

13 August 2015

Hon. Gregory L. Domingo

Chair, APEC SME Ministerial Meeting
Secretary of Trade and Industry
Republic of the Philippines

Dear Secretary Domingo:

The APEC Business Advisory Council (ABAC) commends APEC for the ongoing and new initiatives developed to foster the participation of APEC micro, small and medium enterprises (MSMEs) in regional and global supply chains and markets.

We particularly applaud the adoption of the **Boracay Action Agenda to Globalize MSMEs**. The Action Agenda builds on APEC's extensive work on regional integration and trade facilitation and will help ensure that these efforts remain relevant and responsive to needs of MSMEs as much as they are to big business. **ABAC welcomes the opportunity for close collaboration between ABAC and APEC, as called for in the Boracay Action Agenda**, toward promoting APEC MSMEs participation in global trade.

ABAC recognizes that access to international markets offers a host of business opportunities for MSMEs, including new niche markets; possibilities to exploit economies of scale, scope, volume and technological advantages; ways of spreading risks; lowering and sharing costs, and in many cases, affording improved access to finance. Affirming the importance of spreading the benefits of globalization to encompass MSMEs, ABAC priorities this year include **embracing electronic commerce to accelerate MSME access to international markets; promoting innovation and MSME participation in the global value chain; and expanding affordable credit to MSMEs**.

First, we believe that MSMEs' participation in regional and global markets is enhanced when they leverage on the benefits provided by e-commerce. The existing international trade frameworks and regimes have been designed for traditional forms of trade and investment and currently inhibit growth and MSME participation in cross-border e-Commerce. As such, based on a joint study carried out by ABAC and the University of Southern California Marshall School of Business, we identified that the cross-border e-Commerce process for MSMEs can be realized and enhanced through: (i) simplified and harmonized domestic policies and processes that enable internet-based business and trade; (ii) more capacity building initiatives that promote the adoption of internet-based tools and assist MSMEs to explore cross-border e-Commerce; (iii) greater sharing across APEC economies of successful training programs, especially online training courses designed to educate MSME firms on cross-border e-Commerce (including ABAC's Cross Border E-Commerce Training Program (CBET)); (iv) establish an APEC-wide action plan focused on creating forward-looking e-Commerce policy frameworks to address issues in cross-border e-payment frameworks, cross-border e-Commerce fraud and consumer protection, customs procedures, import duties and taxes for e-Commerce exports and returns and utilization of online logistics services by MSMEs; and (v) include e-Commerce trade facilitation provisions in Free Trade Agreements and Regional Trade Agreements which is critical for connecting MSMEs to global and regional markets.

Second, ABAC recognizes the vital role of MSMEs in bringing new ideas to the market and in fostering innovation in the 21st century. There is, however, a need to boost innovation by creating an ecosystem that supports enterprise creation and increase innovation capabilities of MSMEs. Partnerships and networking among innovation systems, including those involving large and small businesses and the public sector need to be supported as part of a strategy that promotes innovation in more effective ways. The Asia-Pacific Open Innovation Platform (AP-OIP), a voluntary initiative to promote cross-border collaboration and facilitate technology development and market-driven dissemination, can serve as a model for enhancing the entrepreneurship environment for MSMEs and start-ups throughout the region.

Global value chains (GVCs) also play an important role in the global economy and offers great prospects in terms of job creation, competitiveness and economic prosperity. ABAC sees the need to further strengthen MSME participation in local supply chains and GVCs through long-term, value-driven partnerships between big businesses and small businesses. For this to prosper, APEC needs to identify and address the challenges that hinder the growth of these types of partnerships. Knowledge inputs and policy measures, based on careful analysis of behind-the-border, at-the-border and across-the-border issues pertinent to the internationalization of MSMEs, are key to addressing these. MSME and big business linkages in the global value chain facilitate transfer and upgrading of skills, knowledge, and technology. There is a need to institutionalize and incentivize good practices in these areas to strengthen the role of MSMEs in generating growth that is balanced, inclusive, sustainable, innovative, and secure. We urge policy makers to adopt a holistic view of the global value chains and international production networks in designing policies toward strengthening trade and investment linkages among MSMEs and big business. We recognize that enterprises can move up the value chain and become creators of new technologies and high-impact business solutions through innovation. An ecosystem that breeds innovation among MSMEs, that expands the network and quality of capacity-building institutions, and that fosters innovative drive among entrepreneurs needs to be promoted.

In relation to the above, ABAC hereby endorses a set of principles on the digital economy. These bear key considerations as APEC seeks to advance its work on regional economic integration and in building regional connectivity. These principles are likewise relevant to efforts aimed at integrating MSMEs into global supply/value chains and markets.

Third, ABAC calls for steps to enhance MSME access to finance as this remains a significant barrier to MSME expansion. We request Ministers to support the establishment of a public-private Financial Infrastructure Development Network (FIDN) to help build credit information systems and improve policy frameworks for secured transactions and the use of movable assets as collateral. We also recommend initiatives to promote an enabling environment for trade and supply chain finance and alternative financing mechanisms, and identify best practices for strengthening MSMEs' resilience against unexpected events, disasters and financial crises, in collaboration with the Asia-Pacific Financial Forum (APFF).

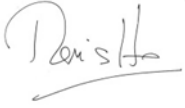
To help improve micro-enterprises' access to finance, we invite relevant officials and regulators to collaborate with ABAC through our annual Asia-Pacific Forum on Financial Inclusion, to share experiences on policy innovations in promoting financial inclusion and literacy. We propose that efforts be undertaken to harmonize definitions of financial inclusion, develop a regional model framework to help design domestic financial inclusion strategies, and address digital finance issues that impact financial access and their alignment with global and regional efforts.

Finally, on harnessing women's participation in the economy, studies consistently demonstrate significant social and economic costs of women's underrepresentation in APEC economies. While we applaud that steps have been taken to enhance women's economic participation, ABAC urges APEC Ministers to sustain the momentum to build on the gains. In 2015, ABAC is actively engaging the private and public sectors to consolidate best practices for increasing women's representation in the

board room, corporate family responsibility, and integration of women-owned businesses into the global supply chain. ABAC looks forward to working with APEC to make continued strides toward a future of full economic inclusion of women.

ABAC believes that these recommendations will encourage, facilitate and support the development of MSMEs, the backbone of virtually every economy in this region. We look forward to participating in your Ministerial Meeting in Iloilo in September to further discuss these recommendations.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Doris Ho", with a horizontal line underneath.

Doris Ho
ABAC Chair 2015

Digital Economy Principles

1. **Vision:** A digital economy is a fully ‘connected’ economy, enabled by ubiquitous affordable Internet access. Progress towards a digital economy therefore calls for governments to be able to state a clear vision for digital advancement, accompanied by equally clear priority areas for state action and enablement.
2. **Transparency:** Government policies designed to create an environment that attracts investment and encourages entrepreneurship; need to be transparent; regulations consistent and predictable; and they need to encourage appropriate approaches to technology-neutrality, safety and security.
3. **Regulatory Alignment:** Recognizing that a key advantage of the digital economy is the access local MSMEs have to global markets, governments need to ensure that local regulations in areas such as payments, security and consumer protection are compatible with other regional economies and trading partners. Alignment efforts not only enable local companies to scale, but also facilitate inward investment into the local market.
4. **Build the Digital Ecosystem:** Progress towards a fully developed digital economy also requires the emergence of a domestic digital ecosystem, including a focus on the creation or development of auxiliary sectors, such as distribution, and operational and design skills.
5. **Lifelong Human Capacity Building:** An adaptable focus on human resources is vital if the benefits of a digital economy are to be fully and continuously realized. Education, and on-the-job skills and knowledge training need to be reviewed regularly and promoted in light of what the internet can offer online and interactively.
6. **Simplify Business Processes:** Reviewing and addressing procedures that keep business costs high is fundamentally important if the digital economy is to become pervasive, particularly for start-ups. The greater use of digital technologies and streamlining of processes for business applications, approvals, payments and registrations should be a priority goal.
7. **Unintended Impacts Minimized:** Regulatory over-reach can have a chilling effect upon investment and innovation in the digital economy. Where regulation is necessary, such as with national security or consumer protection, it should be ‘smart’ and not create uncertainty or negative unintended consequences.
8. **Consult and Engage with Industry:** In order to understand the multi-sector impact of the Internet, such as in agriculture, health, and education services, government needs to engage directly with industry on two fronts -- First, to assist and inform better the national policy planning process to strengthen a holistic approach to the creation of a digital society; and second, to encourage the widespread adoption of industry standards, of interoperability, safety and security and codes of conduct.