



**Asia-Pacific
Economic Cooperation**

2016/SOM2/CTI/019

Agenda Item: 6.3

Proposal on SMEs' Integration into Global Value Chains in Services Industries

Purpose: Consideration
Submitted by: Korea, Peru



**Second Committee on Trade and Investment
Meeting
Arequipa, Peru
10-11 May 2016**

SMEs' Integration into Global Value Chains in Services Industries

Proposed by Korea and Peru

Introduction

Advancement and evolution of global value chains (GVCs) has become one of the major initiatives of the global economy and trade. Within the context of GVCs, the importance of services has been highlighted to be an 'enabler of GVC' as the entire value chain of manufacturing industry is developed and operated around essential manufacturing-related services. As such, Manufacturing related Services Action Plan (MSAP) was developed and endorsed by Ministers in 2015. However, services also play a crucial role in the transformation of international trade and investment patterns by creating their own value chain.

The development of services GVCs lead to new competitive opportunities for specialization and thus the participation of SMEs in these value chains. As in the case of goods, the objective of services firms is to engage in increasingly higher value-adding chains. For developing economies, this development could represent opportunities for specialization and better integration into GVCs.

Background

In 2014, APEC Leaders recognized that "Global Value Chains (GVCs) have become a dominant feature of the global economy and offer new prospects for growth, competitiveness and job creation for APEC economies at all levels of development". In that sense, Leaders endorsed the APEC Strategic Blueprint for Promoting Global Value Chain Development and Cooperation. Under the Blueprint, APEC economies developed a multi-year initiative (2015-2016) on Promoting SMEs' Integration into GVCs in Major Industries, to facilitate SMEs' integration into GVCs within five manufacturing industries. In 2015, APEC Ministers welcomed the outcomes achieved and instructed officials to continue works to develop practical initiatives that will integrate SMEs in GVCs.

In this context, Korea and Peru propose a new initiative which aims to complement economies' efforts by directly focusing on GVCs in various services industries such as tourism, fashion design, media production and distribution, outsourcing of business processes, software development, construction, among others.

This new initiative seeks to empower policy makers and regional businesses with better understanding of GVC in service industries and present strategy and policy recommendations to facilitate SMEs' integration into the GVCs. This proposal will also contribute with the Boracay Action Agenda and the Services Cooperation Framework by enhancing GVC participation of all businesses especially micro, small, and medium enterprises (MSMEs). Moreover, this proposal can constitute as a contribution to the implementation of the MSAP.

Even though global research on services value chains is still in the early stages, APEC PSU and major international organizations such as OECD, WEF, ICTSD and ITC have already begun to address this issue, and APEC will work as an effective framework to advance policy discussion.

Objectives

- To facilitate better understanding of GVCs in services industries among policy makers, academia and private sector.
- To provide APEC Ministers and Leaders with a set of policy recommendations on how to promote services GVCs and advance cross-border trade in services
- To help SMEs build capacity and develop strategy for effective integration into GVCs of the services industry.
- To identify business opportunities and difficulties for SMEs in the services industry.

Main Activities Proposed

- To identify various types of services industries in which GVCs play a critical role such as i) standalone type¹ (e.g. tourism, fashion design, media production and distribution), ii) cross-cutting type² (e.g. constructions, outsourcing of business processes) and iii) manufacturing-complimentary type . Participation by voluntary economies is encouraged to lead works in a specific service industry.
- To hold workshops/public private dialogues on best practices and successful experiences of SMEs integration into the GVCs in the identified service industries.
- To conduct an analytical research on SMEs' integration into GVCs in services industries in the APEC region and report the outcomes with a set of policy recommendations.
- Based on the analysis and policy recommendations, more detailed capacity-building projects can be identified and planned over a multi-year timeframe.

Cooperation with other fora in APEC

- Active engagement of APEC fora and other international organizations which expertise is relevant for the purpose of this proposal, such as OECD, WEF, ICTSD and ITC, is encouraged.

Next Steps/Timeline

Year	Main Activities
2016	CTI 1: Economies discuss the proposal and provide inputs. CTI2: Economies agree on the proposal, identify a set of services industries and volunteer to lead works in each of the selected industries. CTI3: Economies discuss and agree on the Terms of Reference that presents a more detailed framework and scope of the proposal. AMM/AELM: Leaders and Ministers from the APEC economies welcomes the initiative and instruct the senior officials to launch the project.
2017	Phase 1: Leading economies for each services industry implement the project
2018	Phase 2: Incorporating outcomes from the individual industries and develop a set of policy recommendations.

¹ Standalone type means a type of services normally with high level of specialization and less compatibility with other sectors of services.

² Cross-cutting type means a type of services with multiple connection to other services sectors and manufacturing industries.