



**Asia-Pacific
Economic Cooperation**

2015/ISOM/005
Session 2.2

Background Paper: Towards the Modernization of MSMEs in the Asia-Pacific

Purpose: Information
Submitted by: Peru



**Informal Senior Officials' Meeting
Lima, Peru
11 December 2015**

Towards the Modernization of MSMEs in the Asia-Pacific

I. Background

Since the creation of the Ad Hoc Policy Level Group on SMEs in 1995, which was subsequently renamed to Small and Medium Enterprises Working Group (SMEWG) in 2000, the issue of SMEs has remained an important matter of APEC's agenda.

The overall objectives are to assist MSMEs in improving their competitiveness and to facilitate a more open trade and investment environment, as well as to work towards the achievement of the Bogor Goals by fostering an enabling business environment for SMEs to grow and develop their export capacities. We would thus secure a positive impact in our economies by helping MSMEs grow and become more competitive, without overburdening them.

Every APEC economy recognizes the importance of SMEs and for many economies micro enterprises are included as well. Because of their ubiquitous nature, MSMEs are relevant across a range of economic, technical and social issues, as is reflected by their importance in many other APEC fora, besides SMEWG.

The Strengthening MSMEs must remain a permanent objective, as they are a key component of APEC economies. MSMEs generate employment; serve as an engine for development, and catalyze inclusive growth. In that sense, there is a need to incorporate them into the regional and global value chain; to facilitate their access to finance, technology and capacity building; to enable their access to new markets and information and knowledge. It is important also need to encourage them to innovate so that they may grow in a sustainable way and compete in the global economy. These are all issues and objectives widely shared by APEC economies.

In a highly competitive and integrated international market, with new economic, social and even cultural challenges emerging day by day, MSMEs need to be supported, so that their activities may have a tangible and positive impact in our economies.

Furthermore, some SMEs still have "gaps" or "key constraints" that keep them from reaching their modernization and incorporation to global value chains.

Supporting MSMEs to become more innovative, integrative and sustainable will let them gain access to the new demands of global markets, achieving an important step towards their modernization.

Modernization of MSMEs should imply improving their productivity; making use of the best innovative tools available to obtain access to untapped markets, information and financing mechanisms, and improving their production patterns in a more sustainable and eco-friendly way. This can be seen as a useful path for MSMEs in the APEC region go global and achieve their integration into the global value chains. . It is more like a "step forward" to achieving that goal

Following the priority areas established in the SMEWG Strategic Plan 2013 – 2016 and aware of all

the efforts made by the SMEWG to succeed in the development of such priorities, Peru proposes “**towards the modernization of MSMEs**” as one of the 4 key priorities for 2016.

II. Continuity

APEC’s primary goal is to support sustainable economic growth and prosperity in the Asia-Pacific region. APEC aims to build a dynamic and harmonious Asia-Pacific community by championing free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favorable and sustainable business environment.

The past **Annual Ministerial Meetings (AMMs)** have stated their focus on topics related to SMEs:

In 2014, under the theme of “Shaping the Future through Asia-Pacific Partnership”, the Annual Joint Ministerial Meeting (AMM) mandated officials to focus their work on three priority areas: Advancing Regional Economic Integration; Promoting Innovative Development, Economic Reform and Growth, and Strengthening Comprehensive Connectivity and Infrastructure Development.

In 2013, the following priorities were outlined: revalidating the Bogor Goals; achieving sustainable growth with equity by focusing on increasing the competitiveness of SMEs, and promoting connectivity by focusing on investment in infrastructure.

In 2012 priorities were: liberalizing trade and investment and expanding regional economic integration; strengthening food security; establishing reliable supply chains and fostering innovative growth.

Considering the scope of the past AMMs, the **Small and Medium Enterprises Ministerial Meetings (SMEEMM)**, have set a number of commitments and objectives that can be highlighted:

- In 2015, the 22nd Small and Medium Enterprises Ministerial Meeting, focused on the following topics: Removing Barriers to facilitate MSMEs entry to markets; Advancing modernization and standards and conformance of MSMEs; Promoting inclusive growth through sustainable and resilient MSMEs.
- In 2014, the 21st APEC SME Ministers, under the theme of “Innovation and Sustainability”, emphasized the great significance of innovative development to SMEs and made a commitment to encourage increasing the innovation capacities of SMEs, improving the policy environment for innovation and promoting SMEs growth through innovation.
- In 2013, SME Ministers highlighted that SME Global Competitiveness is a key to enable SMEs in the APEC region to actively participate toward a common goal of integration and development of the economic potential of APEC.
- In 2012, the focus was in promoting SME Cooperation for Innovative Growth in the APEC Region. Advancing SME cooperation for innovative growth can be enhanced through promoting start-ups, considering it is the most important stage of entrepreneurship.

- In 2011, attention was given to leveraging partnerships with APEC Small Businesses to Foster Innovation and Create an Entrepreneurial Society.

The Small and Medium Enterprises Working Group (SMEWG) has been working to implement AMM and SMEMM agreements over the past years. The following outcomes are worth mentioning:

- The **SMEWG Strategic Plan 2013-2016's vision** made a commitment to promote competitive, balanced, inclusive, sustainable, innovative and secure growth of SMEs and MEs in the APEC region. Three priority areas were identified: Building management capability, entrepreneurship and innovation; financing, and business environment, market access and internationalization.
- The **Boracay Action Agenda to Globalize MSMEs** outlined 8 priority areas. The ones related to MSMEs, include exchange of information on Non-Tariff Measures (NTMs); SME issues in standards and conformance; exchange of information on innovative and diversified financing options; promote E-commerce, MSME clustering, innovation.
- The **Cebu Action Plan** established a roadmap based on 4 pillars: (i) Promoting Financial Integration; (ii) Advancing Fiscal Reforms and Transparency; (iii) Enhancing Financial Resiliency, and (iv) Accelerating Infrastructure Development and Financing. Under each of the four pillars, the Roadmap indicates initiatives and deliverables that APEC Finance Ministers recognize as broadly beneficial to APEC as a whole. At the same time, these pillars contemplate issues as relevant as the integration of MSMEs into the financial mainstream; enabling environment for MSMEs to join supply chain, and the establishment of reliable supply chains for MSMEs.

It is worth mentioning, that SMEs topics call for a cross-fora collaboration; in this sense under **APEC's Committee on Trade and Investment (CTI)**, which relates to SMEs internationalization, a project on SMEs' Participation into GVC of major industries: Healthcare Products (with one event held in Atlanta in June 2015); and Automotive, IT/Electronics, Textile and Apparel, and Agribusiness (with forthcoming events in 2016) should be highlighted.

In 2015 the Ministers also adopted the Iloilo Initiative entitled "Growing Global MSMEs for Inclusive Development". Other SME-related outputs for 2015 included the APEC Strategy for Strengthening Quality Growth and the APEC Services Cooperation Framework.

The APEC Strategy for Strengthening Quality Growth will set the principles and targets for growth in the APEC region, and will guide all APEC work. It establishes three key accountability areas to give more traction to the five attributes of the 2010 APEC Leaders' Growth Strategy and to align the Growth Strategy with the Sustainable Development Goals (SDGs). It include issues such as institution building, which in turn involves sound business environment, particularly for MSMEs, better regulation and execution of standards and conformance, data and statistics, creating networks. etc. in addition, under social cohesion, it is considered MSME's integration, women and youth owned business, among other topics.

The APEC Services Cooperation Framework includes within their desired outcomes the Enhancement of GVC participation of all businesses, especially MSMEs.

Under CTI as well, it was approved a Peruvian initiative to have a workshop on E-commerce as a tool for MSME's integration and competitiveness. This workshop will be held in August 2016. And under the Sub Committee on Standards and Conformance (SCSC), a Peruvian project will be implemented as a "Workshop on supporting MSMEs trade facilitation through standardization activities", in SOM3 in 2016

Peru, as APEC host economy for 2016 and through each of its concerned Ministries and public agencies and with the support of all relevant stakeholders, is coordinating an inter-sectoral work on each of the thematic priorities in an effort to catalyze their potential benefits for all the region.

III. Areas of work and deliverables for 2016

1. Promoting Innovation and SMEs connectivity

Key objectives:

- Promote innovation and technological integration among SMEs and APEC member economies.
- Experiences and tools in the use of electronic money in SMEs to facilitate their connectivity through e-commerce for growth (sales) and scaling (regional markets).
- Encourage SMEs to implement IT for internal growth (sales) and scaling (new markets)
- Promote the O2O model (electronic trading platforms) to facilitate access to global markets.
- Promote the APEC Marketplace (virtual platform) to exchange information regarding innovation and technology integration through APEC economies innovation centers. In addition, share international regulations, standards (quality) and experiences of SMEs in relation to their access to global value chains.
- Foster linkages between the public and private sector, as well as academia among APEC member economies.
- Encouraging Start-Ups, SMEs and entrepreneurs to develop and implement innovation in order to create more sophisticated business with access to international markets.
- To encourage the business angel and venture capital ecosystem, which will allow the entrepreneurs and Startups scale and have continuity at the market through the new funding options.

Prospective deliverables:

Workshop "SMEs: implementation of IT for growth and scaling markets"

2. Moving forward to integration and development through productive infrastructure

Key objectives:

- Increase productivity and competitiveness of SMEs to promote productive spaces/industrial productive ecosystems through industrial parks, innovation services, technological integration, laboratories, among others, with emphasis on strengthening the link between large companies and SMEs.
- Promote and articulate the "industrial productive ecosystems" with national and international economic and logistics corridors to facilitate the integration of SMEs into global value chains in APEC economies. Also, promotion of investment options in productive infrastructure within emerging economies and for investment in the expansion of connectivity (APEC Connectivity Blueprint) that supports this productive infrastructure.
- Promote quality infrastructure, compatible with economies participating in international trade, to create opportunities for alliances and agreements that promote internationalization of SMEs.
- Development of technical skills through experiences and investment from other economies.

Prospective deliverables:

- 1st Workshop in Vietnam: "Experiences of SMEs in industrial parks"
Topics to be defined in coordination with Vietnam.
- 2nd Workshop in Lima: "SMEs and large enterprises through the development of productive infrastructure".

Themes:

- Experiences of SMEs in industrial parks with innovation centers, laboratories (quality) and clusters.
- Smart Cities
- Connectivity: economic corridors (example: IIRSA- Initiative for the Integration of the Regional Infrastructure of South America).
- Technical trainings.
- Study "Impact of the synergies between SMEs and large enterprises in industrial parks"

3. Green SMEs integration into global value chains

Key objectives:

- Promote processes of "green" production by using cleaner technologies, renewable energies, efficient resource management, waste reduction and pollution.
- Promote collaboration between and within large enterprises and SMEs in resource efficiency to open new market opportunities.
- Foster the development of SMEs' green projects related to waste management in large enterprises, seeking the sustainable transformation of this waste and generation of new value-added products.
- Promote experiences of using international standards applied to green industry and related materials.
- Promote green investments based on international experiences: production processes, competitive funds for start-ups, etc.
- Promote R&D Grant, Loans and / or Tax Incentives Programs for Green Technology Development by Green SMEs
- Promote green investments on the basis of international experiences: production processes, competitive funds for start-ups, Start-Up Assistance and Early Stage Funding for Green SMEs

Prospective deliverables:

- Workshop on "Public programs for green SMES with technological base"
- To launch an APEC Strategy for Green SMEs.

4. Internationalization of MSMEs and their insertion in global value chains

Key objectives:

- Promote better integration of MSMEs into global value chains.
- Encourage the development of key productive sectors for MSMEs.
- Facilitate access of SMEs to electronic commerce.
- Promote the use of standards and conformance among SMEs

Prospective deliverables:

- To develop an initiative to promote insertion of SMEs into GVCs of services-related sectors.

- Workshop on e-commerce as a tool for inclusion and competitiveness of MSMEs (August).
- Supporting SMEs trade facilitating through Standardization activities.

IV. Timeframe

Consultations on this background paper and proposals by economies, relevant working groups' Lead Shepherds and Chairs, shall be received until 21 January 2016.

Activities shall be included in annual working plans whenever possible.