



APEC Principles on Enhancing SME Capacity of Managing the Opportunities and Challenges Associated with Trade Liberalization

Chinese Taipei

This document is the output of APEC Symposium on Enhancing SME Capacity of Managing the Risks Associated with Trade Liberalization, held in 2011 in Taipei, currently proposed for discussion and consideration among SMEWG member economies.

Background

While trade liberalization leading to bilateral or multilateral market opening brings about tremendous new opportunities for market expansion and business profitability, it is also inevitable to result in more intensive competition, market fluctuation, and/or the related challenges against many businesses and enterprises. Therefore, policymakers have to pay much attention to and make continual efforts on how to accommodate domestic business environment accordingly and help enhance entrepreneurial capacity of grasping the opportunities and managing the challenges associated with trade liberalization.

The APEC SME Crisis Management Center investigated the related needs of SMEs and learnt that, compared with large enterprises, SMEs would especially benefit from the availability of relevant public resources and cooperative networks dealing with the major issues due to trade liberalization. APEC region as a whole should also seek opportunities to work together among member economies to facilitate its SMEs uplifting their capacity of such management. Only when those issues for SMEs are adequately addressed, will the benefits associated with trade liberalization be realized to the upmost, directly contributing to the APEC Bogor goals of “free and open trade and investment in the Asia-Pacific” and further promotes trade flows in the APEC region.

Major Issues Identified

Based on APEC studies, among others, there are certain major issues identified as associated with trade liberalization as follows:

1. ***Foreign regulatory regimes***: due to lack of transparency in regulations, or lack of the access to foreign regulatory information, entrepreneurs might encounter a lot of unexpected difficulties in doing business from regulations on such operation activities as starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and closing a business. These regulatory

risks could be even more impedimental to SMEs.

2. ***Policy consistency***: while trade liberalization policy may bring about significant economic and industrial benefits for the economy, it can also cause considerable impacts on certain businesses or sectors, leading to firms shutdown and jobs loss. Such problems might raise the voice of protectionism and result in political campaign for imposing market regulations or trade barriers, which might lead to unexpected shift of trade policy framework.
3. ***Market competition***: market competition may result in the possible loss due to a firm's competitive disadvantages. Such potential loss will intensify when doing business in a foreign market, due to less advantageous over local competitors in such areas as market intelligence, supplier relation or networking, business reputation or customer familiarity, legal resources for dispute resolution, and the like. These issues may be even more common or difficult for SMEs to overcome.
4. ***Access to finance***: financial stress is frequently heightened for SMEs trading with foreign counterparties due to higher risk of business or less access to physical collateral leading to lack of access to finance in general. It is one type of frequently mentioned hindrances to realizing the potential economic benefits resulting from trade liberalization.
5. ***Exchange rate fluctuation***: fluctuation in the exchange rate is regarded as one of the common uncertainties associated with international trade, and can change unfavorably and adversely affect the terms of trade for either exporters or importers. Many SMEs may not possess the appropriate resources for the necessary expertise or managerial capability of risk mitigation or hedging.
6. ***Transportation and related costs***: according to APEC studies among others, a number of factors contribute to high transportation risks and costs, including inadequate infrastructure, limited availability of transportation options, and higher insurance costs for overseas shipments. These difficulties generally impact SMEs to a greater degree since they cannot take advantage of economies of scale and have difficulty identifying other, more cost-effective shipping alternatives.

Guiding Principles for Strengthening SME Competitiveness to Benefit from Trade Liberalization

1. Greater trade facilitation for SMEs should be enhanced by improving transparency via APEC WebTR portal for easier access to free trade agreements, ease in locating FTA texts, and information at no cost.
2. Public-private partnership should be reinforced to uplift SMEs managerial and innovative capacity through information exchange networking, consultant and technical service networks, academic and industrial cooperation, public R&D facilities, innovation tax incentives, and the like.
3. Innovative and internationalized human resource development for SMEs may be promoted by ways of employee education and training, new talent recruitment, knowledge management, employee career planning system buildup, and the like, through Inter-Sectoral Cooperation.
4. Financial or credit support programs should be implemented and revalued on a

continuous basis, including SME loans, loan guarantees, tax incentives, specialized banks, special funds, and so on, while long-term efforts should also be made in improving SME financial managerial capability, and credit rating system.

5. SMEs export may be facilitated by various sorts of promotion and marketing measures such as co-marketing, trade shows, and so on, through industrial cooperation and public-private partnership.
6. Transportation costs can be mitigated through improving transportation infrastructure, introducing more competition in the logistics service market, facilitating innovations in technology and business model of logistics service providers, streamlining customs procedures, making information more accessible about logistics market dynamics, and the like.

Guiding Principles for Enhancing SME Capacity to Cope with Foreign Regulatory and Competition Environment

1. Based on the needs of SMEs, public and/or private resources (e.g., industrial associations and professional service providers) should be directed into providing for foreign regulatory information and improving regulatory transparency or information accessibility through the buildup of consultant service networks.
2. All policy planning of trade liberalization should include the careful impact assessment so that the major adversely affected groups could be identified and remedial measures may hence be incorporated into the integral policy action plan.

Guiding Principles for Improving the Accessibility of Knowledge for SMEs to Adopt Adequate Hedging Methods

1. Information or counseling service for exchange rate fluctuation and related macroeconomic outlook should be made more accessible to SMEs, and educational and training programs may be planed and launched for improving knowledge and capability of SMEs in exchange rate risk management.