



**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

APEC Capacity Building Workshop on FTA Utilization by Micro, Small and Medium Enterprises

Ho Chi Minh, Viet Nam | 7-8 June 2018

APEC Small and Medium Enterprises Working Group

October 2018

APEC Project: SME 11 2017A

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APEC#218-SM-04.5

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I. Introduction

On 7 and 8 June 2018, the APEC Capacity Building Workshop on Free Trade Agreement (FTA) Utilizations by Micro, Small and Medium Enterprises (MSMEs), initiated by Viet Nam and co-sponsored by Malaysia; Mexico; Peru; Russia; and Chinese Taipei was held in Ho Chi Minh, Viet Nam. Speakers and participants came from Chile; Japan; Korea; Indonesia; Malaysia; the Philippines; Russia; Singapore; Thailand; and Viet Nam. Most of the workshop participants were from the public sector, academic institutions or the private sector relating to either FTAs or SMEs.

The workshop sought to equip MSMEs and experts from MSME associations and supporting organizations with knowledge and skills on FTA utilization to improve their competitiveness and access to global and regional markets. It also aimed at sharing experiences and best practices among MSMEs and experts from MSME associations and supporting organizations in taking advantages of FTAs for internationalizing their goods and services. Last but not least, it is expected to network MSMEs and experts from MSME associations and supporting organizations.

II. Background

This project is in line with APEC Economic Leaders' instructions in 2015 when they stated "We recognize the significance of enabling the full participation of all sectors and segments of our society, especially...micro, small and medium enterprises (MSMEs), to achieving inclusive growth. We underscore the importance of empowering them with the ability to contribute to and benefit from future growth." In addition, APEC Leaders also reiterated "the significance of the participation of MSMEs in global commerce to inclusive growth and will take action to facilitate such participation. We recognize that internationally-oriented MSMEs can make substantial contributions to poverty reduction through employment creation, productivity improvements, and economies of scale." In 2016 APEC Economic Leaders emphasized that "Strengthening of MSMEs will imply concrete progress in increasing their innovation capacities and competitiveness, including intellectual property rights commercialization, work towards guaranteeing access to financial means and capacity building, enhancing their participation in the internet and digital economy and through electronic commerce, reducing the technological gap, strengthening ethical business practices to support MSMEs' growth and cross border trade, progressively inducing a shift into a more sustainable, eco-friendly and green production, and supporting their internationalization including through the means of ICT (Information and Communication Technology)."

This project will help to implement Leaders' instructions as it will contribute to the long-term enhancement of capacities of MSMEs in utilizing FTAs to reap benefits from free and open trade and investment.

Furthermore, this project is in line with the 2017-2020 SMEWG (Small and Medium Enterprise Working Group) Strategic Plan as in the Plan, one of four priority areas is “market access for SMEs” with the objectives to strengthen SMEs’ export capabilities and capacity for internationalization. It is apparent that enhancing FTA utilization by MSMEs will contribute to the enhancement of export capacities of MSMEs as well as to fulfil instructions by SME Ministers in 2015.

Themes covered during the two-day event included: (i) *Overview on Existing FTAs of APEC Member Economies, Benefits and Challenges for SMEs*; (ii) *Trade in Goods and Related Commitments (especially non-tariff barriers) in FTAs*; (iii) *Rules of Origin Chapters in FTAs*; (iv) *Trade in Services and Other FTA Contents*; (v) *Moving Forward*; (vi) *Workshop Wrap-up and Recommendations*. The workshop also included two exercises on (i) *Lookup Preferential Import Tariffs under some FTAs* and (ii) *Rules of Origin (ROO) Determination*.

III. Discussion

Outcomes

The workshop included two days for presentations and discussions on the current state-of-play as well as opportunities and challenges of APEC MSMEs in utilizing FTAs. The workshop also provided an opportunity for participants to familiarize with FTA contents by two exercises on looking up preferential import tariffs and ROO determination. In addition, workshop speakers presented successful cases of utilizing FTAs by APEC member economies, based on which MSMEs would be able to learn more about the process and able to reap the benefits from FTAs. The last session (recommendations for future activities) provided an opportunity to share what participants can take away from the workshop as well as to suggest potential APEC capacity-building activities to most benefit APEC member economies. Overall, the workshop achieved its main objectives as described in the project proposal. Moreover, participants considered that it afforded chances for networking among representatives from the policy community, academics and private-sector actors in SMEs sector and FTAs from within and outside the APEC region.

Key Issues Discussed

Opening remarks

In her opening remarks, Ms Pham Quynh Mai (Viet Nam’s Senior Official to APEC and Deputy Director General, Multilateral Trade Policy Department, Ministry of Industry and Trade, Viet Nam) reiterated that MSMEs account for over 97 per cent of all enterprises and employ over half of the workforce across APEC economies. MSMEs contribute significantly to economic growth, with MSMEs' share of GDP

ranging from 20 per cent to 50 per cent in the majority of APEC economies. In her view, however, only a limited percentage of SMEs engage in overseas activities due to limited awareness in taking advantage of free trade agreements (FTAs) to effectively integrate into the regional and global supply chain.

The workshop was expected to provide information on opportunities arising from the existing FTAs and ways to utilize them to representatives from SMEs as well as experts from SME associations and supporting organization within APEC economies, thus enhancing the capabilities of SMEs and reap benefits from existing FTAs. The Senior Official hoped that SMEs and experts from SME associations and supporting organizations will be equipped with knowledge and skills on FTA utilization to improve their competitiveness and access to the regional and global markets.

Workshop's sessions

Experts provided presentations on the following topics:

1/ During Session 1 on **Overview on Existing FTAs of APEC Member Economies, Benefits and Challenges for SMEs**, **Dr Rajan Sudesh Ratna (Economic Affairs Officer, Trade Policy and Facilitation Section, Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific)** presented about the overview of regional trade agreements (RTAs) which was built as the exception to the World Trade Organization (WTO) rules on Most Favored Nation but now they are changing the global landscape. RTAs were seen as “building blocks” – a stepping stone towards economic globalization at multilateral level. For the benefit of RTAs, the speaker said that RTAs would provide deeper and wider commitments for integration, increase bargaining power in WTO and other forum, bring benefit for least developed economies, small island economies, land-locked economies in trading with neighboring economies. The speaker shared that, macro-regional configuration suggest that the world trade system is starting to appear more like a fragmented jigsaw puzzle than a spaghetti bowl. After that, he showed some diagrams to present the economic cooperation among economies in the regions through some bilateral and multilateral trade agreement such as: Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), Regional Comprehensive Economic Partnership (RCEP), Eurasian Economic Union (EAEU). The speaker said that CPTPP and RCEP will heavily influence the future of regional integration. About the challenges, he shared that there are too many overlapping bilateral RTAs, preference erosion for least developed economies, impacts on third party not understood, under-utilization of existing agreements and so on. At the end of the presentation, the speaker presented some case studies of Thailand, China and CLMV (Cambodia, Laos, Myanmar and Viet Nam) to show the difficulties in complying and implementing the agreements. To conclude the speech, Dr Rajan Ratna provided some recommendations

to improve the quality of RTAs which facilitate better to stakeholders and relevant entities of the economies.

During discussions, the floor echoed the problems of FTA utilization by MSMEs. They recommended that there should be more FTA-related information shared and disseminated. In addition, a participant observed that more domestic consultation with stakeholders need to be conducted although it's a long process (a factual example - 70 rounds of domestic consultation in India took place regarding FTA negotiation with Singapore and everything went well). In addition, APEC should encourage the reduction of NTMs (non-tariff measures) which is a permanent issue. Some participants suggested more Capacity Building Workshops/Technical Assistance to developing economies on FTA utilization for MSMEs.

2/ During Session 2 on **Trade in Goods and Related Commitments (especially NTBs) in FTAs**, there were two speakers: Mr Jang Jin-deok (Deputy Director, FTA Cooperation Division, FTA Enforcement Planning Bureau, Korea Customs Service) and Mr Dedi Budiman Hakim (Researcher, Department of Economics, Faculty of Economics and Management, Bogor Agricultural University, Indonesia).

- **Mr Jang Jin-deok's** presentation focused on Customs Procedures and Support for MSMEs to Utilize FTAs. Firstly, the speaker introduced about the Korea Customs Service (KCS) which has 3 Direct Authorities, 5 Main Customs, 28 Regional Customs. Mr Jang introduced about the flow chart of the import customs procedures from the port of entry to the release of goods and export clearance customs procedures from the export declaration and to the shipping goods on a vessel. About FTAs, he informed that Korea is having 15 FTAs and large firms seem to have better utilization of FTA than SMEs. The speaker mentioned about the FTA-Pass which facilitate customs clearance faster to enhance the productivity of the transaction. KCS established the FTA Origin Management Standard System to make origin management easier and more effective for SMEs. Major functions of FTA-PASS are: automatically assesses fulfillment of origin requirements, certificate of origin, origin declaration, and declaration of inward processing. In connection with UNI-PASS (electronic clearance system), data of applying for C/O issuance can be transmitted, manage and store data of certificate of origin in response to origin verification. At the end of the presentation, Mr Jang introduced about E-CO which is certificate of origin which is issued, exchanged, reviewed by electronic system. E-CO helps to securing C/O integrity, reducing administrative costs and decreasing logistics costs of companies.
- **Mr Dedi Budiman Hakim** divided his presentation into 4 main parts: (i) Introduction and scope of non-tariff measures (NTMs); (ii) Snapshot of NTMs; (iii) Indonesian case study; and (iv) NTMs facing by Indonesian agriculture products. In the first part, Mr Hakim shared that Non-Tariff Measures (NTMs)

are policy measures, other than ordinary customs tariff, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices, or both. At a broad level, non-tariff measures can be divided into three categories: NTM on import, NTM on exports, NTM are internally imposed in the domestic economy. According to the speaker, NTMs are often referred to as Non-tariff Barriers (NTBs), consist a wider set of measures than NTBs. Mr Hakim made some comparisons between NTMs and NTBs and observed that (i) NTMs tended to substitute the power of tariff overtime, (ii) Number of NTMs in APEC Economies were high particularly for developed economies, and (iii) NTMs were the roots of the shallow integration. For the case of Indonesia, the speaker analyzed the differences of trade balance before and after having FTAs. Regarding agricultural products, NTM is applied to 12 economies. To conclude the presentation, Mr Hakim listed out some recommendations to enhance the utilization of FTAs/ RTAs for MSMEs such as (1) to disseminate information on FTAs and (2) to provide consultancy and advocacy services.

During discussions, a participant questioned whether there is any study on compliant costs that SMEs need to spend to meet the regulation and the cost for importers/exporters. The speakers replied that there is no statistics on this particular issue. However, speakers reiterated that MSMEs take little advantages of FTAs and few MSMEs use systems such as FTA-PASS. The speakers encouraged MSMEs to get used to FTAs and its system (such as FTA-PASS) as it is convenient and free of charge.

3/ During **Exercise 1 on Lookup Preferential Import Tariffs under some FTAs**, **Ms. Elvira C. Ignacio (OIC Director of the Research, Investigation, Inspection and Trade Analysis Service, Tariff Commission, Philippines)** presented briefly about pointers in identifying the FTA rates of products through which the participants needed to know the HS (harmonized system) Code of the product and know the details of the FTA. She emphasized that it is important to have precise knowledge of the product to be classified, familiarity with the HS Code and the principles of classification. Classification is according to terms of the heading, subheading, Chapter notes, and Subheading notes. After discussions, the speaker provided some examples about the Harmonized Tariff Schedules of some economies to instruct participant know how to familiarize and understand when reading the table. Examples of the United States, Chinese Taipei and Canada were demonstrated during the practice.

4/ During Session 3 on **ROO Chapters in FTAs, there were 3 speakers:** Ms Vu Thi Phuong Linh (Public Tax Accountant, Tokyo Kyodo Accounting Office, Japan); Mr Naoya Sumimoto (Customs Specialist, Tokyo Kyodo Accounting Office, Japan) and Mr Toh Boon Ho (Deputy Director, Enterprise Singapore).

- **Ms Vu Thi Phuong Linh and Mr Naoya Sumitomo** presented about “Rule of Origin under FTAs/EPAs - Practice from viewpoint of Japanese SMEs”. Firstly, Ms Linh introduced briefly about Tokyo Kyodo Accounting Office which has EPA Consultation Desk to support Japanese exporters to further utilize EPAs (free of charge). She then informed that Japan has 15 Agreements can be utilized with Asian economies as well as Japan-EU FTA, the Comprehensive and Progressive Trans-Pacific Partnership (concluded FTAs) and the regional Comprehensive Economic Partnership (RCEP – under negotiation). About ROO, she highlighted the general structure of ROO in Japan and mentioned challenges to Japanese SMEs regarding ROO. According to the two speakers, ROO is full of technical terminology and most SMEs have some common questions related to: meaning to originating goods, HS code, meaning of CTC (change in tariff classification) and VA (value added) rule, evidence for ROO. In the second part of the presentation, the speakers made a role play of a help desk to answer questions from SMEs. At the end of the presentation, the speakers provided open questions to importing parties regarding procedures, origin and consignment.
- **Mr Toh Boon Ho** presented about “Tariff Finder: Online tool to Help Singapore MSMEs Export Overseas”. The Tariff Finder is used to get answers for tariff and non-tariff trade measures which has 4 modules, being used in 120 economies, mobile device friendly and very easy to use. Mr Toh instructed participants all steps needed to look up tariffs by filling in information required such as origin, destination and product HS code. If the user is not clear on the product HS code, the Tariff Finder website will show information for full HS nomenclature or allow keyword search. The Tariff Finder will then generate more descriptions of the product for the users to choose. After selecting the desired product description and HS code, the Tariff Finder will provide information on the product’s MFN rate, FTA preferential rate, rules of origin under the applicable FTA(s), and the import requirements needed to enter the destination economy.

During discussions, a participant asked about how to disseminate information if Japan had FTAs with 16 economies. A speaker responded that it would be better to harmonize the HS codes of those 16 economies that have FTA with Japan. Otherwise the Advance ruling will be used to ensure the smooth process. In addition, product description should be written in a more simple way and be harmonized. On another point, a speaker shared Singapore’s experience with the FTA finder tool which was first developed in 2003. A speaker also mentioned that the Ministry of Economy, Trade and Industry of Japan set up the consultation desks and received a lot of feedbacks from companies that these desks are very effective and useful (also free calling line). Regarding the last question on a linkage with FTAs and the WTO’s new Trade Facilitation Agreement (TFA) which came into force in February 2017, a

speaker observed that his economy had followed the principle that their FTA negotiations will be WTO consistent, and have WTO plus provisions. This included an insistence on having an Advance Ruling provision in their FTAs. The WTO TFA was crucial, as its success showed the continued relevance of the WTO. At one stroke, 110 WTO Members ratified the TFA and introduced Advance Ruling provision. This was much more effective than an economy negotiating for Advance Ruling provision in each and every FTA it negotiates, which is a long and painstaking process compared to a successful WTO Agreement which can reach more WTO Members at once.

4/ During Session 4 on **Trade in Services and Other FTA Contents**, there were two speakers: **Ms Wan Wadrina Wan Abdul Wahab (Strategic Negotiation Division, Ministry of International Trade and Industry, Malaysia)** and **Ms Thu-Lang Tran Wasescha (Former Counsellor at Intellectual Property Division, World Trade Organization)**.

- To start the presentation, **Ms Wan Wadrina Abdul Wahab** talked about the importance of trade in services in FTAs. She emphasized that SMEs is the back bone of the economy which contributes 17.8% to exports, 65 % to employment and 35.9% to GDP. According to the speaker, there are some basic principles found in FTA such as: National Treatment, Market Access, Most Favoured Nation (MFN), Domestic Regulation, Transparency. She also provided general definition about those principles and explained its term in FTAs. For Malaysia's experience, the speaker said that there are some keys constraints needed to be addressed in FTAs including innovation and technology, market access, human capital development, legal and regulatory environment, access to financing, infrastructure. Regarding challenges to SMEs, Ms Wan Wadrina shared that it is important to know how to understand the principles/scheduling commitments, how SMEs would benefit/compete, how to improve productivity and their products' quality to continue to be competitive in local and global markets, how to meet certain standards etc. At the end of the presentation, the speaker listed out some articles in FTAs such as CPTPP, Malaysia-Australia FTA, AANZFTA (ASEAN, Australia and New Zealand FTA), ASEAN – Korea FTA to give example of how SMEs included in FTAs.
- **Ms Thu Lang** presented briefly about WTO, trade in services and other contents in FTAs. The speaker said that there are always measures at border such as customs, duties, levies, taxes, quantitative restrictions, procedures (Licenses, sanitary and phyto-sanitary measures, intellectual property, rules of origin). Regarding intellectual property rights, they are included in trade in services and according to the speaker, will increasingly appear in all categories of transactions. Ms Thu Lang introduced the website of WTO and how to get more information about FTAs on the website. At the end of the presentation, she left some questions for discussion: Will FTAs form a spaghetti bowl or

lasagna? Would acceptance of higher rules and disciplines facilitate the modernization of the current WTO system? As trade in services will have a sky-rocket development, what will be the chances for all economies?

During discussions, a participant questioned on how WTO prepare for a new kind of start-up such as Facebook, a speaker said that the WTO texts should be reviewed/analysed carefully especially on the market access limitation. On intellectual property, the speaker highlighted that Facebook as the copyrights, the actual issue if the use of IPR. In addition, E-commerce issue at WTO should be on the table for WTO members to further discuss. Another participant shared views that E-commerce is happening now becomes a trendy issue (for example Amazon) and questioned (i) how to move SMEs toward services sector and (ii) what should be taken into account. A speaker responded that E-commerce is the subject of discussion at WTO because of tariff issue and commented that this issue is getting more political. In addition, the speaker the speaker stated that some economies are linking a moratorium for the application of the “non-violation” concept in the TRIPS Agreement (Trade-related Aspects of Intellectual Property Rights) to an E-Commerce moratorium. A comment from the floor is E-commerce is the reality and the future and it changes the game and changes the demand/supply; from consumers perspective, E-commerce makes your life easier (shopping online); the private sector is pushing toward the E-commerce. Concerns were raised on information security/database access, the warranty for service products as well as electronic payment system.

5/ During Exercise 2 on Rules of Origin Determination, **Mr Toh Boon Ho (Deputy Director, Enterprise Singapore)** guided participants on how to determine rule of origin by giving brief explanation about the origin chart that showed 3 criteria of ROO: wholly obtained or produced goods, goods produced exclusively from originating materials, goods produced entirely in the territory of one or more of the parties using non-originating materials provided the goods satisfied the requirement set out under Annex (Product Specific Rules). He then gave an example of soya sauce to show how to assess the change in tariff classification, and how to calculate regional value content. Mr Toh also used the Trans-Pacific Strategic Economic Partnership (TPSEP) as an example to highlight how a soya sauce manufacturer planning to export to the TPSEP economies should make a comparison among other relevant FTAs such as ATIGA (ASEAN Trade in Goods Agreement), AANZFTA (ASEAN-Australia-New Zealand FTA) and the bilateral FTA between New Zealand and Singapore (ANZSCEP – Agreement between New Zealand and Singapore on a Closer Economic Partnership) to instruct MSMEs how to get preferential rate and rule of origin for each FTA and then decide which FTA is most advantageous to its situation when exporting its product to the TPSEP economies.

6/ During Session 5 on **Moving Forward**, there were two speakers: **Dr Vo Tri Thanh (former Vice Chairman, Central Institute for Economic Management, Viet Nam and Associate Professor Dr Sitanon Jesdapipat (Rangsit University, Thailand).**

- **Dr Vo Tri Thanh** started his presentation by talking about the challenges and opportunities for Viet Nam's integration. To the speaker, deepening integration can make Viet Nam to be "a hub" for connection with the regional and global economy. FTA will be a catalyst for economic reform and development. For challenges, the speaker said that cost and risk of international integration could be significant (adjustment cost, compliance cost, macroeconomic instability). Regarding SMEs in Viet Nam, Dr Vo shared that they are missing middle and dualistic of industrial structure. SMEs have weak position and low value added creation in the GVCs. Vietnamese SMEs are hard to grow due to weak property rights, problems of level playing field and competition, distortion in factor market and high transaction cost. To support SMEs to take new business opportunities, SMEs need to work on sectors/products having comparative advantages, on services for huge consumption markets, participate in production networks and GVCs. The speaker highlighted that Viet Nam - with rather high economic growth in area of housing office, tourism property, industrial zones, property of logistics - needs to build up legal framework and provide better risk management. Last but not least, Dr Vo observed that the Government of Viet Nam should focus more on sector/product of "green, smart, creative..." law of SMEs and initiate development of startup eco-system.
- At the beginning of the presentation, **Dr Sitanon Jesdapipat** mentioned about the low rate of FTA utilization of SMEs in the region. In 2016, JETRO (Japan External Trade Organization) has a survey on Business Condition of Japanese Companies in Asia and Oceania which showed that MSMEs are economic and social import in most developing economies, FTAs try to accommodate MSMEs to enable wider integration, and to enhance deeper economic integration– and to promote improved social development. However, the fact is that not all MSMEs are able to reap the benefits provided due to a large number of factors and reasons that are systemic and structural. The speaker talked about the example of Thailand when they tried to open the economy with many windows for special FTA treatments, but not all SMEs use FTAs as an advantage for their business. Thailand has 11 FTAs with trading partner, in which FTA with Australia and Japan have the highest rate of utilization. According to the speaker, the reason for low utilization rate of MSMEs was the timing of tariff reduction and restrictive rule of origin. He also pointed out some weakness of MSMEs such as low production capacity, lack of knowledge about the benefits available under different FTAs, lack of knowledge about ROO and other condition which enable to utilize FTA benefit and lack of incentive to trade under FTAs. At the end of the presentation, Dr Jesdapipat recommended some solutions to enhance the FTA utilization of MSMEs such as raising awareness cum capacity development, assist market access, market development and snow-ball effect to penetrate market for small businesses.

During discussions, a participant shared that technology has significant impacts on the way we are doing business (new way of products, digital platform, and consumption/demand) and APEC should have initiatives on cross-border data, SMEs and innovative technologies related capacity building workshops. A Russian participant commented that the future of trade is trading people to people and relevant authorities need to provide favorable trade infrastructure and environment. Another participant viewed that we are behind the reality, Governments should provide SMEs new tools but make sure they are prepared for innovation. Since capacity building is very important, it is suggested that APEC should hold similar workshops focusing on various particular issues in FTAs. Last but not least, a participants shared that APEC recently has adopted initiatives (i) promoting new skills, new labor force in digital age (ii) promoting SMEs' competitiveness in new digital age.

IV/ Conclusions and Recommendations

1/ The consensus view of the workshop's speakers, moderators and participants agreed that the project achieved its intended objectives. They considered the workshop be good for APEC to continue to share and discuss in-depth and various knowledge the situation, polices, strategies, programs, technologies, barriers etc. on FTA utilization by SMEs. Workshop participants also knew about, among others, FTA contents, situation of economies in FTA utilization by SMEs, practical exercises on rules of origin and tariff finder etc.

2/ The workshop's participants suggested that future activities/ topics should be:

- How to socialize FTAs to MSMEs;
- Creating a website with user-friendly information on FTAs for SMEs;
- Providing SMEs with tools on innovation and digital economy;
- Workshop on next-generation trade and investment issues;
- Workshop for SMEs services providers;
- Workshop on benefits of WTO Trade Facilitation Agreement for SMEs;
- Train-the-trainer workshop for services providers;
- Network/ platform for SMEs in information/ experience sharing;
- Training program for MSMEs on conceptual understanding of FTAs, ROOs and COOs.