



**Asia-Pacific
Economic Cooperation**

2013/SMEWG36/006

Agenda Item: 7.3.1

Discussion Guide on Global Supply Chains

Purpose: Consideration
Submitted by: SMEWG Chair



**36th Small and Medium Enterprises
Working Group Meeting
Manila, Philippines
14-15 March 2013**

Discussion Guide: Global Supply Chains

I. Introduction

LONG VERSION

In 2011, APEC identified three of the “next generation” trade and investment issues that would contribute to a Free Trade Area of the Asia-Pacific. These were:

- Facilitating global supply chains
- Enhancing small and medium-sized enterprises participation in global production chains
- Promoting effective, non-discriminatory, and market-driven innovation policy

A number of leaders’ declarations, including from the APEC Ministerial Meeting, the APEC SME Ministerial Meeting, the Meeting of APEC Ministers Responsible for Trade, and ABAC have all heavily emphasized the need for improving global supply chains and promoting SMEs’ participation in them.

Global supply chains have become the prevalent form for the global production of goods. However, MNCs which use these chains tend to rely on large-scale producers, which in turn rely on production from smaller organizations. Participation of SMEs in these chains can increase their technical capacity, increase demand for their products, build prestige and credibility, and provide a way to internationalize.

However, the number of SMEs participating in global production chains is still relatively low. This is because SMEs face numerous obstacles in participating, including inability to access financing, lack of quality human resources, constantly changing international business practices, and complex and evolving standards for products.

During the breakout sessions this afternoon led by the United States, I would like to encourage participants to create specific project ideas about how we can assist SMEs in becoming part of global supply chains. It is particularly necessary to clarify the division of labor between work that SMEWG can do and work that CTI can do on this topic, especially since many of the leaders’ statements from 2012 urged SMEWG to work in conjunction with CTI.

SHORT VERSION

Global supply chains have become the prevalent form for the production of goods; however, large-scale participation of SMEs in these supply chains is still low. APEC has identified this issue as one of the ‘next generation’ trade and investment challenges that as government organizations, we must take on. During the breakout session this afternoon led by the United States, I would like to encourage the SMEWG to come up with specific project ideas about how we can enhance the participation of SMEs in these global supply chains. I would also like to emphasize that we need to clarify the division of labor between SMEWG and other APEC for a working on this issue, including CTI.

II. Global Supply Chain discussion

Discussion led by USA.

Presentation on the Policy Support Unit’s issues paper on SMEs’ Participation in Global Production Chains may be included here.

III. Action Points

See matrix below.

NOTES

- **Leaders' Statements regarding Global Supply Chains:**
 - **APEC Ministerial Meeting:**
 - “We continue to address the next generation trade and investment issues identified in 2011, including capacity-building and sharing of best practices on global supply chains, facilitating and enhancing participation of small and medium-sized enterprises (SMEs) in global production chains, and promoting effective, non-discriminatory, and market-driven innovation policy.”
 - **APEC SME Ministerial Meeting:**
 - “Officials to continue working, in conjunction with the APEC Committee on Trade and Investment (CTI), in the field of the development of global supply chains, preparing SMEs and MEs for export readiness, with special attention to young entrepreneurs, women entrepreneurs and minority-owned SMEs and MEs in the APEC region.”
 - **Meeting of APEC Ministers Responsible for Trade:**
 - We welcome the discussions on facilitating global supply chains and enhancing the participation of SMEs in the global production chains, which were two of the next generation trade and investment issues identified in 2011. In recognizing that our businesses are increasingly operating across borders, and that the smooth functioning of global trade and production depends on efficient global supply chains, we instruct officials to further work on deepening understanding, highlight challenges and identify ways to enable businesses to participate in and benefit from global supply chains, and to explore possible avenues to foster SMEs involvement as supporting industries of global production chains.
 - **ABAC:**
 - “Removing supply chain inefficiencies behind borders, at borders and across borders will bring real benefits to APEC in terms of increased trade.”
- **Background: PSU Issues Paper– “SME’s participation in global production chains” (GPCs):**
 - **Definition:**
 - Refers to the linkages within or among a group of geographically dispersed firms in a particular global value chain for producing specific products.
 - **Benefits to SMEs:**
 - Enhances technical capacity of SMEs
 - Increases demand for SMEs products and services
 - Builds prestige and credibility, allowing easier access to finance
 - Provides gradual and sustainable way to internationalize
 - **Benefits to Local Economy:**
 - Stronger SME sector positively linked with economic growth
 - Increases job opportunities
 - Increases export value and builds up foreign reserves
 - Transforms local economy and business
 - **Drawbacks to SMEs’ Participation in GPCs**
 - GPC serves as a crisis transmission mechanism, passing on shocks of economic crises to SMEs which are less prepared to cope with it
 - MNCs take dominant position over SMEs, leading to risk of loss of control and management
 - **Barriers to Entry:**
 - Finance:

- Large up-front investment required to get production process ready
 - Need to accept unfavorable terms of business including late payments
 - Small nature of SMEs makes it more difficult to access loans
 - Human Resources:
 - Difficult to attract, retain and motivate high quality human capital
 - Global Standards:
 - Adapting to evolving world standards for production, including industry-, firm- and region- specific standards is a major challenge
 - Changing International Business Practices
 - Changes in delivery cycles and business operation practices are difficult to adapt to for SMEs
 - SMEs struggle between adopting 'best practices' and maintaining a competitive advantage
- **Recommendations:**
 - Provide an enabling environment for SMEs
 - Providing favorable macroeconomic conditions
 - Ensuring openness of local markets, strong property rights protection and contract enforcement, and equal treatment for both local and foreign enterprises
 - Providing business development service, including business counseling and consulting, to help SMEs form strategies to succeed in GPCs
 - Creating a well-developed and efficient logistics network that connects firms within and among clusters
 - Improve access to financing
 - Increasing access to bank loans, leasing and factoring, trade credits, venture capital and business angel investment
 - Providing financial and economic safety nets to cope with large scale macroeconomic disruptions
 - Strengthen global cooperation among SMEs and MNCs
 - Building cooperative networking and clustering to increase and improve SMEs' participation in GPCs
 - Facilitating cooperation among SMEs to improve capacity to participate in GPCs through collective procurement of material inputs, development of technology, marketing and branding, and human resource training
 - Creating tailor-made programs to increase skill sets of SMEs
 - Enhance SMEs' understanding of how to use ICT
 - Increase knowledge of SMEs about FTAs
 - Minimize distortions of overlapping FTAs
 - Promote understanding and mastering of international standards and business practices under governance of FTAs
 - Promote pro-SME policies in development of FTAs
- **Discussion Questions:**
 - What kind of services can be provided to SMEs seeking to participate in global supply chains?
 - How do you best improve cooperation between SMEs to work together?
 - What can SMEWG do to increase cooperation between SMEs in different countries?

- How do you increase SMEs knowledge and willingness to participate in global supply chains?
- What safety net can be provided to SMEs involved in global supply chains which are more vulnerable to economic crises?
- Are there any tools that APEC SMEWG can provide to help SMEs participation in these chains?
- What policies can SMEWG put in place to promote SME participation?
- What policies can SMEWG call for in future FTAs?
- What kind of programs can be implemented to improve skill sets for SMEs looking to work in global supply chains?

Matrix of Actions on Global Supply Chains

Recommendation Areas	Specific Recommendations	Existing and Past Work on this Issue	Action Points	KPIs	Responsible Parties
PROVIDE AN ENABLING ENVIRONMENT FOR SMES	Provide favorable macroeconomic conditions				
	Openness of market, IPR, equal treatment of enterprises				
	Business development services				
	Efficient logistics network				
IMPROVE ACCESS TO FINANCE	Bank loans, leasing and factoring, trade credits, venture capital, business angel investment				
	Financial and economic safety nets				
STRENGTHEN GLOBAL COOPERATION AMONG SMES AND WITH MNCS	Cooperative networking and clustering				
	Cooperation among SMEs				


	Increasing skill sets of SMEs				
	Enhancing use of ICT among SMEs				
INCREASE KNOWLEDGE OF SMES ABOUT FTAS	Minimize distortions of overlapping FTAs				
	Understanding of international standards and business practices				
	Pro-SME policies in FTAs				


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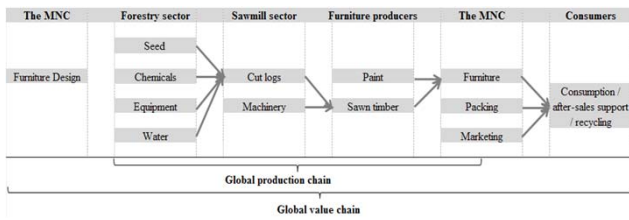
Enhancing SME Participation in Global Supply Chains

Based on PSU Issues Paper No. 3, "SME Participation in Global Production Chains" January 2013

DEFINITIONS


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- **Global Production Chains (GPC):** refers to the linkages within or among a group of geographically dispersed firms in a particular global value chain for producing specific products. They are an inseparable part of:
- **Global Value Chains (GVC):** covers the full spectrum of value added activities required to bring a product from its conception, including production as well as design, marketing and distribution.



Example of a GPC embedded in a GVC



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ADVANTAGES & DISADVANTAGES

BENEFITS TO SMEs


- Enhances technical capacity of SMEs
- Increases demand for SMEs products and services
- Builds prestige and credibility, allowing easier access to finance
- Provides gradual and sustainable way to internationalize

BENEFITS TO THE LOCAL ECONOMY

- Stronger SME sector positively linked with economic growth
- Increases job opportunities
- Increases export value and builds up foreign reserves
- Transforms local economy and business

DRAWBACKS TO SMEs' PARTICIPATION IN GPCs

- GPC serves as a crisis transmission mechanism, passing on shocks of economic crises to SMEs which are less prepared to cope with it
- MNCs take dominant position over SMEs, leading to risk of loss of control and management



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SMEs PARTICIPATION IN GPCs

- SME participation in GPC's is **generally low**
- SMEs typically serve as **second- or third-tier suppliers**
- The **overall value contributed by SMEs to GPCs is small**

Barriers to Entry

Finance	Human Resources	Global Standards	Changing International Business Practices
<ul style="list-style-type: none"> Large up-front investment required to get production process ready Need to accept unfavorable terms of business including late payments Small nature of SMEs makes it more difficult to access loans 	<ul style="list-style-type: none"> Difficult to attract, retain and motivate high quality human capital 	<ul style="list-style-type: none"> Adapting to evolving world standards for production, including industry-, firm- and region- specific standards is a major challenge 	<ul style="list-style-type: none"> Changes in delivery cycles and business operation practices are difficult to adapt to for SMEs SMEs struggle between adopting 'best practices' and maintaining a competitive advantage


RECOMMENDATIONS (1 of 2)


PROVIDE AN ENABLING ENVIRONMENT FOR SMEs

- Providing favorable macroeconomic conditions
- Ensuring openness of local markets, strong property rights protection and contract enforcement, and equal treatment for both local and foreign enterprises
- Providing business development service, including business counseling and consulting, to help SMEs form strategies to succeed in GPCs
- Creating a well developed and efficient logistics network that connects firms within and among clusters

IMPROVE ACCESS TO FINANCING

- Increasing access to bank loans, leasing and factoring, trade credits, venture capital and business angel investment
- Providing financial and economic safety nets to cope with large scale macroeconomic disruptions

RECOMMENDATIONS (2 of 2)


STRENGTHEN GLOBAL COOPERATION AMONG SMEs and MNCs

- Building cooperative networking and clustering to increase and improve SMEs' participation in GPCs
- Facilitating cooperation among SMEs to improve capacity to participate in GPCs through collective procurement of material inputs, development of technology, marketing and branding, and human resource training
- Creating tailor-made programs to increase skill sets of SMEs
- Enhance SMEs' understanding of how to use ICT

INCREASE KNOWLEDGE OF SMEs ABOUT FTAs

- Minimize distortions of overlapping FTAs
- Promote understanding and mastering of international standards and business practices under governance of FTAs
- Promote pro-SME policies in development of FTAs