Does Foreign Direct Investment and Global Value Chain Participation Improve the Competitiveness of Emerging Market SMEs? Evidence from a Quantitative Cross-Country Analysis

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Abstract:
This study examines the relationship between Foreign Direct Investment (FDI), Global Value Chain (GVC) participation, and SME competitiveness in emerging markets. Drawing on a positivist research philosophy, the study adopts a quantitative explanatory design using panel data from 1,250 SMEs across twelve emerging economies. The analysis integrates survey-based primary data and secondary data from international databases, including the World Bank, UNCTAD, and OECD, to enhance measurement validity and reliability. The empirical strategy combines panel regression analysis and Structural Equation Modeling (SEM) to examine both direct and indirect effects. The results reveal that FDI has a positive and statistically significant effect on SME competitiveness, while also strongly enhancing GVC participation. Mediation analysis confirms that GVC participation partially mediates the relationship between FDI and SME competitiveness, indicating that a substantial portion of FDI's impact operates through global production network integration. SEM results further confirm strong model fit, supporting the robustness of the proposed framework. The findings provide strong support for Spillover Theory and the Resource-Based View, demonstrating that foreign investment improves SME competitiveness through knowledge transfer, supplier linkages, and global integration mechanisms. The study contributes to the literature by integrating FDI and GVC perspectives into a unified framework and providing cross-country empirical evidence on mediation effects. Policy implications highlight the importance of supplier development programs, digital transformation, institutional reform, and innovation support to maximize the benefits of FDI for SMEs. Despite limitations related to endogeneity, self-report bias, and country heterogeneity, the study offers robust evidence on how FDI enhances SME competitiveness in emerging economies.

Keywords:
Foreign Direct Investment, Global Value Chains, SME Competitiveness.