



*Key findings from the 2015 APEC Ministers
Responsible for Trade and CEO Special
Dialogue Session*

Fostering small business participation in regional and global value chains

May 23-24, 2015

Boracay, the Philippines



Introduction

The unprecedented rate of growth in the APEC region has been supported by the opening of new markets, technological change and innovative, new business models. Enabling policy frameworks are required to ensure that everyone, including small businesses, women and marginalised groups, can access, utilise and benefit from emerging growth opportunities. While governments play a central role in this task, it is also clear that policy issues such as the inclusion of micro, small and medium enterprises (MSMEs) in global value chains, the realisation of disaster and energy resilience, inclusive mobility, and affordable and sustainable healthcare systems require a whole-of-economy approach.

To support APEC's goal of "Building Inclusive Economies, Building a Better World", the APEC Business Advisory Council (ABAC) and APEC 2015 CEO Summit team proposed a series of dialogues between ministers, senior government officials and industry leaders from the 21 APEC economies. They held four Special Dialogue Sessions on trade, MSMEs, transport and energy, and facilitated greater industry participation in the 5th High Level Meeting on Health and the Economy and the 9th Senior Disaster Management Officials Forum. PwC contributed time and expertise as the Knowledge Partner for each of these meetings.

The need for a whole-of-government, whole-of-economy approach to address various policy issues and the pursuit of more innovative and effective public-private sector collaboration were the key themes in these meetings. The goal for the meetings was to promote a robust exchange between ministers, senior government officials and the business community. The seeds for future cooperation have been planted and we hope that this report will inspire more discussions between leaders in the public and private sectors at all levels.

“The significant thing that was achieved in this Ministers Responsible for Trade meeting is that they put a little more focus in terms of assisting micro and small enterprises. We will continue the work in terms of pursuing more activities in strengthening the participation of MSMEs in global value chains.”

- Hon. Gregory Domingo, Secretary of Trade and Industry, the Philippines

What's on the agenda?

Global value chains (GVCs) are evolving and splintering, creating a divide between globalised value chains for high volume, low demand volatility products, and local value chains sensitive to local needs and demands. The disintegration of GVCs, due in part to a world more open to trade and investment, is creating new opportunities for micro, small and medium enterprises (MSMEs) that aspire to go global.

The interplay between global business and MSMEs are at the heart of global value chains in APEC. For the purpose of discussion, MSMEs were defined as businesses whose potential to expand beyond its local market has, for one reason or another, been stifled. Viewed in this context, how can access be expanded and specific barriers be dismantled to promote business growth? What are the common barriers to MSMEs and how can APEC help lower or clear them?

The discussion focused on three aspects:

- The evolution of GVCs
- GVC areas that offer the most opportunity for MSMEs
- What Ministers can do to facilitate the participation of MSMEs in GVCs



Context

MSMEs today generate between 20–50% of GDP in APEC economies and around 35% of direct exports. Active and growing MSMEs are growth drivers that can help economies in Asia Pacific maintain growth rates that have been fuelled by rapid industrialisation. MSMEs represent 97% of all enterprises in the APEC and there is a consensus that more can be done to further harness the growth potential of MSMEs.

The key messages from business leaders focused on the common barriers to MSME growth. Their recommendations to the APEC Minister Responsible for Trade focused on:

1. Transparent rules and regulations
2. Business cluster formation
3. Knowledge transfer
4. Capacity building

The way forward

Strive for simplicity and transparency

“Creating their products is what SMEs should get on doing. We need to help them by eliminating all these barriers.”

While tariffs have fallen across APEC, variations in both tariff and non-tariff barriers remain high. There are gaps between agreements and practices that stifle growth and/or profitability in the region for large multinational companies (MNCs) and MSMEs alike. MNCs deploy formidable resources against these constraints, but for a small business seeking to break out of their local market, the intricacies of importing and re-exporting were summarised by one participant as an unwelcome series of “surprise and surprise.”

Simpler and more transparent rules and regulations are needed to guide cross-border trade in the region. In particular, business leaders agreed that:

- **Wider adoption and implementation of the WTO Trade Facilitation Agreement (TFA)** would boost success rates for small businesses. Developing economies would likely experience the greatest gains, according to the WTO, with some studies showing that trade costs are estimated to fall by 13.2% to 15.5%.
- **Harmonising product standards** in areas such as food safety and incorporating testing and certifications, are other realms where participants believe important gains can be made.

2

Support business cluster formation

“Uncertainties around delivering and receiving supplies create a substantial burden on MSMEs venturing into different markets.”

Business clusters to allow small businesses to leverage the advantages of scale in areas such as logistics, business services and technology support. Clusters can also accelerate specialisation as MSMEs, by virtue of proximity alone, gain access to MNCs and their supplier networks. And clusters can be virtual. Just as MSMEs often face difficulties finding buyers and distributors, potential buyers are also looking for them.

Participants believed that:

- **Collaborative platforms can foster new connections.** For example, Enterprise Canada Network (ECN) is an online directory linking thousands of business, technology and research partners from across Canada and the world.
- **Investments in basic infrastructure development** to modernise port facilities and ease stress on road systems are key, although this may be more in the remit of transport ministers.

3

Augment knowledge transfer at every available turn

“If it’s easy for me to export goods to a country, I’ll invest there. Otherwise, it’s not worth it.”

MNCs recognise that advantages from wage arbitrage are fleeting. They are restructuring to exploit the geographic spread of specialisations in production as well as in services. Moreover, as purchasing power shifts to developing economies, MNCs will increasingly turn to SME partners to speed up innovation for local markets.

Participants noted that:

- **MSMEs with design and technology capabilities are invaluable assets.** Traditional barriers such as access to market and access to finance are rapidly dwindling as the digital economy connects markets. Innovative financing models such as peer-to-peer lending and targeted trade finance over digital platforms make inroads into MSMEs’ ability to tap capital. What remains is supporting the talent they need to effectively compete directly in global markets or to meet MNC specifications.
- **Openness to trade and investment**, measured in part by easing restrictions on imports and on trade in services, can speed up knowledge transfers between MNCs and local MSMEs. It provides MNCs greater flexibility when entering a market and choosing MSME partners. Economies that impose significant local requirements or set import duties well above global market rates only serve to stunt the growth of a healthy export sector and scare off new investors and foreign enterprises.

4

Invest in MSME capacity building

“Helping SMEs build the management capacity and expertise is key to boosting participation in GVCs.”

The rigours of meeting product quality, price and delivery specifications as a supplier to an MNC are widely recognised. Other equally important attributes of a preferred partner for an MNC such as trust, financial soundness, governance and transparency are less well understood.

These factors reflect the stability and sustainability of the potential business partner and MNCs weigh these reputational risks when assessing the worthiness of potential MSME partners. Operational risk reviews often consider whether the potential partner can scale to meet an increase in demand or if their IT systems are interoperable and secure.

Programmes and initiatives that enable MSMEs to build their management capacity and expertise to meet these MNC supplier requirements are key to boost their participation in GVCs. MSME participation in global GVCs are instrumental for economic growth, as it facilitates market entry for MNCs and provide MSMEs the access to more customers.

Ministerial outcome: The Boracay Action Agenda

APEC trade ministers on May 24 agreed to a set of actions –and a timeline to 2020 – to widen and deepen MSMEs involvement in international markets and GVCs.

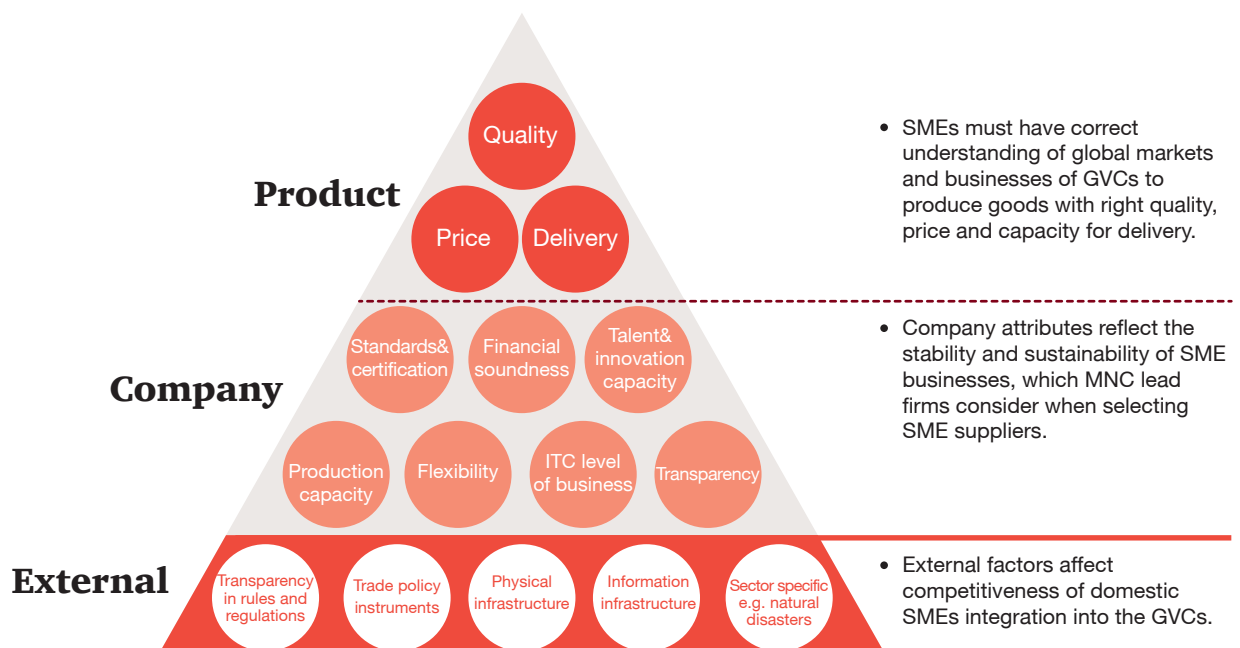
Many of the initiatives in the Action Agenda echoed priorities raised by the business leaders.

Action Agenda items include:

- Support implementation of the WTO Trade Facilitation Agreement, including publishing relevant rules and regulations
- Simplify rules of origin
- Streamline customs rules
- Consider codes of ethics in sectors of export interest to MSMEs
- Strengthen institutional support for MSMEs

More at <http://www.apec.org>

Product, Company and External attributes that affect MSMEs participation in Global Value Chains



Source: APEC - Integrating SMEs into Global Value Chains: Policy Principles and Best Practices

List of participants

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About ABAC

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders to provide advice on the implementation of the APEC agenda and on specific business sector priorities. Its members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises.

About APEC CEO Summit

The APEC CEO Summit provides an opportunity for business leaders in the Asia-Pacific to engage in discussions with APEC Economic Leaders, policy makers, academia and other CEOs on issues facing the region. The Summit is held in the APEC host economy just prior to the annual APEC Leaders' Meeting and is an example of APEC's efforts to promote public-private sector dialogue and cooperation. This year's Summit is being hosted by APEC Philippines.

About PwC

We provide organisations with the professional service they need, wherever they may be located. Our highly qualified, experienced professionals listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they seek. Our industry specialisation allows us to help co-create solutions with our clients for their sector of interest.

This report was prepared by PwC in its role as Knowledge Partner to the APEC 2015 CEO Summit.

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