



**Asia-Pacific
Economic Cooperation**

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Session 1

Free Trade Agreement Benefits and Challenges for SMEs

Submitted by: White & Case LLP



**Workshop on Increasing Free Trade
Agreement Utilization by SMEs
Tokyo, Japan
7 August 2012**



FTA Benefits & Challenges for SMEs

APEC Workshop on Increasing FTA Utilization by SMEs

7 August 2012

Samuel Scoles
Regional Director, Asia
International Trade Advisory Services

SMEs in the Asia Pacific

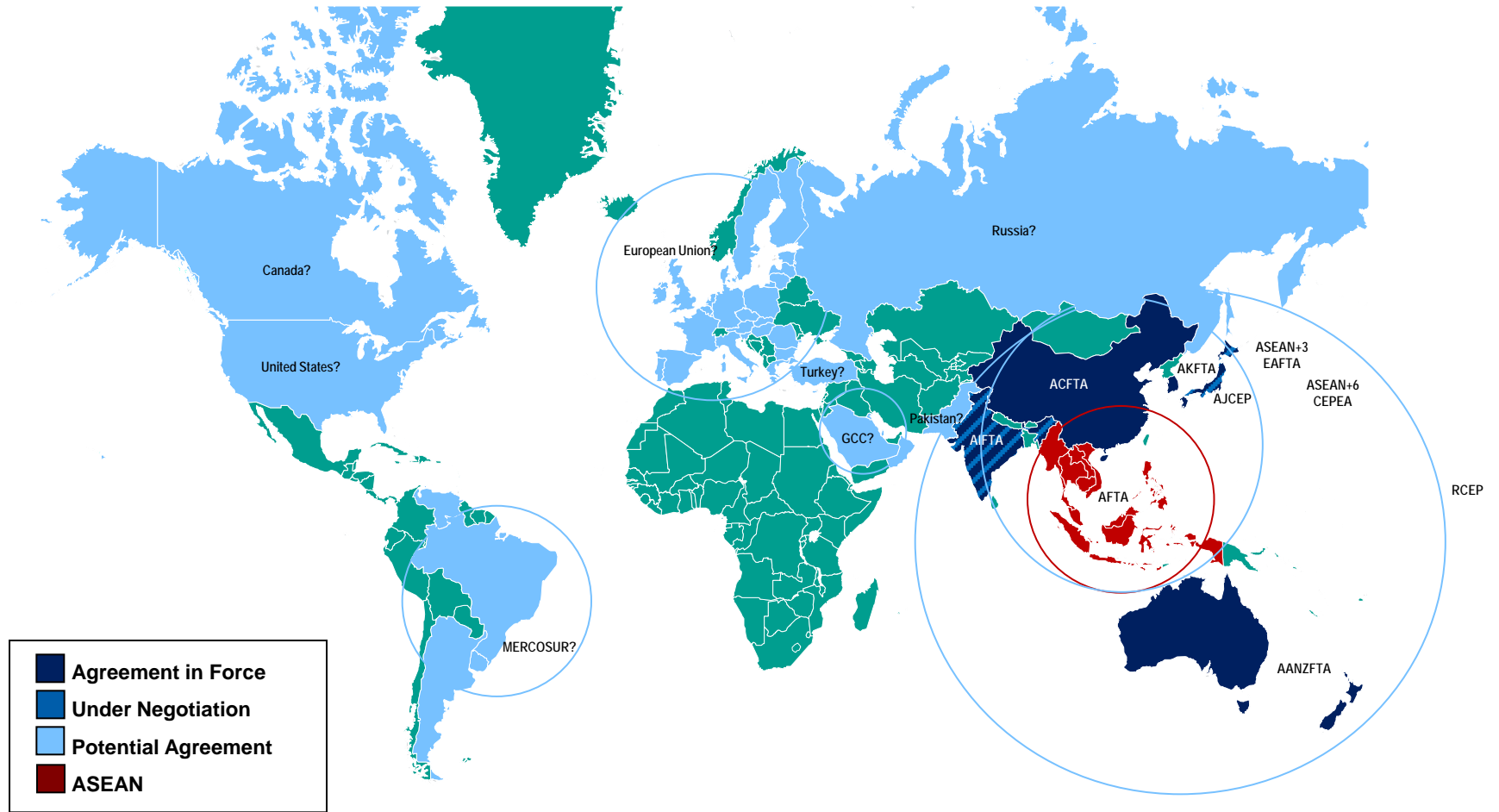
- **SME definitions vary across APEC member economies**
 - Annual sales turnover, number of employees, size of borrowings, type of service performed, or combination of these criteria
 - Most common definition based on number of employees
- **Account for bulk of employment, but disproportionately small role in international trade**
 - 90% of all businesses
 - 30-35% of exports in the region
 - Sizeable share of GDP in member economies

FTA Benefits for SMEs

- **Preferential tariffs for final and intermediate goods**
- **Access to new markets**
- **Elimination of non-tariff barriers**
- **New business opportunities**

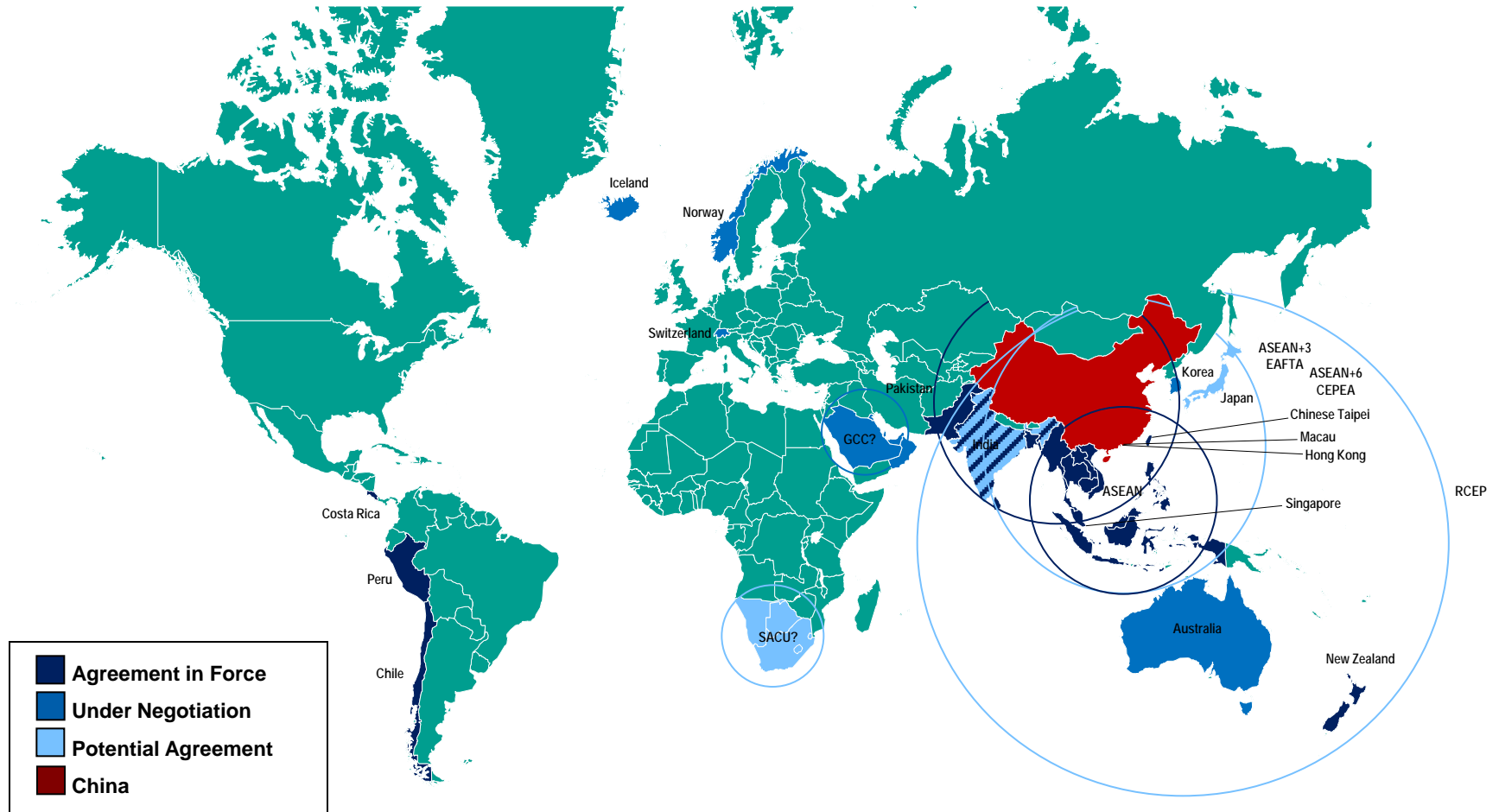


FTA Network of ASEAN



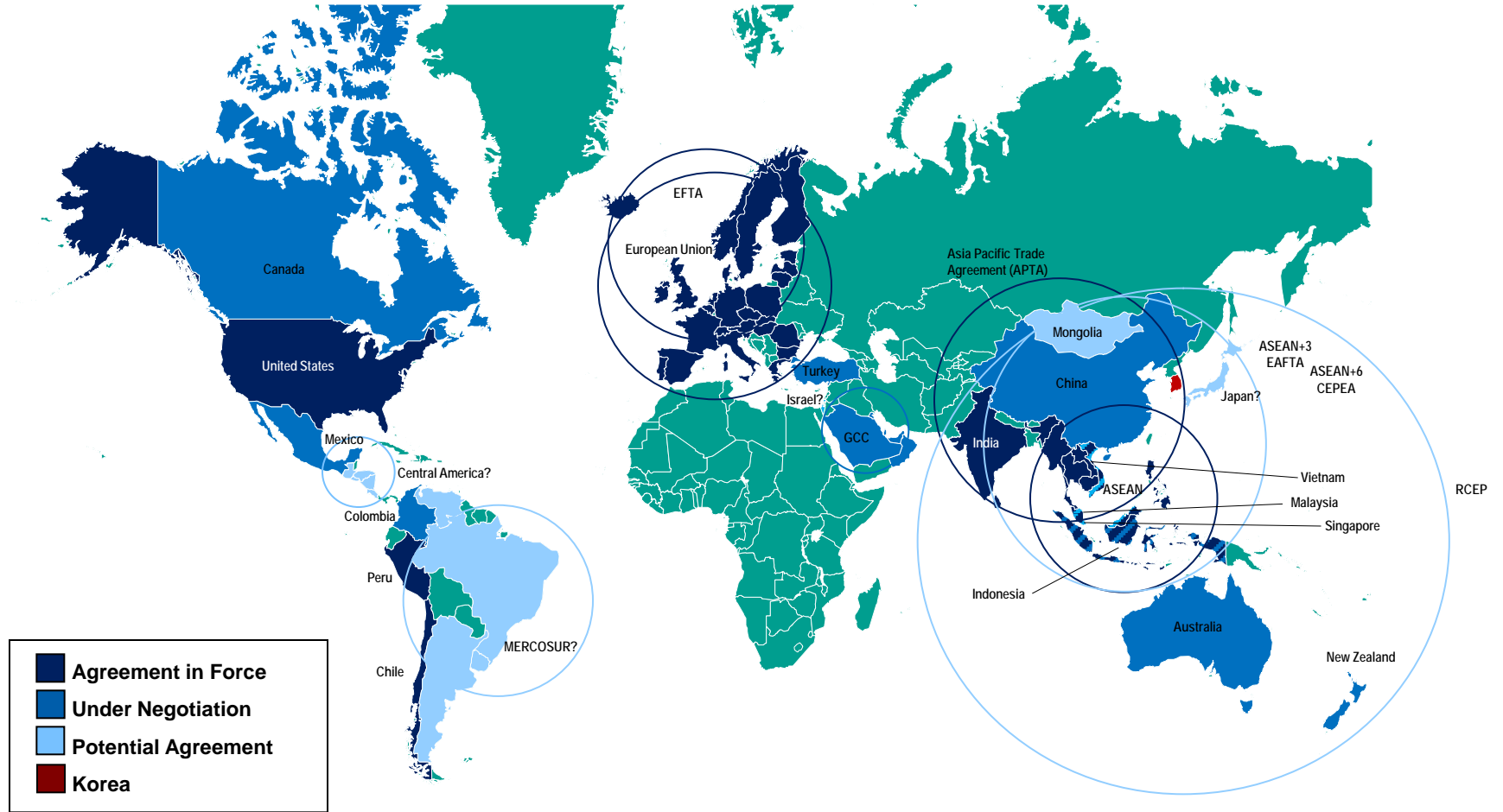
Source: ASEAN Secretariat

FTA Network of China



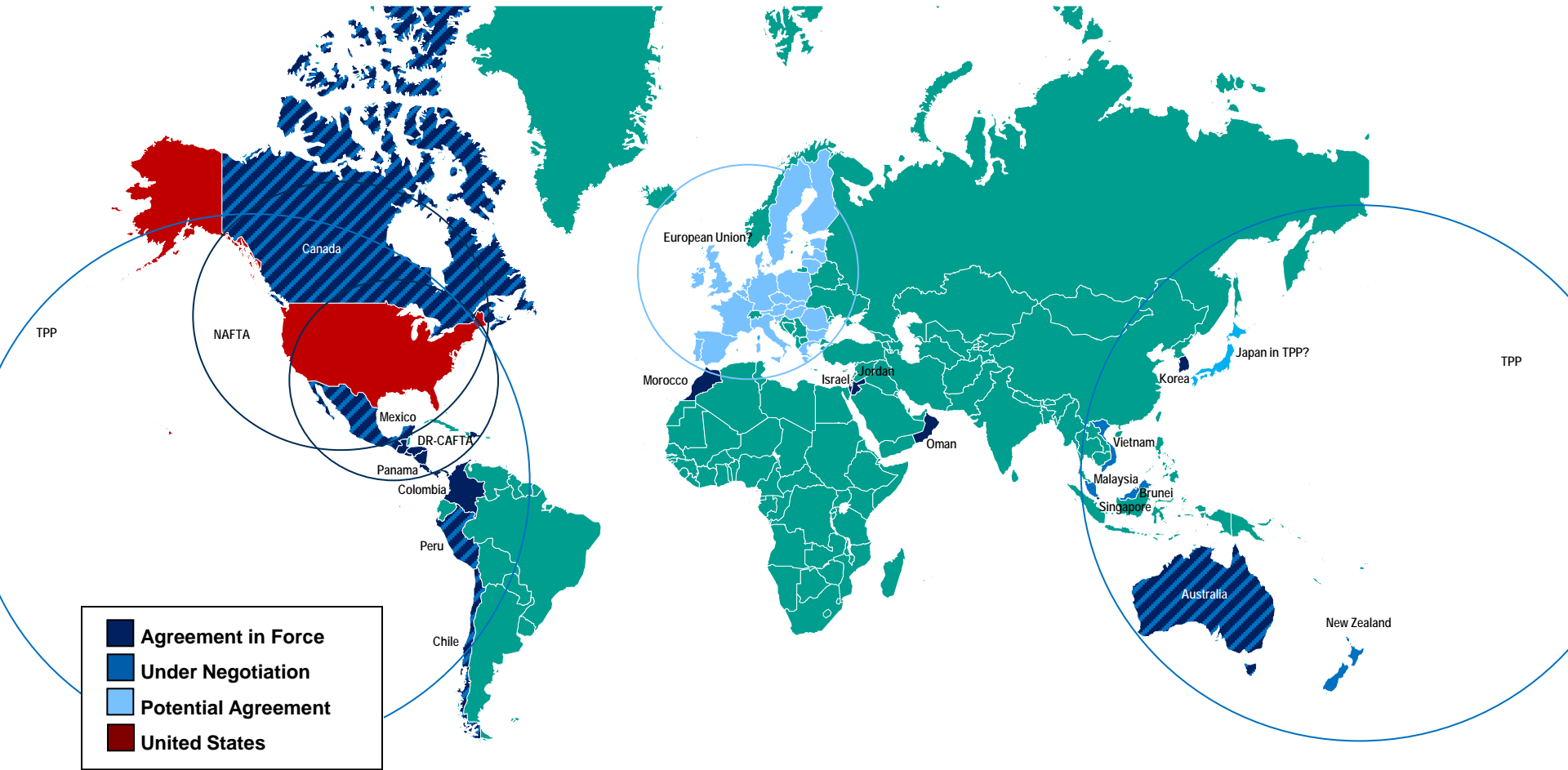
Source: MOFCOM

FTA Network of Korea



Source: MOFAT

FTA Network of the United States



Source: USTR

FTA Economic Cooperation Chapters

- **India-Korea CEPA: Chapter 13 on Bilateral Cooperation - Article 13.5 on SMEs**
 - Share best practices in areas such as skill development, supply-chain linkages, access to financing and technical assistance
- **Malaysia-Australia FTA: Chapter 16 on Economic and Technical Cooperation**
 - Lists SMEs as one area of cooperation
- **China-Singapore FTA: Chapter 11 on Economic Cooperation**
 - Indirect reference and support for human resource development, facilitation of “Go Global” efforts of Chinese enterprises, business exchange programs
- **AANZFTA: Chapter 12 on Economic Cooperation**
 - No direct mention of SMEs in text, capacity building and support through Work Programs

FTA Side Letters

- **KORUS Side Letters establishing Working Group on SMEs**
 - Analyze and evaluate impact of KORUS implementation on SME production, distribution and trade
 - Explore and develop ways for SMEs to take greater advantage of KORUS
 - Address any specific issues affecting SMEs relating to provisions
 - Under supervision of Joint Committee subject to provisions of Article 22.2
- **First Working Group Meeting held on June 7, 2012**
 - Best practices for Korean SMEs to export to the United States and vice versa
 - Development of outreach programs to encourage SMEs to use KORUS
 - Ways to assist Korean and US SMEs in the services sector

Next Generation Trade Agreements

- **Trans Pacific Partnership Agreement (TPP)**
 - Stand alone chapter to address SMEs closed during Dallas round in May 2012
 - Modeled after work done by APEC to enhance/promote SME:
 - Ability to avail to opportunities across the production chains
 - Human resource development, transparency of trade-related regulations
 - Use of innovative technology to participate in supply chains
 - Understanding on how to acquire and protect IPR
 - Use of FTAs through promotion of seminars, better online tools and references
- **Could the RCEP follow suit and include a stand-alone chapter similar to TPP?**
 - Incorporate best practices from ASEAN SME Working Group and ERIA, such as “Only-one SME Mission,” to support efforts to enhance technology transfer, promote human resource development, strengthen SMEs

Barriers SMEs Face in Utilizing FTAs

- **FTA Specific Barriers**

- Lack of awareness and knowledge of FTAs
 - *e.g.*, how to read a tariff schedule and interpret FTA provisions
- Complex and differing rules of origin
- Difficulty accessing domestic or foreign government support and information
 - Identification of proper access channels to FTA tariff schedules, FTA rules and trade regulations



Barriers SMEs Face in Utilizing FTAs

- **International Trade Specific Barriers**

- Poor access to finance and working capital
- Costly transportation and shipping costs
- Human resource issues
- Complex customs rules and procedures
- Difficulty in identifying/securing international business opportunities
- High compliance, testing and certification costs



Lack of awareness is a primary factor as to why SMEs do not utilize FTAs

Recommendations

- **Role of Regional Institutions and Governments**

- Strengthening legislative and regulatory regimes and improving accessibility to these regimes
- Providing more financing options to lessen financial burden of SMEs
- Enhancing transparency and tackling corruption
- Promoting business networks and exchange of best practices

- **Better constructed FTAs**

- Simplifying and harmonizing FTA rules of origin, customs procedures, certificate of origin application procedures
- Tackling behind-the-border issues

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Samuel D Scoles

Regional Director Asia

International Trade Advisory Services

White & Case Pte Ltd

8 Marina View #27-01

Asia Square Tower 1

Singapore 018960

Tel: + 65 6347 1527

Fax: +65 6225 6009

sscoles@whitecase.com