Table 3. Innovative enterprises by economic activities and size classes, 2019-2020

	Total enterprises	Total Small enterprises	Total Medium enterprises
	Innovative enterprises - total	Innovative enterprises - total	Innovative enterprises - total
Total	448	255	134
B Mining and quarrying	3	2	1
C Manufacturing industry	200	99	69
D Production and supply of electricity, gas, heat, hot water and air conditioning	10	1	3
E Water distribution; sanitation, waste management, remediation activities	6	3	2
G46 Wholesale trade, except of motor vehicles and motorcycles	100	69	28
H Transport and storage	32	23	7
J Information and communication	63	42	14
K Financial and insurance activities	19	5	6
M Professional, scientific and technical activities	15	11	4

Source: data from the National Bureau of Statistics of the Republic of Moldova

SME export orientation is another tool to synchronize the three aspects, which would bring certain advantages, such as: Ensuring economic and financial stability, increasing productivity, increasing competitiveness in the domestic market, increasing sales volume, reducing dependence on the initial customer portfolio, reducing seasonal fluctuations. Disadvantages: additional costs: personnel, administrative, financial, packaging, promotion; longer payment terms and higher risk of default; subordination of short-term profits to long-term gains.

There are certain barriers to SMEs' access to foreign markets: intellectual property rights, political risks, corruption and law enforcement, customs procedures, certification and testing system. Of course, access to foreign markets is quite limited for new SMEs. This is why they should start looking at foreign markets in the first place. We are talking about a 'born global' firm (2,p.47), when a company, right from



its inception, seeks to build competitive advantages by using resources located abroad and marketing its product in several countries. From the very beginning of their activity, they integrate the constraints and opportunities of economic globalisation and accelerating trade. What could be a priority for large corporations has become the growth model for these nimble and ambitious entrepreneurs. This process is also known as 'New ventures' (7,p.61), which questions the universality of traditional models of staged internationalisation.

Gradually, opportunities are emerging for such SMEs to become part of global value chains. Obviously, another path could also be considered, if the state through well-coordinated policies stimulates SMEs to participate in GVCs. So an effective way for SMEs to internationalise their activities is to participate in global value chains (GVCs), which link firms across countries through international trade, allowing those with limited resources and capabilities to take on specific tasks or processes within a GVC, rather than having to engage in the entire production system. Namely through the participation of MSMEs in

LGV can ensure sustainable and inclusive economic growth that promotes equitable opportunities for all subjects of the global economic system.

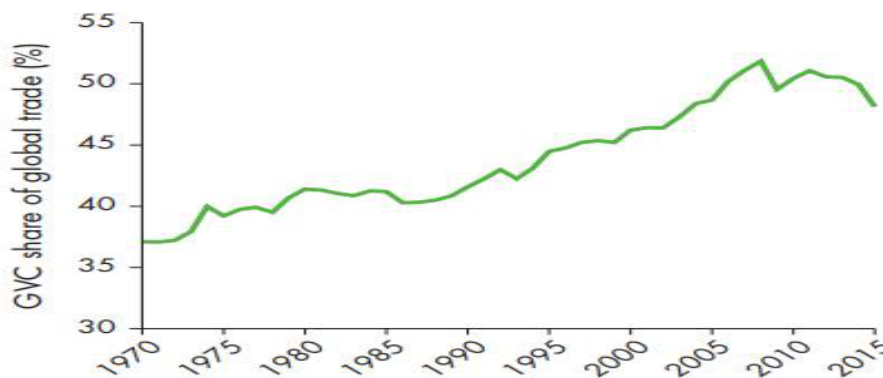


Figure 2. Global share of GVC trade in total world trade 1970-2015

Source: https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

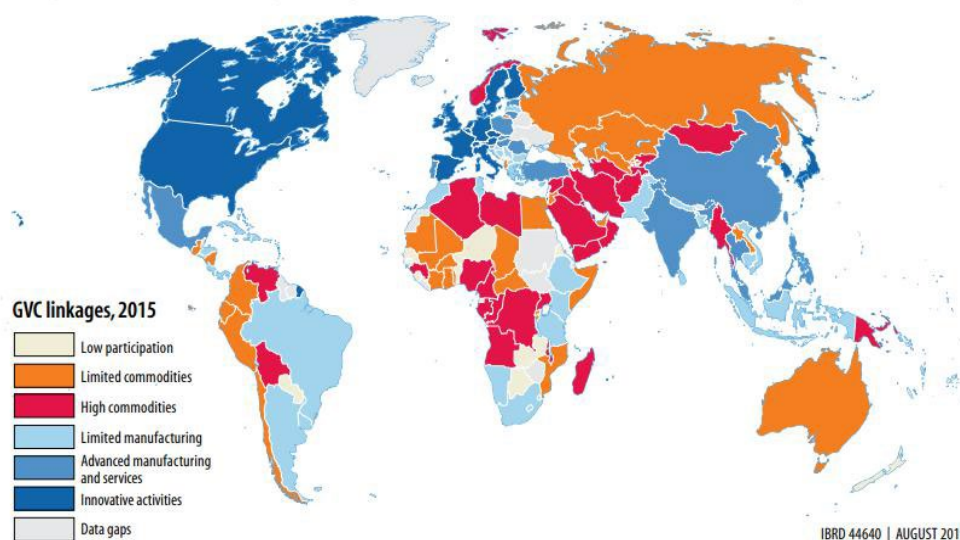


Figure 3. Countries with different types of LGV participation

Source: https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e



So one of the shortest growth paths for SMEs at the current stage are LGVs...

There are several factors, which influence the participation of SMEs in global value networks. These fall into two groups: internal and external. Among internal factors we mention cases when: the domestic market is saturated, products can be better developed in relation to foreign markets, diversification of the customer portfolio is needed, the company has a specialised product with a market below the production/development capacity in the home country, securing a source of foreign currency to pay for imported products. External factors include the existence of a favourable external environment, better profitability can be achieved in other markets, the firm has a comparative or competitive advantage.

Obviously, MSMEs also face certain risks in terms of participation in GBR. Economic risks include buyer insolvency, complaints or non-acceptance of goods, financial and valuation risks. No less important are the political risks: revocation of the licensing system, expropriation, import blockage, war

In this context it is very important to note that cooperation between TNCs and MSIs is not only a two-way process but also mutually beneficial. Because through investment flows as a result we have a transfer of technologies, diversification of manufactured products, penetration of new markets, which for the MNE is vitally necessary. In this sense, both subjects of the global economy system (TNCs and MSMEs) could make a significant contribution to sustainable economic growth, which must also be inclusive growth. Maintaining this dependence is quite complicated, particularly at the present stage. Economic growth gives rise to corruption, an inextricable problem characteristic of developing countries and beyond. This can lead to inefficiencies in the work of WMUs... However, inclusive growth could keep MSMEs working in an innovative environment with equal opportunities for increased labour productivity, access to markets, resources and a long-term perspective.

This is where the link between internal and external factors of economic growth, the linking of the microeconomic and macroeconomic dimensions of the economy, the implementation of economic and social reforms in the countries of the world with a view to structural transformation and economic diversification are achieved. This is the sine qua non for sustainable and inclusive growth for any country, particularly those with small economies. Their economic units must be based on innovation, and therefore also on investment, must be export-oriented and, last but not least, must participate in Global Value Chains. In turn, the above can only be achieved following and on the basis of a complex analysis of the priority directions of development of the respective country's economy and its export potential. Let us examine these moments in turn.

Export potential of SMEs.

The main role of the state in this process is primarily to identify priority directions for the country's long-term economic development. A complex and detailed analysis of economic sectors and products, which could be the country's export spearhead, would be a necessary addition to what we call the priority development directions. As a result we would get a comprehensive picture of the export potential of the country as a whole and on each particular economic sector and product. In this way the country could also concentrate its efforts and resources to achieve the maximum available



result. In the literature we have such analyses, for example the International Trade Centre proposes the analysis of the export potential of about 150 countries, including Moldova.

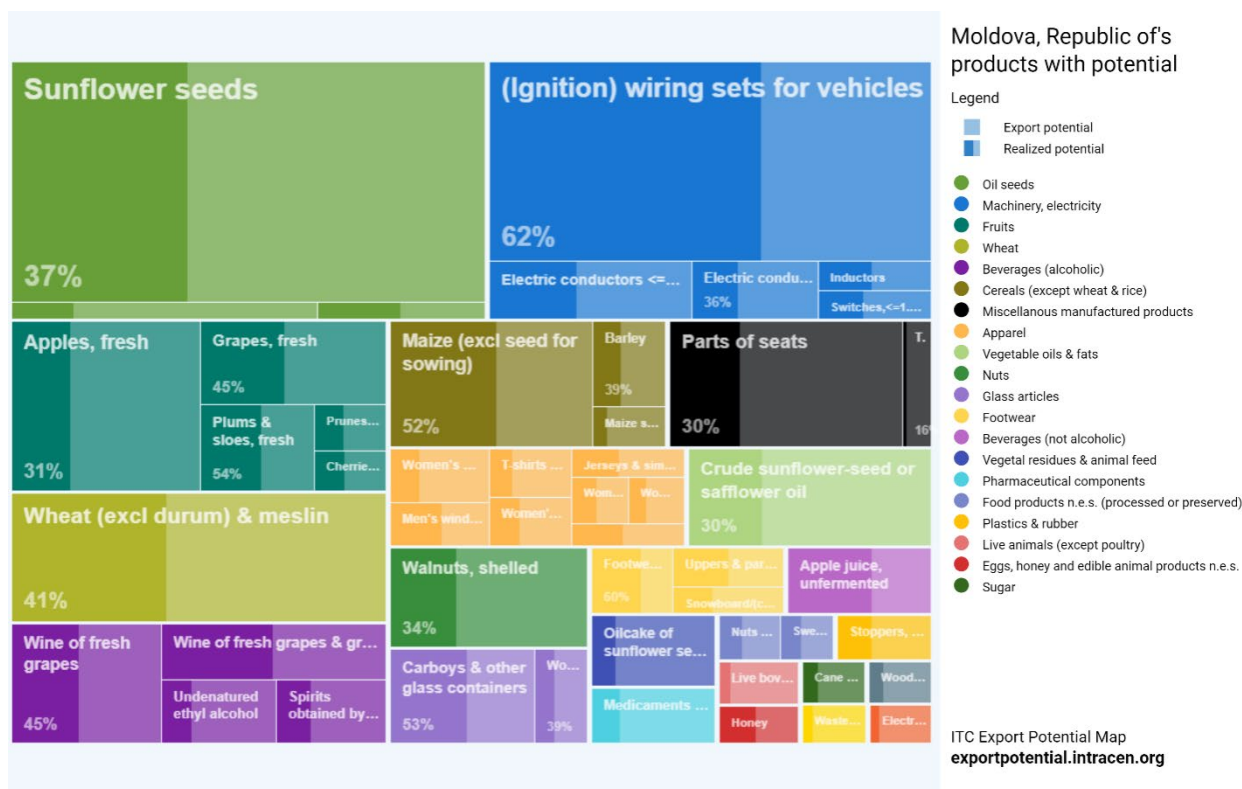


Figure 4. Map of Moldova's export potential

Source: retrieved intracen.org.

It should be noted that the unrealized export potential of Moldova in 2021 is about 2.2 billion USD, according to the analysis proposed by the International Trade Centre. The products with the highest export potential from Moldova, Republic to the World are sunflower seeds, (ignition) wiring sets for vehicles, wheat (excl. durum) and meslin, parts of seats, apples, unripe, raw sunflower seeds. Sunflower seed shows the largest absolute difference between potential and actual exports in terms of value, leaving room for additional exports worth \$337 million. The Republic has the largest supply capacity in sunflower seeds.

The analysis of Moldova's export markets in 2016-2021 shows that Moldova's export potential in this period was mostly realized in Romania - 63.4%, Italy - 51%, Germany - 42.9%, Russian Federation - 41.5%, Turkey - 38.6%. It should be noted that the majority of exports are made to Europe, in particular the EU. Moldova has an unrealized potential of fruit exports to the EU worth 104.7 million US dollars, including grapes 27.1 million US dollars, fresh plums and pigeons 11.2 million US dollars, dried plums 6.9 million US dollars. The markets with the greatest potential for Moldova's exports of all products are Romania, Turkey and the Russian Federation. Turkey has the largest absolute gap between potential and actual exports in terms of value, leaving room for additional exports worth \$268 million.



Table 4. Export potential of the Republic of Moldova

	potential export, mln.dol. SUA	export spot, mln.dol. SUA	unrealized export potential, mln. dol.SUA	Word import mlrd dol.SUA	Moldova's export share, %
Sunflower seeds	535	212	337	4,5	4,72
Wiring (ignition) sets for vehicles	416	309	160	40	0,78
Wheat (excl. durum) and meslin	230	125	134	40	0,32
Apples	153	99	105	7,8	1,27
Parts of seats	140	111	98	30	0,37
Maize (excluding seed for sowing)	122	96	58	39	0,25
Sunflower seeds, not dried, raw	114	84	79	9,2	0,92
Walnuts, shelled	95	70	63	2,0	3,5
Grape wine	85	80	47	26	0,31

Source: calculated by the author based on ITC data, intracen.org;
<https://exportpotential.intracen.org/en/products/analyze?fromMarker=i&exporter=498&toMarker=w&market=w&whatMarker=k>

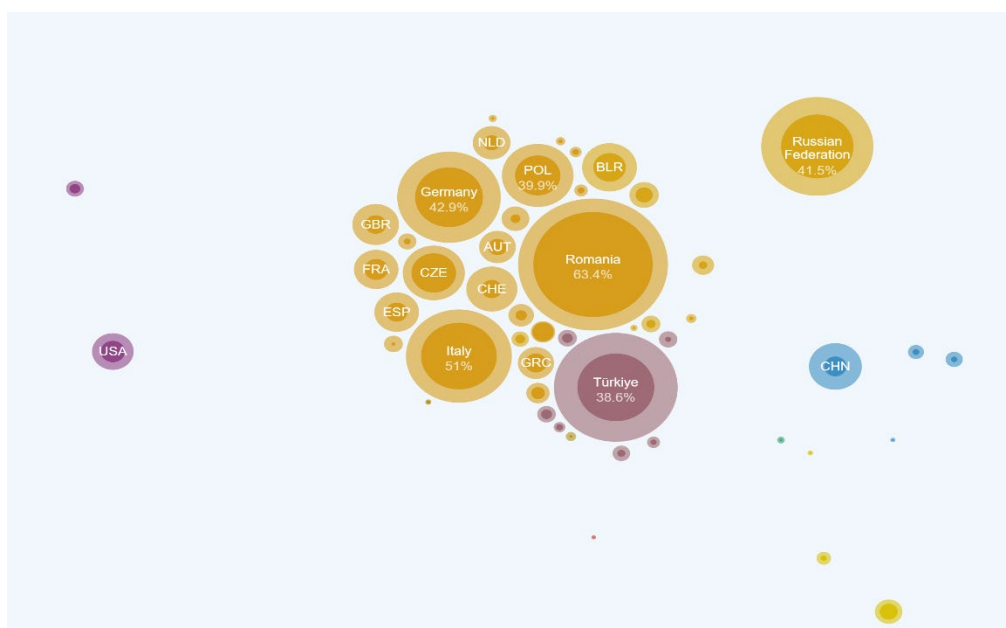


Figure 5. Analysis of Moldova's markets in 2016-2021

Sursa: ITC, <https://exportpotential.intracen.org/en/markets/geo-map?fromMarker=i&exporter=498&toMarker=j&whatMarker=a&what=a>

Conclusions

The world economy is slowing down more than expected, Inflation has become more widespread, which will ease but remain at high levels, And demand reduction and supply diversification are needed to avoid energy shortages. The current stage of the world economy is dominated by a lot of diverse but very contradictory processes and phenomena. The pace of growth in the main indicators is slowing, divergences between the major powers are increasing, inflation and unemployment are rising, etc. But at the same time, new opportunities are emerging to ensure sustainable economic growth. In order to achieve this, it is essential to formulate and establish a sound basis



for activating international business and the MSMEs in particular. The main one being sustainable economic growth, which in the context of this research arises from the need and obligation to synchronise this process with the Sustainable Development Goals (SDGs) by measuring the societal impact and positive contributions to the SDGs of SMEs. We also take into account the adaptability of MSMEs to the need to restore their performance lost during recessions, their resilience to economic and social shocks, their capacity (ability) to react quickly to changes taking place in the global economy.

The adaptability of SMEs is also based on innovation and export openness. In this respect, the external factor is a key determinant of the development of innovative SMEs, going through several basic stages: Information and Communication Technologies - Raising the professional level of managers - Internationalisation of local firms - Participation in Global Value Chains. At the basis of these are the binomial: Innovation - Competitiveness, which should be the starting point in the process of identifying the priority directions of development of Moldova ensuring the increase of their export potential in the long term.

Therefore, there are two ways to increase the potential of SMEs in Moldova: 1. Considerable increase of investments, including FDI, in the expansion of certain priority development directions, with a very clear concretization of SME support, including the modification of the policy in the field of subsidies. 2. Participation of SMEs in global value chains (GVC). Both can only be achieved through state-supported policies.

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