Trade and globalization have lifted the geographic constraints for businesses of all sizes and created unprecedented opportunities for MSMEs to engage in cross-border trade.
The positive spillover effects that occur when a high number of firms of all sizes engage in cross-border trade are well-known: higher economic growth, faster upgrading of business practices, technology diffusion, and social benefits form higher

Effective programs and policies in 4 areas empower MSMEs to engage in cross-border trade.

Digital Economy

**2x growth**

**$1 = $5**

MSMEs in GVCs

80%

>50%

Services-Sector MSMEs

MSMEs who export services pay higher wages, are more innovative, and employ relatively more highly skilled workers (HK Nordás, 2015) (WTO, 2016).

Women-led MSMEs


A disproportionately high amount of women’s income is reinvested in the home which has significant long-term impacts: higher health and education levels.

Every additional $1 invested in ICT infrastructure could yield up to $5 GDP growth by 20205 (Huawei, 2017).

Digital MSMEs experience twice the growth of non-digital MSMEs. (AMTC, 2018)

More than 80% of global trade now occurs within international production networks of MNCs (OECD, Inclusive MSMEs).

85% of all micro firms and 72% of SMEs operate in the services sector (WTO, 2016).

More than 50% of domestic value added to exports is attributed to SMEs (WTO, 2016).


A disproportionately high amount of women’s income is reinvested in the home which has significant long-term impacts: higher health and education levels.

Digital MSMEs experience twice the growth of non-digital MSMEs. (AMTC, 2018)

85% of all micro firms and 72% of SMEs operate in the services sector (WTO, 2016).

More than 50% of domestic value added to exports is attributed to SMEs (WTO, 2016).


A disproportionately high amount of women’s income is reinvested in the home which has significant long-term impacts: higher health and education levels.
Realizing the Untapped Potential of MSMEs in APEC
Practical Recommendations for Enhancing Cross Border Trade

Executive Summary

Economies that promote their MSMEs gain higher economic and social growth rates. Energizing more MSMEs especially those that are women-led to participate in cross-border trade, leads to increased growth for the 97% of enterprises in APEC that are MSMEs. In turn, these MSMEs are more productive, pay higher wages, and are more innovative, creating positive spillover benefits on home economies. Stronger, more inclusive growth comes from supporting and advancing women-led MSMEs.

This report presents a synthesis of almost 600 in depth interviews with a cross-section of participants in MSME ecosystems in all 21 APEC economies. It also incorporates existing research and recommendations on improving MSME engagement in international trade. The research and interviews tell two compelling stories.

One is a story of excitement, of optimism, and of new opportunities for MSMEs, and their economies. Technology and expanding globalization of supply chains have created opportunities for MSMEs to engage in global trade in areas and ways never before possible. Digital technology has reduced trade costs, and expanded the reach of MSMEs. It has increased the advantage of being small, specialized, and best-of breed. It has offered forward-thinking developing APEC economies ways to get out of the low-valued manufacturing sectors that they have been traditionally trapped in.

But the other is a much sadder story; one of frustration and continued disappointment. Our research found that while APEC policy makers are prioritizing, and allocating resources to support, and advance MSMEs real progress is limited. Trade costs remain high. Trading regimes between economies remain a thicket of complex trade procedures, and protectionists measures. This is discouraging to even the largest, and most well-resourced firms, but effectively stop MSMEs in their tracks. Within economies, MSME programs and policies tend to be piece-meal rather than coherent national strategies. There is little agreement on how to create a sustainable supportive ecosystem for MSMEs both among policy makers in general, and also between policy makers and the business sector.

Internationalizing MSMEs enables them to break out of potentially vicious low-growth, low-productivity cycles. It allows MSMEs to access larger markets improving scale. It exposes MSMEs to innovations, technologies, and new business approaches. In turn, these MSMEs bring good practices back to domestic economies that improve domestic productivity and competitiveness. MSMEs are started for many reasons: they are inherently small and lack scale; they often have short lifespans; are resource-constrained; and lack business expertise, technological proficiency, and the ability to onboard and access finance. Few have global entrepreneurial mindsets, most have difficulty engaging with new networks, and many lack new market and opportunity awareness. Further, they are disproportionately affected by inefficient and ineffective regulatory and operating environments. All these factors can quickly combine to trap MSMEs into vicious low growth cycles. Encouraging MSMEs to engage in trade helps them start virtuous growth cycles that come from accessing more demand, improved scale, access to new technologies and innovative ideas, and stronger drives to improve operations to become globally competitive. Firms that engage in cross-border trade bring back spillover benefits that have multiplying effects: new innovations, improved productivity, competitiveness that forces improvements in domestic competitors, and the ability to offer better jobs with higher wages.

Supporting MSME ecosystems to produce economic and social growth must be ongoing. Getting MSMEs into virtuous cycles is challenging and requires the balanced development of supportive ecosystems that provide access to training, technology, capital, foreign market information, advisors and mentoring, incubators and accelerators, along with supportive operating and regulatory environments. Economies need to view the support of their MSMEs in the same way they do education of the young or the aged. Policy makers must recognize that there is a constant “churn” (birth and deaths) of MSMEs, each needing support to grow. However, economies must guard against programs and policies that create MSME dependency.

Extensive research and recommendations for MSME growth exists. The need is not for more recommendations; they exist. It is to make real progress in supporting MSME growth by prioritizing existing recommendations and finding programs and policies that actually work, and deliver real results. The intended goals of this research has been to identify “what works” and “what does not work” from among all the programs and policies across the public and private sectors in APEC.
Research Initiative

What Works and What Does Not

ABAC commissioned the University of Southern California’s (USC) Marshall School of Business to identify best practice “what works” programs and policies to empower MSMEs to engage in more cross border trade in the APEC region, with specific focus on the digital economy and inclusive growth via women-led MSMEs. The research focuses on capturing the “voice of business” by interviewing a broad cross-section of APEC business leaders, MSMEs, policy makers, and supporting ecosystem players, with specific attention to women-led MSMEs.

The intended contribution of this research is to ask business people, policy makers, and supporting MSME ecosystem players what works and what does not work. We endeavored to highlight, out of all of the programs and policies, which are good practices and which have negative, unintended consequences.

The research included:
- Interviews with 32 thought leaders and 560 stakeholders in APEC, including MSME leaders, large firm executives, trade association leaders, policy makers, along with 430 questionnaire respondents
- Developing a comprehensive evaluation framework for the barriers, impediments, and enhancers to MSME cross-border trade across six dimensions that capture the entire trade environment.
- Analyzing data across multiple perspectives to understand the complexity of MSME cross-border trade.
- Capturing recommendations for practical solutions to improve the trade environment for MSMEs. These are categorized into two categories: “what works” and “what does not work.”

Key Findings

Engaging MSMEs in cross-border trade has enormous potential for all economies. However, impediments and barriers in every APEC economy limit the potential growth opportunities for MSMEs.

Poorly focused MSME programs and policies is the major challenge in hindering real progress for MSMEs. Few APEC economies have clear coherent national strategies for supporting and empowering their MSMEs. While our research found that all APEC economies were devoting time, attention, and resources, to supporting MSMEs, we identified substantial differences in perspectives and approaches, some conflicting, between and among policy makers, and between policy makers and business, on how best to support and advance MSMEs. Approaches taken by many economies were piece-meal and resource-wasteful. Malaysia and New Zealand were identified as having strong coherent national MSME strategies.

Internationalizing MSMEs, either through direct trade or into GVCS, must begin with achieving competitiveness in six key areas: Business expertise in planning, managing, and good governance, ability to qualify for and accept investment and financing, technological proficiency, entrepreneurial global growth mindset, engagement with business networks, and market and opportunity awareness. We found across APEC economies that without competitiveness in these six areas there is little chance MSMEs will breakout of low growth, low productivity cycles, let alone even considering engaging in cross-border trade.

Supporting balanced MSME ecosystems is essential. It is much more than ensuring access to MSME financing and investment. While MSMEs want capital; they need training, easy access to information, and awareness of new markets and opportunities much more. Policy makers need to focus on supporting incubators, accelerators, affordable digital technology, and accessible training programs that address all six pillars of MSME competitiveness. A focus must be paid to developing ICT infrastructure, and operating and regulatory environments that support MSME growth.
Key Findings

**Global mindset is absent in most MSMEs.** Very few MSMEs engage in cross-border trade. For entrepreneurs are globally focused. This particularly acute in developing APEC economies. Most MSMEs are domestically-focused and consider the benefits of global expansion to not be worth the investment risks. Policy makers must focus on programs which increase awareness of market opportunity awareness and the communicating benefits that come from cross-border trade.

**The digital economy, service-sector MSMEs, and GVCs are the three biggest contributors to empowering MSME cross-border trade.** When MSMEs utilize the digital economy, they grow at least twice as fast and engage in trade with exponentially more economies. The future of the workforce lies in service-sector MSMEs as well as those in GVCs. Interviewed MSMEs in these areas often feel left out of programs and policies, yet these are at the center of global business trends.

E-commerce continues to be an important pathway for MSMEs to benefit from international trade. Engaging MSMEs in cross-border e-commerce yields productivity gains of 6-15%, doubles the participation of women-led MSMEs, and more general increases market opportunities for MSMEs. However, inaccessible ICT, lagging digital training programs, cross-border data restrictions, physical presence requirements, resistance from financial institutions to alternative digital payment systems, and the controlling influence of global e-commerce platforms and market places continue to be obstacles policy makers must address.

E-commerce platforms and marketplace play a critical role in promoting cross-border MSME activities. Access to global market places is critical for cross-border MSME growth. And, market places and platforms are playing an increasingly important role in assisting MSMEs to navigate cross-border trade processes and requirements. However, they are doing it ways that may not align with national interests. Additionally, the increasing power of international market places, and their potential to dominate and lock-out smaller domestic rivals, and lock-in MSMEs to their platforms, should be of increasing concern to policy makers.

Trade costs, before the border, at the border, and in foreign markets, overwhelm and discourage MSMEs. Easy access to accurate trade information is not guaranteed in most APEC economies. Additionally, a lack of transparency and cumbersome costly border procedures are major hurdles for MSMEs. From our interviews, MSME owners point to the unpleasant surprises of additional unanticipated trade costs as major disincentives for engaging in cross-border trade. Bringing all trade information online into “Single windows” would be a breakthrough improvement for MSMEs.

Foreign market dispute resolution challenges become overwhelming barriers for MSMEs. Protection against fraud, and an ability to quickly, fairly, and cost-effectively, negotiate disputes, is a major concern for MSMEs. For most it is the main reason they discontinue cross-border trade. Policy makers must make progress on improving cross-border dispute resolution mechanisms to allow MSMEs to capture the opportunities of cross-border trade.

**NTBs are particularly problematic for MSMEs.** MSMEs lack the scale and the specialist experts to cope with NTBs; specifically access to specific SPS and TBT information, burdensome customs procedures, and costly compliance requirements. Greater transparency, simplified plan-language rules, more timely clearances, and more consistency of enforcement are urgently needed.

**FTAs, in general, are not helpful for MSMEs.** Our research found few MSMEs use FTA provisions. MSMEs complain that the language is too complex, don’t have MSME-specific provisions, and the fear of being fined for incorrect use, discourage them from attempting to use them. Most prefer to pay any tariffs. When provisions for MSMEs are not included in dispute resolution chapters their impact in reduced. Additionally, FTAs and RTAs are negotiated from a large firm perspective with little consideration for the positive or negative impact on MSMEs.

Getting MSMEs into GVCs is not easy. When MSMEs can engage in GVCs they capture the benefits of trade and the accompanying virtuous cycles. However, “beachhead” costs in the form of improving systems, training, obtaining certifications, etc., are major barriers for MSMEs, especially when contracts with larger GVC firms are not guaranteed. Additionally, the power differential between MSMEs and MNCs in payment terms and in dispute resolution is a major challenge for MSMEs. These are areas in need of policy maker attention.

**Services, particularly B2B services, offer MSMEs major cross-border growth opportunities.** Engaging services offers MSMEs an opportunity to capture the benefits of trade without many of typical trade costs. The intersection of services, digital technologies, and cross-border GVCs, are the “next big thing(s)” for MSMEs. However, foreign market services-trade restrictiveness challenges are major hurdles for MSMEs. Complying with physical presence requirements is beyond most MSMEs.
Key Findings

**Stronger more inclusive growth comes from supporting and advancing women-led MSMEs.** Our interviews, supported by empirical research, conclude that economies would experience greater economic and social growth outcomes if more resources were directed explicitly to helping women-led MSMEs. Perceptions of the supportiveness of ecosystems for women-led MSMEs vary considerably across APEC economies; with men in most economies believing that things are much better than they really are. Women-led MSMEs, overall, provide better returns on investment, and return proportionally more resources to their families for better health and education.

**Women-led MSMEs are underrepresented in trade.** Women-led MSMEs are disproportionately fewer in the small number of MSMEs that do engage in cross-border trade. Across the board, women entrepreneurs and MSMEs owners find it more difficult to access training, financing, and business networks. Fewer women have a global mindset. Programs and policies that are gender-neutral are not sufficient to advance women-led MSMEs. Cultural biases in all APEC economies, to a greater of less extent, continue to disadvantage women-led MSMEs. Support programs that focus explicitly on women-led MSMEs need to be developed.

**The best programs and policies to empower MSMEs are practical and share similar characteristics. They all:**

- **Avoid contributing to market dominance and market distortions by energizing, rather than propping up, virtuous cycles of growth.** In practice, beneficial programs and policies provide the training, funding, and mentorship MSMEs need for their specific growth stage and sector. They are affordable, well-publicized, of good quality, and up-to-date.

- **Inspire MSME resiliency by requiring small risk-taking through well-crafted applications, reasonable fees, or attendance and completion requirements.**

- **Address, first, supportive regulatory and operating environments.** Transparency and consistency of law, easy business formation processes, well-built physical infrastructure, functioning logistics providers, universal quality education, and business-friendly tax policies must be in place before MSMEs can engage in cross-border trade.

- **Appreciate that successful 21st century firms are digital.** Without access to affordable and reliable ICT, MSMEs cannot enter virtuous cycles. Without policy-maker comprehension of the digital economy’s enablers and barriers, MSMEs cannot survive. Trainings are cognizant of B2B and service-focused MSMEs in the digital economy.

- **Foster inclusive growth, especially for women-led MSMEs.** Differential challenges are faced by MSMEs in general and women-led MSMEs experience even stronger challenges. All APEC economies can benefit from policies and programs that accept the explicit and implicit cultural biases that exist in all APEC economies, consider how those affect women in cross-border trade, and then amend or create programs and policies focused on inclusive growth.

- **Support MSMEs’ learning, through training and promotion of MSME-friendly GVCs.** Formal upskilling trainings help, and many MSMEs expressed interest in them. Additionally, promoting GVCs who support their MSME partners increases quality, standards compliance, and MSMEs’ learning.

- **Increase the scale of impact.** Economies efforts are well appreciated but across most economies, the same MSMEs continually take advantage of programs and policies. The digital economy, including e-payments, e-government, and e-commerce, enable policy-driven programs to reach many MSMEs at a manageable cost.

**Small changes to improve MSME productivity, competitiveness, and readiness create great impacts.**
Action Agenda: APEC and ABAC

The Role in Supporting MSMEs to Engage in Cross-Border Trade

Both APEC and ABAC play critical roles in providing an enabling environment for MSMEs to access and engage in cross-border trade opportunities. Substantial work has been done in both APEC and ABAC on good practices for improving the environment for services, facilitating trade, and improving other critical trade areas. Nevertheless, more work remains to be done on facilitating trade across APEC and internationalizing MSMEs. Our research has identified several key areas where further APEC/ABAC work is needed as well as issues to consider when formulating policy going forward.

Prioritize reducing and eliminating trade barriers and trade costs. Reducing trade barriers and trade costs, and improving customs and border facilitation matters much more for MSMEs. With thin margins and low scale operations, even the smallest trade barriers and cost prevent MSMEs from profitably engaging in cross-border trade. Eliminating protectionist barriers, streamlining customs, improving NTM compliance procedures, simplifying trade requirement language and making it all available online in a single location, must be priorities for APEC and all its economies; especially developing economies. If APEC is serious about realizing the untapped potential of its MSMEs, then it must get serious about trade liberalization.

Keep MSMEs at the table when taking initiative to liberalize trade. As APEC continues to work on sharing information on FTAs/RTAs and realizing a free trade area of the Pacific (FTAAP), it is critical to keep MSMEs and MSME associations engaged. A majority of MSMEs surveyed for our research did not understand FTAs/RTAs or how to use them. Any additional policy around FTAs/RTAs should include the input of MSMEs or MSME trade associations in order to ensure that MSMEs are not left behind.

Expand the awareness of the APEC MSME Marketplace. When asked their views of the platform, 47% of questionnaire respondents did not know it existed. Of those that did know, most saw clear areas of improvement.

Continue work to find alternative methods of dispute resolution. Across every level of the trade pipeline, access to easy, low-cost dispute resolution was consistently identified as an issue for MSMEs engaged in trade. Interviews with MSMEs engaged in cross-border trade, business leaders, and policymakers in the 21 APEC economies made it clear that MSMEs either did not engage in dispute resolution at all or tried to mediate any conflict themselves. Few, if any, MSMEs used existing methods of arbitration and legal settlement available due to their perceived complexity and cost. Efforts should continue on the ODR initiative led by APEC Hong Kong and full adoption by member economies of dispute resolution mechanisms that are helpful for MSMEs.

Foster the continued sharing of good practices from around APEC and the world. The good practices highlighted in this research represent the findings of our meta-analysis, thought leader interviews, in-person interviews, and questionnaire. It is not an exhaustive and comprehensive list. APEC and ABAC can continue to support research representing the “voice of business;” hold in-person meetings and conferences that bring together innovative, ambitious, and dedicated MSMEs, policy makers, and supporting players to share good practices; and the convey good practices on digital platforms, including via social media.

Lead the creation of guidelines for digital interoperability. APEC and ABAC can coordinate efforts and bring together good practices from across the region to create standards and guidelines to ensure digital systems can be interoperable. Interoperability increases the effectiveness of information sources, e-customs, e-government, national payment gateways, and other forms of e-payments.

Find a new sponsor for the APEC STAR Database. The APEC STAR Database, discontinued in 2016, was a repository for services trade access information. Access to information, especially for services-sector MSMEs, is a critical trade barrier. Identifying foreign market opportunities, understanding foreign regulations, and complying with service trade requirements are extreme opportunity costs that disincentivize MSMEs internationalizing. Although the APEC STAR database was archived at the recommendation of the project sponsor (Australia), APEC should work to find another sponsor for the database.
**Action Agenda: Policymakers**

**Policymakers Need Focus and Collaboration to Empower MSMEs**

The advances in the digital economy have reduced or eliminated barriers to engaging globally and vastly increased opportunities to engage in trade. Policy makers in the 21 APEC economies are now uniquely positioned to empower—or impede—MSMEs attempting to trade across borders. Economies can elevate MSMEs into virtuous cycles by putting greater focus on MSMEs and their specific needs, while maintaining light-touch regulatory frameworks that allow MSMEs to leverage the benefits of the digital economy or they can pursue digitally-restrictive and fragmented policies that continue to keep MSMEs stuck in the low-margin, low productivity vicious cycles that are characteristic to most MSMEs today. The following recommendations, informed by interviews in the APEC economies and our research questionnaire, are areas of critical focus for policy makers.

**Develop and maintain a national strategy related to MSMEs.** Helping MSMEs is challenging due, in part, to the differing perspectives of the role of MSMEs in each economy. While some economies may view MSMEs as a source of competitiveness and economic growth, other economies may see MSMEs as vehicles for providing employment. Economies can also pursue strategies where successful MSMEs are the focus of support or, conversely, where all MSMEs receive support regardless of success. To avoid market distortions and dependent MSMEs, policy makers must first establish coherent national priorities regarding MSMEs in their economy, and then execute on this strategy by allocating the necessary focus and resources required to fulfill priorities.

**Meet MSMEs where they are and seek greater understanding on the challenges faced by MSMEs.** Understanding the challenges that MSMEs face when attempting to scale and engage in cross-border trade is critical to allocating resources effectively to create a measurable GDP or social growth impact. Too often, we have seen examples of programs that are well-intended but fail because they do not take into account the inherent challenges faced by MSMEs. Programs that involved substantial amounts of training, for example, tend to be ineffective for MSMEs as they impose large opportunity costs for MSME owners who must spend time away from their business to attend them. Economies should work to build profiles of the MSMEs in their economy and then provide MSMEs with tailored programs that effectively address their needs and take into account the challenges they face both in domestic operations and cross-border trade.

**Work to establish alternative methods of credit-worthiness.** The liabilities of “newness” and informality were commonly raised in our research as major impediments and barriers for MSMEs to access financing and escalate into virtuous, high-growth cycles. Newly formed MSMEs or those that have little to no formal records of business are often shut out from traditional methods of financing. Policymakers must continue to partner with banks, technology companies, and other lending partners to establish additional ways for these MSMEs to establish themselves as credit-worthy and obtain the capital needed to grow.

**Leverage technology to make doing business easier for MSMEs, with a particular focus on mobile.** Many MSMEs, particularly those in developing economies, are very reliant on mobile technology as a means to do business. Policy makers can take steps to simplify processes for these firms by allowing them to operate using their mobile devices. Enabling MSMEs to keep digital records on their devices, eliminating paper-based business documentation requirements, and transitioning towards e-government processes that are mobile-friendly can be hugely beneficial for MSMEs without forcing them to invest in costly hardware and software programs.

**Increase outreach to promote existing good practice programs that help MSMEs with capacity building and trade.** Across both developed and developing economies, it is clear that many MSMEs are wholly unaware of many beneficial existing programs. Interviews with government stakeholders found that programs targeting MSMEs were generally underutilized and many MSMEs expressed frustration about the lack of programs available to help them. Increasing marketing and outreach to MSMEs is a critical step to getting further usage of programs as well as understanding the effectiveness of the programs in solving MSME challenges.

**Pursue meaningful partnerships with the private sector.** Private sector stakeholders are often key to helping MSMEs with the trade process. More than ever, companies are offering innovative payment, logistics, and e-commerce solutions to MSMEs seeking to sell to foreign markets. Identifying and partnering with these service providers is a way for governments to avoid redundant offerings while helping MSMEs access these solutions.
Action Agenda: Business Leaders

**Business Leaders Play a Critical Role in Supporting Inclusive Growth**

Business leaders have a critical role in supporting MSMEs and fostering inclusive growth. Leaders of large firms provide meaningful opportunities for MSMEs to engage across borders via global value chains. Leaders of firms of all sizes wield significant influence to foster supportive ecosystems for business. Business leaders, from both large firms and MSMEs, must be willing use that influence to ensure that operating and regulatory environments in the APEC economies are conducive to inclusive growth.

**Set standards for timely payment of MSME suppliers.** MSMEs engaged in global value chains reported that timely payment by large enterprises was a challenge. For MSMEs, who often have difficulties accessing working capital and managing cash flow, the inability to collect payments can be devastating. Business leaders of large enterprises across industries should work to set standards for timely payment of MSME suppliers to ensure that these enterprises are adequately able to participate in and benefit from global value chains.

**Advocate for business-friendly environments.** Interviews across the APEC economies indicated that business leaders are not always actively engaged in the policy process. It is critical that business leaders share “the voice of business” and help policymakers understand policy impacts on the general business ecosystem. Business leaders must engage with policy stakeholders when called upon and also take proactive steps to reach out and educate policymakers on the needs and challenges faced by businesses large and small.

**Foster the global entrepreneurial mindset at the economy level and especially for MSMEs.** As global value chains continue to become longer and more complex, new opportunities will open for both goods and services-sector MSMEs. These GVCs allow MSMEs to specialize by focusing on specific parts of the value chain. However, MSMEs will not be able to capitalize these opportunities if they continue to, on the whole, lack a global entrepreneurial mindset. This mindset inspires business people to grow their enterprises and take advantage of opportunities outside their immediate domestic markets. Business leaders can address this issue by encourage MSMEs to specialize and take calculated risks, as well as become familiar with the benefits of involvement in global value chains.

**Provide input on free trade agreements.** A vast majority of MSMEs interviewed in the 21 APEC economies did not understand how to take advantage of potentially beneficial provisions in free trade agreements. While large businesses are often involved in free trade negotiations, MSME associations and business groups must reach out to current stakeholders to ensure that the voice of MSMEs is reflected in these agreements. Doing so is a critical step toward greater utilization of FTAs by MSMEs looking to trade.