

# **NEAT WG Report on Small & Medium-sized Enterprises Cooperation in East Asia**

Drafted by NEAT China

The NEAT Working Group Meeting on the Small & Medium-sized Enterprises (SMEs) Cooperation in East Asia was organized by NEAT China in Changsha, Hunan Province, China on July 2, 2017, at which about 25 representatives from ASEAN Plus Three (10+3) countries were present.

Featuring the theme of Enhancing SME Development and Cooperation in East Asia for Regional Inclusive Growth and Common Prosperity, the meeting aims at the following three objectives: first, exchanging country-specific knowledge and sharing experience; second, reviewing and summarizing the development and problems of SME cooperation under existing regional cooperation mechanisms; third, making viable policy proposals on the development and cooperation of SMEs in East Asia through the 10+3 cooperation mechanism. Representatives conducted in-depth explorations and reached broad consensus.

This report strives to put forward policy proposals on furthering SME cooperation in 10+3 countries on this basis of summarizing the presentations and discussions at the meeting.

## **I. Current Development of SMEs in East Asia**

SMEs refer to economic units whose manpower, capital amount and business scale are smaller than those of big enterprises in the same industry. The definition of SMEs varies among different industries at different stages of development and among different countries and is constantly adjusting with economic growth. Generally speaking, it is determined by quality and quantity. Quality refers to organizational form and financing method of an enterprise and its position in the industry while quantity concerns staff strength, capital amount and business scale. Though the definition of SMEs differs in 10+3 countries, SMEs are generally characterized by a small number of staff and a small amount of capital.

Figure1 Definitions of SMEs in 10+3 Countries

Country	Total Capital	Employed Manpower	Annual Turnover
Japan	< 300 million yen Manufacturing Industry	< 300	
	< 100 million yen Wholesale Business	< 100	
	< 50 million yen Wholesale Business and Service Sector	< 50	
Singapore		< 200	< 100 million Singapore dollar
the ROK	< 8 billion won Manufacturing Industry	< 300	
	< 8 billion won Mining, Construction and Transportation industries	< 300	
		< 200	< 8 billion won Wholesale and Retail Business
China			< 8 billion yuan Agriculture, Forestry, Animal Husbandry and Fishery
		< 1000	< 4 billion yuan Industry
	< 8 billion yuan		< 8 billion yuan Construction Industry
		< 200	< 4 billion yuan Wholesale Business
		< 300	< 2 billion yuan Retail Business
Indonesia	< 720,000 dollars		< 3.6 million yuan
Malaysia		≤200	≤50 million ringgit Manufacturing Industry
Vietnam	< 660,000 dollars	< 300	
Thailand	< 100 million baht	< 200	
Cambodia	≤500,000 dollars	≤100	
The Philippines	< 100 million pesos	< 200	
Laos	< 4 billion kip Production Industry	< 100	< 4 billion kip

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Source: data of 2017 Working Group Meeting of SMEs in East Asia for International Cooperation, *A Study on Promoting SME development in Cambodia* (2014 ) by Luo Cheng, *The Current Status of and Policies for SMEs in the ROK* (2013) by Lin Cairun, *The Notice of Issuing Regulations on the Standard of Sizing SMES* (2011) by the National Bureau of Statistics and others.

As a major pillar of Asian economy, SMEs have made a significant contribution to economic and social stability and development in Asia. According to Asia SMEs Finance Monitor 2013 released by Asian Development Bank, SMEs accounted for 98% of enterprises of Asian countries from 2007 to 2012, providing employment for 66% of labor force and contributing to 38% of Asian GDP or industrial value added. SMEs have played an irreplaceable role in absorbing labor force, especially of low technology, invigorating national economy, facilitating people's life and stimulating scientific and technological innovations. They represent a new potent force for promoting employment, reducing poverty and achieving inclusive growth. At the same time, they are partners and assistants of large enterprises. With the specialization and collaborative development of social production, SMEs have established close collaborative relations with large enterprises through specialized production, providing strong support for the development of large enterprises and laying a reliable foundation for their own survival and development.

East Asian countries are vastly disparate at development levels. Among them, Japan and Singapore are developed market economies with sound laws and regulations and special institutions for advancing SME development. The main appeals of Japan for SME cooperation in East Asia are: improving scientific and technological competitiveness of SMEs of Japan through cooperation and discovering new demands through innovation, differentiated products and market segment; enhancing SMEs' research and development and encouraging technological cooperation; protecting intellectual property transactions by rule of law and cultivating a fair order for market transactions.

SMEs in the Republic of Korea need to increase their competitiveness through innovations and technological edges. Due to limited domestic market, the government of the ROK has emphasized the development of large enterprises for a long time, whose unfair transactions and market monopolies have led to fierce competition among domestic SMEs. The ROK is ready to lower market access threshold through regional

cooperation to help SMEs expand into the world.

China's SMEs face overcapacity and the need for structural transformation. With increasing labor costs, China's labor-intensive industries are confronted with challenges in their internationally competitive advantage in price, which justifies the need to move forward cooperation for structural transformation and upgrading from labor-intensive industries to capital- and technology- intensive industries. China is ready to strengthen cooperation with ASEAN in labor-intensive industries and with Singapore, Japan, the ROK and other countries which have comparative capital and technological advantages to elevate the technological level of SMEs.

Malaysian SMEs are mainly composed of micro-enterprises, of which over 75% to 90% concentrate on service industries. Malaysia is ready to share the experience with countries in developing SMEs through organizing SME international forums; sign bilateral or multilateral SME memorandum on cooperation and lower market access threshold for SMEs; initiate bilateral or multilateral SME technological cooperation projects to boost technological cooperation; urge countries to monitor and implement relevant provisions in signed FTAs to accelerate SME cooperation.

Restrained by relatively underdeveloped economy and immature market, SMEs in Vietnam, Thailand, Cambodia, the Philippines and Myanmar are comparatively backward.

Generally, SMEs in East Asian countries are faced with financing difficulties, incompetence in developing international markets and limited human resources and other development bottleneck at various degrees. Additionally, to a certain degree, the development of SMEs in East Asia is also restricted by the overall development level of this region, entrepreneurship and investment environment, legal and institutional factors and social factors.

## **II. SME Cooperation in East Asia: Mechanisms and Development**

Countries in East Asia have conducted SME cooperation and achieved fruitful results under the cooperation mechanism with ASEAN at the center, the APEC framework and China-Japan-ROK cooperation frameworks.

### **2.1 SME Cooperation with ASEAN Centrality**

ASEAN Economic Community Blueprint proposes “balancing regional economic development, including SME development and ASEAN regional integration initiative”. ASEAN is facilitating the implementation of *The ASEAN Policy Blueprint for SME Development 2004-2014* to enhance the competitiveness and vigor of ASEAN SMEs. It calls on ASEAN countries to promote networking of SMEs and their participation in the building of regional production and distribution networks and expand financing by providing policy support regarding capital, technology and market so as to narrow the gap between ASEAN countries different at development levels.

*The Action Plan for ASEAN Plus Three SME Network* was a collaborative project adopted at the Fifth ASEAN Plus Three Economic and Trade Ministers Meeting in September 2002. The project focuses on establishing a “10+3 SME cooperation website” jointly by ten ASEAN countries, China, Japan and the ROK and the ROK is responsible for its maintenance and operation. The site, mainly through mutual website links and information exchange, promotes SMEs and their product information and provides more trading opportunities for the region. It also enables more enterprises in the world to understand 10+3 enterprises and their products through the internet.

In 2016, Premier Li Keqiang expressed his willingness to discuss with all parties the establishment of the 10+3 SME Service Alliance at the 19th ASEAN-China-Japan-ROK Leaders’ Meeting to help SMEs gain more benefit from regional integration.

With the establishment of China-ASEAN FTA, China and ASEAN have developed various forms of SME cooperation based on the principle of mutual benefits. China-ASEAN Business and Investment Summits have held 13 sessions since 2004, providing a platform for the flow of ASEAN commodities into China and the investment of Chinese enterprises in China-ASEAN free trade area. In 2009, China-ASEAN Economic Cooperation Ministerial Meeting issued the Joint Ministerial Statement and approved the establishment of a website for China-ASEAN free trade area, which aims at building a “highway” for information connection among China and ASEAN countries to encourage SMEs development by providing e-commerce services for China-ASEAN SMEs. The platform was put into operation in June 2010. With its major responsibility of supporting the development of SMEs, China-ASEAN Center has carried out various activities to promote economy and trade since its inception in 2011, such as the establishment of China-ASEAN Commodity Trading Center in Yiwu, Zhejiang Province, presentations of China-ASEAN FTA

policies and visits of Chinese enterprises to ASEAN. Besides, China-ASEAN SME Trade Promotion Platform and China-ASEAN SME Cooperation Committee have also provided more opportunities for increasing exchanges and industrial connections between China-ASEAN SMEs.

The 16th round of Regional Comprehensive Economic Partnership (RCEP) negotiations closed in Tangerang, Indonesia on December 10, 2016. Representatives from 16 countries including China, Japan, the ROK and ASEAN completed negotiations of the SME chapter. It is the second chapter that has been concluded since the commencement of RCEP negotiations. The completion of the SME chapter negotiations will enhance information sharing and cooperation between RCEP participating countries, improve the capacity of SMEs in these countries and help them make fuller use of the opportunities created by the RCEP agreement.

## **2.2 SME Cooperation within Other Regional Cooperation Frameworks**

Currently, SME cooperation under the APEC framework is the most improved and mature cooperation mechanism in the Asia-Pacific region, including APEC SME Ministerial Meeting, SME Cooperation Working Group Meeting and APEC SME Technology Conference and Fair. Since 1994, APEC SME Ministerial Meeting was held annually to identify priorities in SME cooperation in the Asia-Pacific region and coordinated policies of relevant countries to stimulate common development of SMEs in member countries.

Formerly known as the APEC interim policy group for APEC SMEs, APEC SME Working Group (SMEWG) aims at reporting the implementation of the APEC SMEWG annual work plans, analyzing KPI, the key performance index of development and relevant action plans of the APEC SMEWG and sharing best practices and results in promoting SME development. APEC SME Technology Conference and Fair (SMETCF) is an important cooperation project carried out by China under the framework of APEC, aiming at providing a platform for APEC members to present their new products, driving innovative development of APEC SMEs and promoting cooperation and exchanges of SMEs among APEC members. Since its establishment in 1996, SMETCF has successfully held nine sessions, playing an important role in propelling trade and investment in the Asia-Pacific region, promoting technological exchanges and innovation and entrepreneurship, optimizing the business

environment for SMEs and advancing the healthy development of regional economy.

SME cooperation among China, Japan and the ROK has long been active. At the 2nd China-Japan-ROK Leaders' Meeting in 2009, Wen Jiabao, then Premier of the State Council of China, put forward the building of a demonstration base for China-Japan-ROK circular economy, which received active responses from Japan and the ROK. In June 2015, the National Development and Reform Commission approved the comprehensive building of China-Japan-ROK circular economy demonstration base in Dalian Economic Zone of Circular Industry and Caofeidian Industrial Zone, which has become a major platform for cooperation among China-Japan-ROK SMEs in green and low-carbon circular economy and advanced technology. The China-Japan-ROK (Bohai Rim) SME Green Industry Summit 2012 held in Tianjin aimed at strengthening green economic cooperation among China-Japan-ROK SMEs and seeking cooperation in resources conservation, environmental protection, new energy and new materials so as to cultivate new growth areas for trilateral economic cooperation. The sixth China-Japan-ROK Leaders' Meeting held in 2015 released the *Joint Declaration for Peace and Cooperation in Northeast Asia*, which underscored the important role SMEs have played in sustainable development and called for increasing cooperation of SMEs in the three countries.

### **III. Problems and Challenges Facing SMEs in East Asia**

Although East Asian countries have made great achievements in SME cooperation within different levels of frameworks, they are inevitably confronted with problems and challenges in institutionalization, financing and capacity building.

#### **3.1 Inadequate Institutionalized Cooperation**

Bilateral and multilateral mechanisms for SME cooperation in East Asia are yet to raise their institutionalized level. At present, without mature official mechanisms such as SME ministerial meetings, cooperation within the 10+3 framework is confined to loosely organized activities such as forums, exhibitions and expositions that are less result-oriented. The 10+3 countries are lacking in a programmatic action plan or road-map on how to promote regional SME cooperation and also in sustained cooperation projects of large scale and covering a wide area as a support. As a result, they are unable to meet the actual needs of regional SMEs. This phenomenon is ascribed to two aspects. As far as concepts are

concerned, various levels of economic development and opening up led to disagreements of East Asian countries about the concepts and standards of SMEs. As far as the alignment of rules and regulations is concerned, East Asian countries face not only unbalanced development of departments and regions and clashing regulations in their own countries, but also uncoordinated and unaligned policies, standards and regulations in the whole region.

### **3.2 Lacking Key Regional Financial Arrangements**

East Asian SMEs also face daunting difficulties in financing. Individually, they are not competent enough of financing themselves because of weak capability building, unsound financial systems and fluctuating performance as well as absence of credit basis and collateral. Nationally, many governments fail to provide sufficient financial support for SMEs and a majority of countries are still yet to fully develop their capital markets and improve financial systems. All these problems result in insufficient financing channels. Regionally, there is no financing platform or capital source that directly aims at SMEs in the whole region.

### **3.3 Vulnerabilities of SMEs in East Asia**

SMEs in East Asia are still vulnerable individually and internationally. Individually, they have difficulty in competing with large enterprises as a result of insufficient capital, scattered operation and low degree of concentrated production. At the same time, they are prone to legal risks on account of lack of rigid regulations on organizational structure, personnel, financial accounting and business operation. Besides, in the absence of senior managerial talents versed in multiple languages, experienced in managements and familiar with international rules and overseas markets, SMEs have failed to fully utilize regional trade and investment facilitation measures. Internationally, export-oriented economy of East Asian economies subject SMEs to trade frictions, trade protection, exchange rate fluctuations and legal risks and other international affairs as well as to international financial crisis, geopolitical risks, non-traditional security threats, bilateral political relations and unexpected political incidents on special occasions. Both the 1998 Asian financial crisis and the 2008 international financial crisis caused many SMEs to bitterly struggle with survival. Occasionally, historical issues, territorial disputes and maritime challenges common in East Asia also exert a negative influence upon SME cooperation within the region.

## **IV. Proposals**

East Asian countries are neighbors with similar cultures, high economic complementarity and close trade relations, providing favorable conditions and laying a solid foundation for SMEs to leverage comparative advantages and conduct cross-border trade and investment. Looking into the future, East Asian countries should work together to drive the common prosperity and development of SMEs and regional economy by strengthening communication and cooperation in the following aspects:

#### **4.1 Building Consensus on Objectives and Principles of Cooperation**

SMEs in East Asia should realize the following three objectives: first, include SME cooperation in East Asia into national development strategies to create enabling business environment for the development of SMEs; second, encourage SMEs to engage in the global chain in an effort to promote the expansion of SMEs; third, put forward regional-level policy initiatives and accelerate SME growth through capability, institutional and infrastructure building to give fresh impetus to East Asian economic development and integration.

#### **4.2 Implementing Regional Institutional Arrangements**

1. Establish a 10+3 SME ministerial meeting mechanism as soon as possible. It is suggested that the 10+3 SME ministerial meeting be held annually to enhance policy communication and coordination in the direction, objectives and road-map of SME cooperation in East Asia.
2. Set up a 10+3 SME governance summit mechanism. It is proposed that the summit be held annually to provide a platform for sharing experience, knowledge and information among East Asian countries and facilitating connection and cooperation of SMEs in East Asia.
3. Fully leverage 10+3 SME cooperation websites to provide regional SMEs with such services as information sharing, legal consultation, technological innovation, intellectual property protection and human resources development, and step up connection and integration of SMEs cooperation institutions and networks of all countries with these websites.
4. Authorize and set up 10+3 SME service alliances as soon as possible to improve organizational structures and function by founding special service committees.

#### **4.3 Strengthening Regional-level Financial Support**

1. Establish 10+3 SME cooperation funds through proportional contributions from governments and social capital. It is advisable that East Asian countries introduce market-based approaches and competitive distribution methods to spur the support from venture investment organizations, guarantee organizations and public service institutions in developing SMEs.

2. Introduce cross-border venture capital investment mechanisms. International practice has proved that venture capital is an effective way to solve the difficulty that SMEs, especially of high technology face in financing. It is advisable that East Asian countries attract international capital to co-establish venture capital investment funds and emphasize the funds' guidance and support for SMEs.

3. Enhance cooperation with international financial institutions. East Asian countries should beef up cooperation with APEC, World Bank, Asian Development Bank, Asian Infrastructure Investment Bank ( AIIB ) to fully utilize the capital and projects of the above institutions to strengthen support for the development and cooperation of regional SMEs.

#### **4.4 Fully Utilize Regional Think-tank Networks to Stimulate Regional Cooperative Research**

1. Establish 10+3 SME research center that specialize in research on macro-policies for development and cooperation of SMEs and on micro-policies for industries and specific countries. International cooperation in R&D should be stimulated to raise the overall research level of the region through resources integration and complementary advantages. It is advisable to make full use of NEAT to provide support for the initial research and design of the mechanism.

2. Propel relevant research of existing regional and international organizations, including research on SME policies made by AMRO and ADB and increase research on the participation of SMEs in Asian infrastructure construction to secure more favorable policies of AIIB for SMEs.

#### **4.5 Consolidate Cooperation among Local Governments in East Asia**

The role of local governments in regional cooperation on SMEs should be enhanced since most of the Asian SMEs are local enterprises and local

governments are very much active in participating in regional cooperation as well. Therefore, it is recommended that a platform or mechanism on SMEs cooperation among regional local governments should be established, which could promote knowledge sharing, experience exchange and pragmatic cooperation through regularly conducting forums, meetings and etc. .

#### **4.6 Develop a Cross-border E-commerce Platform to Encourage Cross-border Consumption**

Regional cross-border e-commerce has registered rapid growth in recent years, becoming an important platform for promoting SME cross-border business and cooperation. By simplifying customs procedures, cross-border e-commerce has cut transaction costs, raised operation efficiency, lowered market access threshold and enabled cross-border operation and cooperation for most SMEs. It is advisable that 10+3 countries build a regional e-commerce platform with participation of competitive SMEs in East Asia, encourage the alignment between SMEs and e-commerce platforms of regional countries, and enhance cooperation between SMEs of regional countries. The 10+3 governments should provide services including certification, guarantee, quality control and supervision for the SMEs development,