

28 July 2017

H.E. Nguyen Chi Dung

Chair, APEC SME Ministerial Meeting
Minister of Planning and Investment
Viet Nam

Dear Minister Nguyen Chi Dung:

On behalf of the APEC Business Advisory Council (ABAC), I would like to share our key recommendations related to micro-, small and medium enterprises (MSMEs). MSMEs comprise over 97 percent of all enterprises in the region and over half of the workforce in APEC economies. Yet they only account for 35 percent of region's exports. ABAC has identified that poor access to information and foreign distribution networks, costly trade requirements, burdensome border regulations and standards, and lack of trade finance as major barriers to international trade for MSMEs.

In this regard, ABAC has prioritized the following recommendations as concrete measures to enhance APEC MSMEs' global presence:

- *Accessing regional and global markets through the digital economy and e-commerce.* E-commerce and more generally information and communication technology (ICT)-enabled services offer MSMEs new opportunities to access international markets and help them overcome obstacles to trade. E-commerce allows MSMEs to cross borders and reach customers at much lower costs. Yet MSMEs face specific obstacles in seizing these opportunities. According to an APEC-wide study conducted by ABAC with the University of Southern California's Marshall School of Business in 2015 and the recent study with RMIT University, the main issues MSMEs face with web sales include identifying reliable and secure e-commerce marketplaces; logistics of shipping a good or delivering a service; security and data protection; and payments.

The digital economy remains a central priority of APEC Leaders with greater emphasis placed this year to strengthen MSMEs' competitiveness and innovation in the digital age. ABAC commends the efforts by the various economies in collectively carrying out concrete and practical programs and activities to advance the Digital Economy Action Plan and Work Agenda (DEAP) developed by the APEC SME Working Group in 2015. We welcome the efforts by the APEC Electronic Commerce Steering Group (ECSG) to develop the APEC Cross-Border Facilitation Framework. We urge economies to utilize the outcomes from these APEC projects and programs as well as recommendations from ABAC's studies to formulate an APEC-wide forward-looking e-commerce policy framework to improve the adoption and effective use of digital technologies along with access to regional and global data for MSMEs.

Recognizing that the promotion of digital literacy and acquisition of digital skills will help diminish the digital divide between and within our economies and increase MSME prospects in cross-border e-commerce, ABAC launched the Cross-Border E-Commerce Training (CBET) workshops across APEC economies, e.g., in China (2014), Brunei (2015), Papua New Guinea (2016) and Malaysia (2017). ABAC has expanded the CBET program beyond local borders by launching the CBET online e-Learning program. We call on economies to promote both online and offline capacity building efforts to make MSME firms e-commerce ready by encouraging such programs.

- *Fostering Innovative Business Models.* As grassroots innovations are community-led solutions for sustainability, they can offer promising new ideas and practices for small businesses to prosper. Global grassroots organizations and movements from around the world have aimed to bring about more inclusiveness and generate solutions to social and environmental issues through entrepreneurship. ABAC considers this work relevant to its mission and supports fostering businesses to create more innovative business models, built on best practice business cases that maintain a balance among profit, environmental protection, community and employee welfare, and corporate governance.

Concrete standards for impact business model innovation and governance have been established and have taken root, providing clear direction to MSMEs around the world. More and more, rapidly growing MSMEs are expanding their businesses by creating value for society and the environment. ABAC is confident that, by supporting these movements and activities, more innovative and sustainable solutions will emerge, allowing Asia-Pacific MSMEs access to new opportunities and enhancing competitiveness on the world stage.

- *Fortifying linkages between MSMEs and large enterprises.* Accessing foreign distribution networks and facing the necessary costs for marketing their products abroad can be too costly for MSMEs. It is therefore important for MSMEs to enter into linkages with large enterprises which would significantly reduce MSMEs' distribution costs, thus making exporting profitable for MSMEs. For this linkage to prosper, APEC needs to create a conducive business environment by developing policies that would enhance these types of partnerships and incentivize inclusive business models that promote supplier diversity which can lead to greater MSME participation in global value chains.

ABAC is working with the Asian Institute of Management (AIM) and other partners to further promote successful cases and best practices of big businesses that enable MSMEs to access the global value chain and to identify policy recommendations that strengthen trade and investment linkages between MSMEs and large corporations.

- *Addressing non-tariff barriers.* Non-tariff barriers that give rise to fixed costs are particularly burdensome for MSMEs, which commonly have limited financial, human and technological resources. Conformity and pre-shipment requirements in the export market, and weak and costly inspection or certification procedures in the home economy are major hurdles for MSME to cross borders. ABAC has developed a set of WTO-consistent cross-cutting principles for non-tariff measures/non-tariff barriers. According to the principles, in order to avoid non-tariff measures becoming non-tariff barriers, such measures should be developed in a transparent and consultative way; should be transparent, timely, coherent and non-discriminatory; should be based, as appropriate, on sound science or closely aligned with international norms; and should be the least-trade restrictive measures necessary to meet a legitimate objective. This principled approach should be used to help assess the consistency of existing measures with a 'least-trade-restrictive' approach, and as a basis for future trade agreements and arrangements, including in the proposed Free Trade Area of the Asia-Pacific (FTAAP). Business has an important ongoing role to play in identifying problems and helping to develop solutions.

- *Advancing the WTO Trade Facilitation Agreement (TFA).* The implementation of WTO TFA is truly welcome as it will unlock the potential of MSMEs by helping to reduce the range of burdens and costs to access international markets. ABAC urges APEC economies which are members of the WTO to complete ratification and to take early action to implement the TFA, to help reduce costs and increase efficiency in the movement of goods to benefit MSMEs.
- *Expanding MSMEs' access to finance.* Financing is a major challenge that must be addressed to allow MSMEs to innovate, grow and create jobs. Efforts need to focus on the legal and institutional ecosystem for secured transactions, credit information, insolvency and valuation practices that underpin bank lending to MSMEs and on promoting trade and supply chain finance. Through public-private collaboration under the Financial Infrastructure Development Network (FIDN), APEC has helped a number of economies make progress in these efforts, with the help of the Asia-Pacific Financial Forum (APFF). We call on Ministers to encourage relevant authorities to collaborate with APFF in this work, and to support the ongoing cross-border credit information sharing pilot project in the Mekong Region that can enable MSMEs to access finance in host economies using their transaction data in their home economies.

Financial technology (fintech) should also be harnessed to expand MSMEs' access to finance. Key to achieving this is the development of sound regulatory approaches that balance the fulfillment of objectives such as consumer protection and the stability and integrity of financial systems with the promotion of innovation and financial inclusion. We urge Ministers to support the development of a regional platform within the APFF for regular dialogue among regulators, industry practitioners and experts on financial innovation, particularly in the critical areas of fintech credit, payments, regulatory technology (regtech), cybersecurity and customer due diligence.

- *Facilitating MSME access to information needed to operate internationally.* The MSME sectors in the APEC economies are broad and diverse. Accessing practical information to make good decisions and better resources is challenging. Technology applications can offer an inclusive approach to reach the broad spectrum of MSMEs. ABAC therefore welcomes the establishment of the APEC MSME Marketplace as a platform to disseminate particularly important information relating to regulatory frameworks and trade requirements, advisory, support services and capacity building activities for MSMEs, and listings of accredited online marketplaces, innovation centers, incubators and accelerators to encourage business networking and matching among these enterprises.

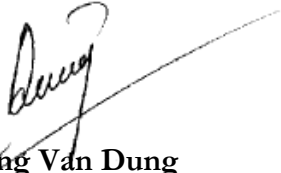
ABAC will continue to assist to populate the marketplace with ABAC-related initiatives – e.g. CBET, studies relevant to MSMEs, sharing of best practices and case studies, providing a list of potential suppliers for MSMEs and hosting a particular feature of the Marketplace like the CBET website.

- *Enhancing women's economic empowerment.* Women throughout the APEC region face challenges related to obtaining capital, reaching markets, developing skills and capacity, accessing networks, and achieving leadership positions. These obstacles result in untapped productivity and inhibited economic growth in the region. ABAC welcomes the second APEC Business Efficiency and Success Target (BEST) Award in September 2017 in Hue, Viet Nam, and encourages APEC economies to hold this contest as part of the APEC Women and the Economy fora in the future. We call on all APEC economies to promote women entrepreneurship by focusing on skills development including Science, Technology Engineering and Mathematics (STEM), as well as the ABAC Women Connect Program, to empower women entrepreneurship through digitalization.

ABAC believes that these recommendations and its many MSME-related initiatives including online and offline CBET, the APFF-related initiatives to expand MSME access to finance, publication of successful cases and emerging inclusive business models, the WTO-consistent cross-cutting principles for non-tariff measures, the ABAC Digital Economy Work Plan and efforts in strengthening women's economic empowerment will complement APEC's work in building dynamic MSMEs and furthering their access to global markets.

We look forward to participating at your Ministerial Meeting in September to further discuss these recommendations.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dung', with a long horizontal line extending to the right.

Hoang Van Dung
ABAC Chair 2017