

4 August 2016

Hon. Bruno Giuffra Monteverde

Chair, APEC SME Ministerial Meeting
Minister of Production
Peru

Dear Minister Giuffra:

On behalf of the APEC Business Advisory Council, I would like to submit to you our key findings in 2016 and recommendations related to the role of and challenges faced in our region by micro, small and medium enterprises (MSMEs). You are well aware that MSMEs are the backbone of economic development and key stakeholders in regional economic integration. Their contribution comes from being active participants in regional and global value chains (GVCs), significant providers of employment and sources of innovation. ABAC is confident that in the highly competitive international business environment, creative, integrative and sustainable solutions will allow MSMEs to gain access to the new opportunities offered by international markets and enable them to grow into regional and even global MSMEs.

With that ambition to motivate us, in 2016, ABAC has prioritized the following seven crucial areas that need to be addressed and for which solutions need to be found to enhance APEC MSMEs' access to, and involvement in, regional and global markets:

- *Promoting the adoption of cross-border e-Commerce.* E-Commerce is revolutionizing the way business is transacted across national borders. It enables firms and, in particular, MSMEs to bypass traditional intermediaries and reach a wider client base more quickly and directly. An APEC-wide study conducted in 2015 by ABAC, with the help of the USC Marshall School, concluded that the single most critical constraining factor on MSME commercial success was their lack of readiness for, and capability to engage in, e-Commerce. Problems to do with e-Commerce awareness, technical ability, access to the required skills and financing, all limit the potential of MSMEs to incorporate e-Commerce in their business strategies, especially in developing economies.

To help encourage greater adoption of e-Commerce and increase MSME capacity to go global, ABAC launched a series of Cross-Border E-Commerce Training (CBET) workshops across APEC economies. They were held in China (2014), Brunei (2015) and Papua New Guinea (2016). ABAC plans to overcome the geographic limitation of CBET localization by launching the CBET e-Learning program and building an APEC CBET Network to promote accessibility to local MSMEs. ABAC recommends that regional governments intensify capacity building efforts to enable MSMEs to be more e-Commerce ready, and to encourage the establishment of the APEC CBET Network.

For cross-border e-Commerce to grow across the region, it is important that economies enact policies that support its promotion and trouble-free adoption by MSMEs. ABAC calls on APEC economies to make e-commerce and cross-border e-commerce a domestic policy priority. We also urge APEC to develop an APEC-wide action plan focused on creating a forward-looking e-commerce policy framework. We recognize that developing a truly integrated global e-commerce marketplace will take time, and much collective and collaborative effort. We are therefore pleased

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to note and support APEC's efforts to develop the APEC MSME Marketplace, which aims to provide a "bigger voice" for MSMEs and to harness the potential of the internet and digital economy.

- *Broadening MSMEs' access to digital technologies.* Digital technologies are also changing how business is done by, and for, MSMEs and creates new opportunities for small businesses to access the global market place. ABAC is continuing a robust digital economy work program given the importance of these issues to both the broader global economy and to small businesses. To date, we have shared private sector perspectives on the Internet of Things (IOT), big data and data analytics, broadband connectivity and STEM (science, technology, engineering and mathematics) education, and their contribution to innovation and to MSMEs. As APEC officials pursue next generation trade and investment issues, it is unsurprising that they are finding that the digital economy affects many sectors. These range from leading edge digital industries to traditional industries adopting digital technologies for the first time, and to small businesses trying to broaden their scope for market access. In this regard, ABAC welcomes and supports APEC's work plan for Facilitating Digital Trade for Inclusive Growth as a Potential Next Generation Trade and Investment Issue (NGeTI). The digital economy is creating new opportunities and business models, and will require new policies pertinent to the 21st Century and relevant to large and small businesses alike.
- *Fostering innovative capabilities of MSMEs.* To address the existing information gap and assist MSMEs and investors to collaborate and connect with each other, ABAC has initiated the APEC Innovation Center Mapping Initiative. It is a comprehensive and up-to-date interactive portal mapping incubators and accelerators across the APEC region. Its purpose is to provide solutions for entrepreneurs and MSMEs in emerging APEC economies to access innovation resources and promote the exchange and cross-fertilization of ideas among start-ups in the region.
- *Strengthening trade and investment linkages among MSMEs and big business.* The most easily obtainable opportunity to help involve MSMEs in global trade is to build their capacity to embrace global standards, values and best practices. This can be realized when a large corporation chooses to enter into long-term, value-driven partnerships with smaller companies that have the same respect for the achievement of excellence.

ABAC recognizes the need to further enhance MSME participation in local supply chains and GVCs by strengthening collaboration mechanisms. Knowledge inputs and policy measures, based on careful analysis of behind the border, at the border and across the borders issues pertinent to the internationalization of MSMEs, are fundamental to addressing these challenges. We urge the policy makers to develop policies and programs designed to strengthen trade, investment and innovation linkages between MSMEs and large corporations, and address obstacles in the way of such partnerships.

- *Expanding access to finance.* The lack of easy access to finance is a key issue for MSMEs with inadequate legal and institutional infrastructure to enable lenders to use business owners' transaction data and accept movable assets as collateral, regulatory barriers, a scarcity of enabling environments for equity-based financing and financial innovations, and MSMEs' difficulty in accessing adequate insurance identified as main contributing factors. Addressing these impediments will be critical in enabling MSMEs to play a greater role in the region, especially in taking advantage of the opportunities presented by the digital age.

ABAC has collaborated with relevant agencies and other stakeholders in the Asia-Pacific Financial Forum (APFF) to address these issues through initiatives such as the launch of the Financial Infrastructure Development Network (FIDN) in November 2015. ABAC urges Ministers to encourage economies to work with FIDN in developing modern credit information platforms, and secured transactions and insolvency systems that can expand MSMEs' access to finance and enable

them to increase their contributions to regional integration. We encourage Ministers to collaborate with APFF in holding dialogues on regulatory and good governance issues and emerging facilitators of trade and supply chain finance. We also ask Ministers to support the holding of a second APEC SME Finance Forum in 2017 that will focus on the implications of financial innovation for MSMEs' access to finance.

- *Enhancing women's economic empowerment.* ABAC applauds the creation of the Women and the Economy Dashboard which identifies in an unprecedented way the dimensions of the existing policy gaps and highlights opportunities for improvement of women's economic situation. We call on APEC to utilize the 80 various data points in the Women and the Economy Dashboard to give priority to addressing gaps and promoting best practices. In 2016, ABAC has championed a STEM 'challenge' and the adoption of other new disruptive technologies with a gender-specific lens. ABAC strongly supports the Healthy Women, Healthy Economies (HWHE) initiative. We urge early implementation of the recommendations in a Policy Toolkit that has been developed on a public-private basis to address health-related barriers to women's participation in the workforce.
- *Strengthening Business Ethics for MSMEs.* ABAC continues to support the Business Ethics for APEC SMEs initiative, which has grown to be the region's largest collective action to promote and strengthen ethical business practices. We welcome the achievement of APEC economies in reaching the Nanjing Declaration's goal to double the number of industry association codes of ethics in just three years; and expand high-standard ethical business practices to more than 19,000 enterprises, including 34 new codes across ten economies. We urge continued implementation of APEC principles for codes of ethics in target sectors. We would welcome the launch of multi-stakeholder ethical collaborations to strengthen the business environment by 2020.

As outlined above, ABAC has many MSME-related initiatives underway or planned. They include the mapping of Incubators and Accelerators across APEC economies; Cross-Border E-Commerce Training, the ABAC Digital Economy Work Plan and our efforts to enhance women's economic empowerment. We believe our contributions in this area can usefully complement APEC's work towards successful MSME access to, and exploitation of, global markets.

Yours sincerely,



Juan Francisco Raffo
ABAC Chair 2016