

Yang Yunsong SME Symposium Speech

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(As prepared for delivery)

First of all, I would like to thank you for coming to the ABAC SME Symposium. Whenever I attend an SME summit or symposium, it's always fascinating to learn about the experiences of other people who run a small business. And, when you talk to someone who runs a small company in another country, you often find that you are facing similar problems. That's one of the reasons behind establishment of the ABAC SME and Entrepreneurship Working Group. It was established with the understanding that small businesses in APEC economies share many concerns, and that ABAC would be a great forum to help small businesses to get established, survive, and grow.

And we are very pleased that government officials who participate in APEC meetings are eager to hear from us on SME topics. Indeed, communicating our concerns to government officials is one of our main tasks. Small businesses on their own cannot be heard, but if we speak with a clear and united voice, we have a better chance of getting someone's attention.

I'd just like to take a few minutes to tell you about our working group, and then talk a little about recent news and policies that have been affecting SMEs in my member economy, China.

By way of background, the SME Working Group was set up with three fairly broad priorities: promoting policies that support SME start-up and sustainability, facilitating the economic inclusion of SMEs and their internationalization, and helping to build long term capacity for SME success.

As an example of our advisory activities this year, one of our main tasks was to identify problems that affected SME cross-border trade and suggest solutions to these barriers to government officials. We worked with other ABAC Working Groups to identify barriers and solutions, and the Council presented its recommendations directly to government officials responsible for APEC trade and SME matters at their annual meeting in May.

Specifically, our recommendations targeted policies that would improve SME access to finance; enhance their capacity to internationalize; ensure market transparency to improve business certainty; and protect the intellectual property rights of SMEs as they expand into new markets. We also urged government to create a level playing field between small and large enterprises by promoting clearer and simpler regulatory

frameworks. Small enterprises simply do not have the resources to take on big companies when facing a complicated regulatory framework that eats up money and manpower.

ABAC determined that the successful implementation of these efforts would enhance the ability of SMEs to compete and cooperate with larger enterprises. And many of these topics will be featured in panel sessions during today's Symposium.

Our Working Group and other ABAC members have also worked closely with APEC officials and the private sector to identify best practices for doing business in the medical device sector, which is an important area for SMEs, and one where they sometimes face an unfair competitive advantage from large companies. We worked on a voluntary set of business ethics in this field that is known as the Kuala Lumpur Principles. These principles were endorsed by senior APEC officials this May. This is a voluntary code that endorses ethical interaction between medical device companies and healthcare professionals.

More recently, ABAC has looked to promote the adoption of voluntary ethical principles that apply to the construction sector by partnering with the private sector and the U.S. Department of Commerce to develop a similar code known as the Hanoi Principles. Later today experts from both of these industries will engage in a panel discussion, which will focus on how the Kuala Lumpur and Hanoi Principles will provide tangible benefits to SMEs in the region.

ABAC has consistently supported efforts to address a broad range of business ethics issues, and encouraging the use of such codes is a way to focus on anti-corruption efforts.

Last, but not least, I should mention that our Working Group has a strong focus on promoting the role of women in business, and has helped to support the many initiatives Deb mentioned earlier.

APEC officials have asked for our input and then listen to what we have to say, so we will continue to work with them over the coming years to create a better environment for SMEs.

I'd also like to share with you some information about how SMEs in China are faring and how the Chinese government has responded to a challenging economic environment.

The picture looks quite mixed for SMEs in China. Soon after the financial crisis hit in

late 2008, the Chinese government responded forcefully with an easy-money policy: it kept interest rates low, dedicated more money to infrastructure projects, and encouraged banks to lend widely. This happened to coincide with rising commodity prices and wages, which have led to both higher inflation and higher production costs. More recently, after realizing that inflation and dangerously loose lending practices were making matters worse, the government made it more difficult for banks to lend money.

It is difficult to say if the government has struck the right balance, but problems experienced in Wenzhou, a city in southern China that is known for its successful entrepreneurs, indicates the problem.

As bank money dried up in Wenzhou, many borrowers turned to a shadow market for debt, relying on thinly regulated guarantee companies or informal lending networks. Earlier this year, the bubble started to burst in Wenzhou, with businesses closing overnight and people hiding from loan sharks. And there is now concern that this phenomenon might not be limited to Wenzhou.

In the short term, the government has asked banks there to focus on small commercial creditors—those with credit of under around 800,000 (U.S) dollars. For example, the government is developing special rules that will make it easier for banks to make such small loans to individual borrowers, such as by allowing these small loans to be exempt from calculations of required capital ratios. At the same time, the government is directing banks to increase their oversight of debtors, to make sure that disbursed funds are being used as promised.

The government also wants to develop the use of other financing tools, such as private placements, small-scale bonds, and venture capital.

Over the longer term, the government wants to improve the overall environment for SME lending by doing a better job of regulating guarantee organizations. They hope that this move will help SMEs to obtain more reasonable lending terms and reduce reliance on informal lending networks.

On the fiscal side, the government is pursuing a variety of tax breaks for small business, including a temporary 50% income tax break for small businesses that are not creating significant profits. Other policies in the works are a reduction of VAT and business tax, and a stamp tax exemption on loans to small enterprises and micro-enterprises.

Of course, the situation in Wenzhou and elsewhere in China is not clear-cut, and the solution is not simple. Some of the borrowers in Wenzhou have truly misused borrowed funds for speculative purposes, such as real estate. The government is also trying to make it harder to run pyramid schemes by increasing penalties for such activities.

So, in sum, although economic growth in China continues to be strong, our regulatory environment for SMEs still has a lot of room for improvement.

Thank you again for attending the Symposium today. I hope that you find it a rewarding experience.