



**Asia-Pacific  
Economic Cooperation**

**KEY TRENDS REPORT**

**APEC Global Supply Chains  
Resiliency Survey**

**Small to Medium Enterprises  
(SMEs)**

Committee on Trade and Investment

May 2021

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## Key Highlights for Small to Medium Enterprises (SMEs)

- Supply chain linkages between SMEs and other SMEs, as well as between SMEs and large businesses vary from one -to-one, to one-to-many in their scope. A majority of the respondent SMEs are connected with at least one large business, suggesting the important role of SMEs in supporting larger businesses and mutual dependencies.
- With regards to selling goods and services as inputs into large businesses' global supply chains, most SMEs sell to large businesses, with almost a third selling to between 1 and 3 large businesses. The numbers are similar in terms of SMEs receiving goods and services from large businesses as inputs into their global supply chains, with almost a third coming from between 1 and 3 large businesses. These insights support the idea that SMEs play a critical role in cross-border supply chains and are not restricted to domestic markets.
- SMEs require direct government support in some specific areas to continue to grow their business within global supply chains. Specifically, SMEs need governments to focus more on removing obstacles and creating a conducive environment for trade and global business.
- Most of the respondent SMEs consider that the primary challenges they faced when selling goods and services into global supply chains *before* the COVID-19 pandemic were receiving payment issues, followed by local regulations, local language, culture and business practices, delivery delays, and also standards and conformance requirements.
- The main disruptions that businesses have experienced as a result of the COVID-19 pandemic included reduced customer demand, delivery delays/failures, customer insolvency/cash flow issues, cost of logistics, and lack of air freight capacity.
- SMEs stated that they are relying on governments to help to reduce complex trade regulations and barriers where possible. For SMEs operating in global supply chains, their main demand is to create a business environment that, on one hand, enables them to operate and grow, while on the other hand, reduces considerably regulatory requirements, logistics, compliance and financial risks.
- SMEs need to get support in niche and developing areas for future skills development. Areas include: digital transformation (mainly Customer Relationship Management [CRM] systems, cybersecurity, and E-commerce); sustainable global supply chains; trade and investment in digital trade; automation and artificial intelligence.



# Policy recommendations for Small to Medium Enterprises (SMEs)

## Digital transformation and the rise of eCommerce

*Support SMEs to participate in eCommerce and global supply chains through direct engagement that lead to embracing new opportunities created by the digital economy.*

- Governments can provide more information on efficient market access created by eCommerce as well as regulatory efficiencies to encourage eCommerce adoption and the provision of digital services. **Governments should support training on cross-border trade generally and both develop new and leverage existing tools available in-market to help SMEs develop improved eCommerce capabilities.** (An example is the eCommerce diagnostic tool being developed by the GTPA and funded by DFAT for Asia-Pacific.)
- Coming out of the COVID pandemic, SMEs are very well placed to leverage and benefit from commercial opportunities introduced by eCommerce and the digitisation of services, given the efficiencies and costs reduction outcomes associated with adoption of eCommerce. Governments across APEC should work together to develop trade facilitation policies to foster eCommerce, such as tailored AEO schemes that address the particularities of eCommerce. **Governments should further progress an agenda for the regulation and acceptance of digital trade/e-Commerce documentation, and developing standards for chain of custody to reduce red tape for import and export documentation.**
- **Governments should develop bespoke training programmes where relevant, and also provide access to existing programmes and tools that can assist SMEs to understand and mitigate Cybersecurity risks.** APEC members could collaborate with established organisations such as the Cyber Readiness Institute who have developed the Cyber Readiness Program, which guides SMEs to become cyber ready.
- **Governments should work with industry and the private sector to support training programmes created to assist SMEs in understanding the impact of new technologies such as Artificial Intelligence, as well as Industry 4.0 and automation.** Training should emphasize how to access new technologies and adopt them into current business activities, and provide re-skilling opportunities through online learning where necessary.

## Global Supply Chains and SMEs

*Support SMEs to become integrated into global supply chains and promoting access to information regarding trade opportunities and regulatory requirements through helpdesks, intensive workshops, direct peer to peer introductions, and access to resources.*

- **Governments should help provide SMEs with information on opportunities in global supply chains** including through developing a Global Help Desk and education toolkits.
- **Governments should collaborate with industry and the private sector on establishing Centres of Excellence for global supply chains.** Many SMEs are open to investing in their capabilities to grow, but suffer from a lack of training resources, a lack of access to the

right experts, and the ability to upgrade their digital skill sets to become more integrated. We recommend that APEC governments develop established Centres of Excellence that are devoted to the development of such capabilities. As noted earlier, there are many good models for linking suppliers to global MNEs in such Centres, and it would be worthwhile exploring further how such measures can be taken.

- **Government should work with industry to develop an APEC standard to build integrity in global supply chains, including the leverage of existing standards.** Governments should establish standards for existing and emerging protocols that support specific integrity issues in global supply chains. There are too many complex regulations that make it difficult for SMEs to participate in cross-border trade. Such standards would reduce risks in the operation of MNCs, promote participation of SMEs in global supply chains, ensure that compliance and risk mitigation is simpler, faster, and less onerous.
- **Develop an agenda within APEC to simplify Rules of Origin for SMEs.** The recommendations is not an attempt to harmonize preferential or non-preferential rules of origin but to further investigate ways to facilitate the process of origin administration. More precisely, APEC can support a study to focus on to research origin data standards including the documentation, evidence and data required to properly establish and prove origin. Standardizing origin records and data requirements at the regional and multilateral levels not only facilitates trade for producers, exporters and importers but also facilitates the process of origin verification for customs and other competent authorities through mechanisms such chain of custody standards.

## Trade facilitation and the role of government in digitization

*Develop common standards for AEO programs across APEC members is needed to harmonize regulations and procedures to support SMEs.*

- **Commitment to the harmonisation of APEC standards for AEO programs and the adoption of Mutual Recognition Agreements among APEC members is important to ensure mutual recognition of AEO programs.**
- **Governments should promote Single Window interoperability across APEC since Trade Electronic Single Windows (ESW) facilitate, streamline and increase transparency in trade documentation.** Advancing the interoperability of ESWs should include engagement with SMEs to better understand their drivers, needs and perspectives.
- **Support the development of capacity building programmes to build leadership across APEC members in global trade and global supply chain policy expertise.** Professional career paths in global trade and trade policy are changing and require rapidly adaptive skills to tackle the challenges that face trade and supply chain expertise. Greater engagement through the development of executive leadership training for SMEs and policy leaders, tied to ISO/IEC 17024 certification is essential.

## SME agility during the COVID-19 response

*Develop an APEC plan to develop the structural policies and targeted projects to support SMEs' access to finance, technology, and training to facilitate export.*

- **The APEC plan should have an objective to facilitate global trade for all SMEs across APEC**, but at the same time offer special assistance to SMEs run by women, indigenous peoples, and otherwise disadvantaged business owners. (An example is the Going Global diagnostic tool to assist SMEs expand into new global markets and being developed by the GTPA and funded by DFAT for Asia-Pacific.)
- **Create a champion of trade mentoring programme** to connect SMEs to mentors both across the APEC region.
- **Expand the “MondeB2B” platform to include certified service providers and consultants for SMEs to access competent service providers**; including trusted information in tailored electronic portals for SMEs that want to export; different and new classes of capital via peer to peer financing; professional consulting advice via a voucher programme; cross-sectoral opportunities to export, depending on the nature of their operations; and training and additional skills as businesses need to scale up.
- **Invest in the development of an online training programme that can support SMEs to better prepare their business operations in crisis management and recovery**, including adaptive leadership, agile thinking and business and market diversification.

## Women and COVID-19 impact on inclusive growth

*Provide capability and capacity building programmes, specifically geared towards women and the unique challenges they face in global business.*

- **Establish support networks for women business owners to facilitate one-on-one mentoring, discussion, and problem-solving.** Access to litigation resources in cases where severe sexual harassment is evident. Leverage that network as role models to raise awareness on women leadership and women entrepreneurs through engagement with current women leaders, who will serve as role models leading to informal mentoring networks
- **Development of novel finance tools to give women equal access – or even preferential access – to business finance.**

## About the participants

The benefits of international trade are currently the subject of debate in various contexts. It has, however, long been demonstrated that, even with its systemic imperfections which must be acknowledged, trade has been a powerful driver for economic value creation, inclusion and poverty reduction, as well as peace and security.

*“SMEs remain key drivers to economic value creation, however, have been hard-hit globally by the Covid-19 crisis, with the full adverse impact yet unknown. Trade will be a critical, and one of a small number, of truly global commercial and policy levers available to advance post-Covid recovery. Discussions about supply chain reconfiguration and reduction of market and supplier concentration risk continue to increase; in this context, the imperative to enable and support SME engagement in trade and international supply chains is amplified in all markets around the world.” -Mr Alexander Malaket, Chair of the International Trade and Advisory Committee of the GTPA*

It is in this macro-context that deliberations around the importance of supporting SME engagement in global trade ought to be considered and understood within APEC members.

*“SMEs account for a significant percentage of gross domestic product (GDP) and they are the backbone of most economies and supply chains. Policy and programmes that foster the growth of SMEs to engage successfully in international trade not only drive job growth but provide broad economic benefit and value. SMEs are often time poor especially when driving growth and international expansion. They often lack sufficient scale to economically justify the full-time employment of appropriate skills for international business and rely on either external providers or an energetic and multi-tasked executive to deliver the required competencies to drive global growth.”- Mr Tristram Travers, Technical Director of the GTPA*

For most SMEs, navigating the complexity of doing business globally and maintaining a competitive edge requires the development of new skills and knowledge, as well as the ability to draw on a trusted network of skilled professionals with the required competencies to support their businesses to grow through global trade. Identifying the right skill sets and competent trusted professionals can be a challenge for SME executives and their staff.

Often the requirements for engaging in global trade are insurmountable for organisations that do not have administrative staff to monitor and manage the complex transactions, compliance requirements, and audits that comprise the baseline elements for global business, especially with other large businesses.

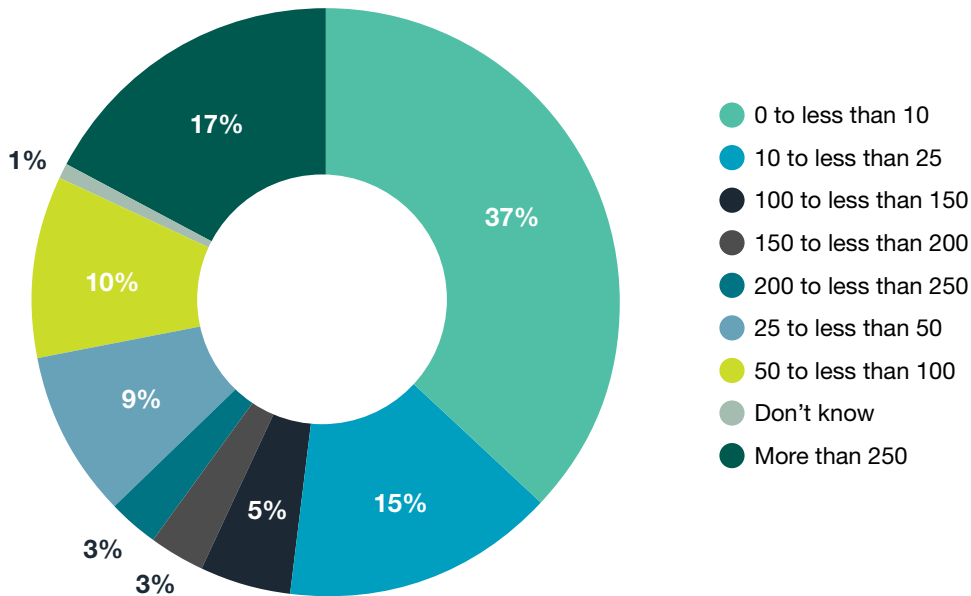
SMEs engaged in global trade, either through customer or supplier channels, are often more innovative due to their exposure to global competition and new concepts.

Given the capacity of SMEs to drive economic development and job creation, as well as to foster innovation, assisting them to expand through global trade should be a top priority for policymakers and those organisations that support and service trade.

A number of SMEs participated in the survey with a total of 911<sup>1</sup> SMEs responding, of which, 36% are located in Australia, 18% in the Russian Federation, 17% in Japan, 4% in Indonesia, and 2% in the United States. The rest are distributed across different markets and regions.

Of the total, more than half (52%) of the respondents have fewer than 25 employees, 19% have 25 to 100 employees, 11% have 100 to 250 employees, and 17% have more than 250 employees.

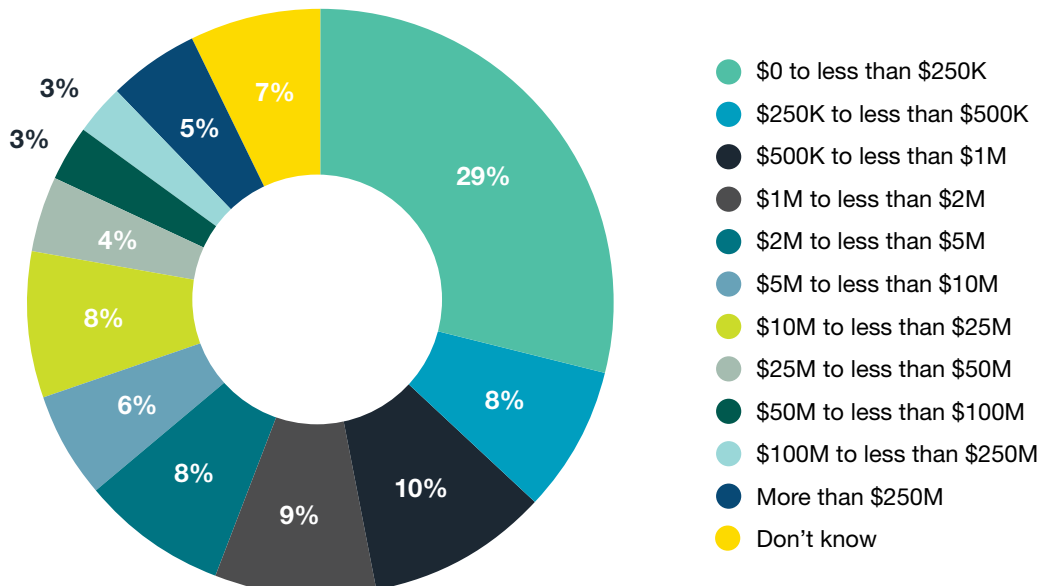
**Number of employees**



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About a third (29%) of the firms that responded to the survey have revenues of less than \$250K US, while 18% have revenues of between \$250K but under \$1M. Another 23% have revenues from \$1M - \$10M, 18% revenues from \$10M - \$250M, and 5% more than \$250M.

**Revenue in last financial year (US\$)**

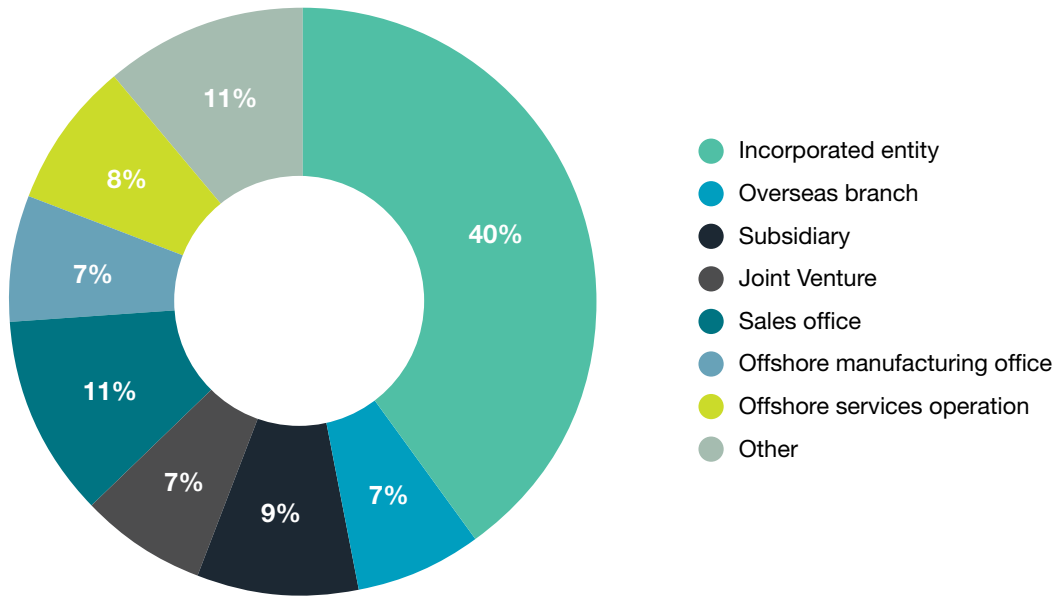


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The majority of participating SMEs are incorporated entities (40%), about 11% a sales office, about 9% are subsidiaries, 8% an offshore services operation, while 7% have overseas branches and 7% joint ventures.

**International Business Model**

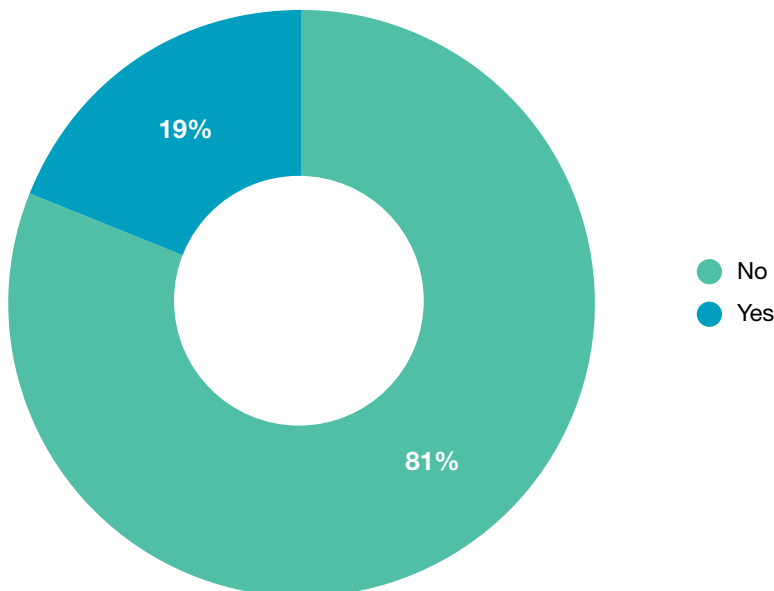


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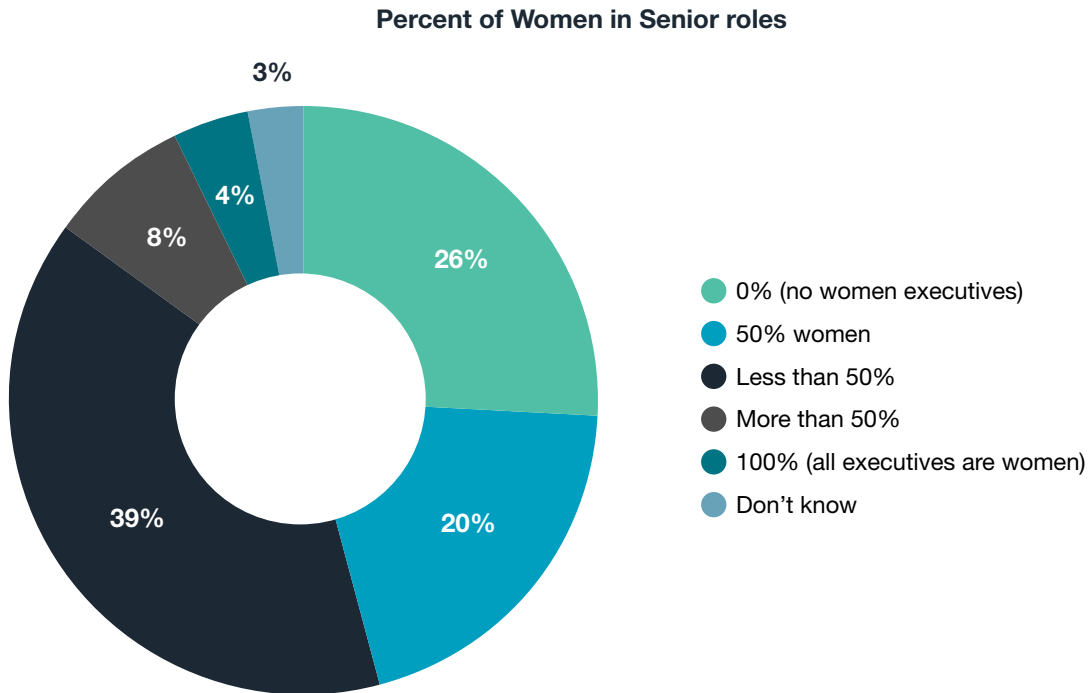
Women generally do not play a strong role in SME businesses, with only a fifth (19%) having a woman as their head and only half having relatively few women executives. One explanation for this may be due to the cultural limitations of having women in executive roles.

There are crucial arguments for how women can play an important role in managing global supply chains, while there still exists a salary gap for women who do work in such roles.<sup>5</sup>

**Head of Business A Woman?**

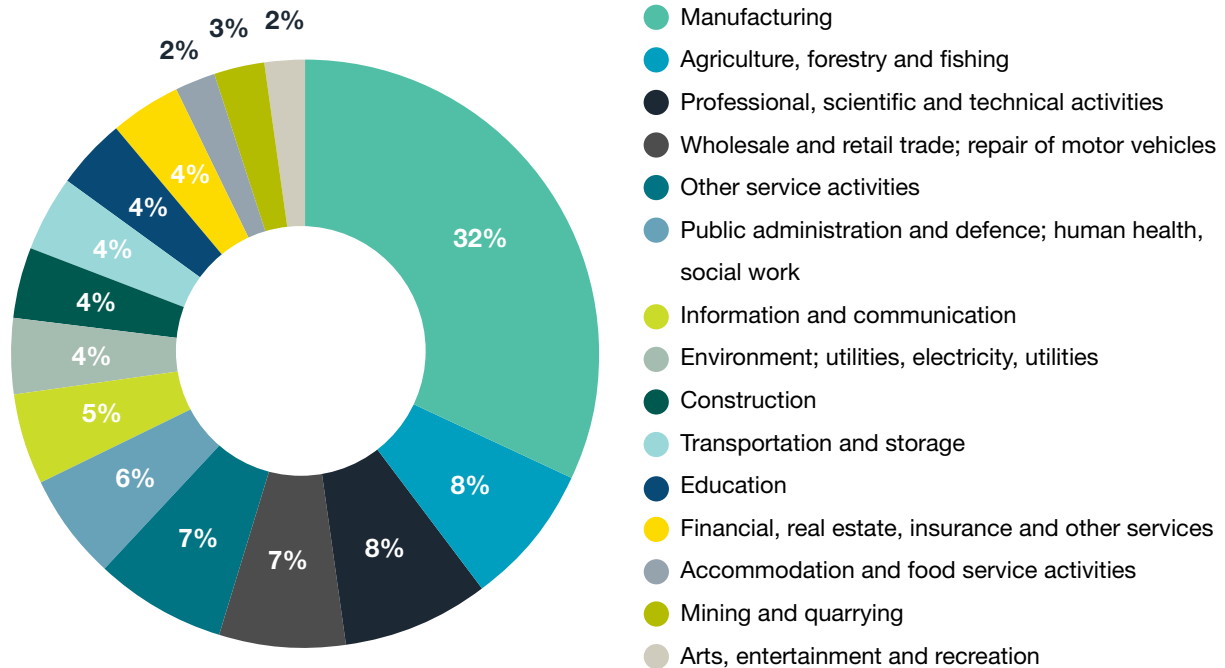


About 59% of SMEs have 50% or fewer women executives, and 8% have more than 50%. Only 4% have all women, but almost a quarter of SMEs (26%) have no women executives at all. An important role for government will be to create forums to inspire women to pursue such roles, and encourage networking between women executives to create greater awareness.<sup>6</sup>



A wide variety of industries are represented in the survey, including manufacturing (32%), agriculture, fishing and forestry (8%), professional or technical services (8%), Other services activities (7%), Public Administration (6%) Information and communication (5%), Construction (4%), Education (4%), and a wide range of other industries.

### Main Business Sectors



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Manufacturing sub-sectors are also widely dispersed, including process industries such as petroleum, chemical, rubber, and plastics (20%), food, beverage, and tobacco (14%), machinery and equipment (10%), basic and fabricated metals (9%), computers and electronics (9%), textiles and apparel (8%), motor vehicles (5%), and several other industries.

The data suggests a broad range of industries were represented and is a testimony to the diversity of SMEs across the entire economic spectrum of manufacturing and services.

SMEs are the lifeblood of the global economy and are thus an important component of government policy which should seek to preserve and sustain these small businesses.

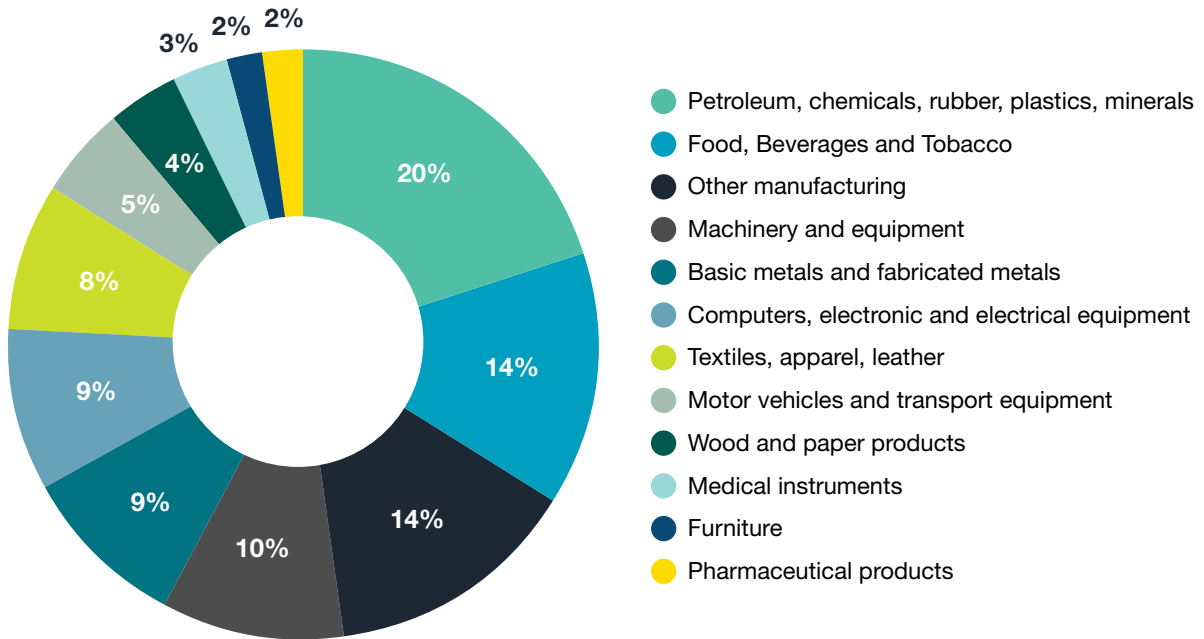
These businesses have also been shown to be the engine of growth in many economies. Promotion of small business growth is often seen as a core part of many industrial development programmes. For example, a number of large automotive and electronics companies have approached local government agencies for help in identifying local suppliers and to provide trained employees for the suppliers. In some cases, this effort resulted in the development of supplier associations that retained suppliers as full-time representatives to help “spread the word”.

In the U.K., these government agencies included the Welsh Development Agency and Scottish Enterprise.

In the U.S., the Pacific Automotive Cooperative helped to develop North American suppliers in the 1980s and 1990s. Local state agencies may also help by providing training and help in starting up local sourcing initiatives.<sup>9</sup>

SMEs indeed are critical in promoting economic growth, and their linkages to global businesses seeking to locate manufacturing sites in developing economies should be facilitated. For example, in the United States, SMEs constituting 64% of net new private sector jobs and 98% of firms exporting goods.<sup>10</sup> and in Australia, more than 2 million small firms constitute greater than 95% of the total number of firms in the economy.<sup>11</sup>

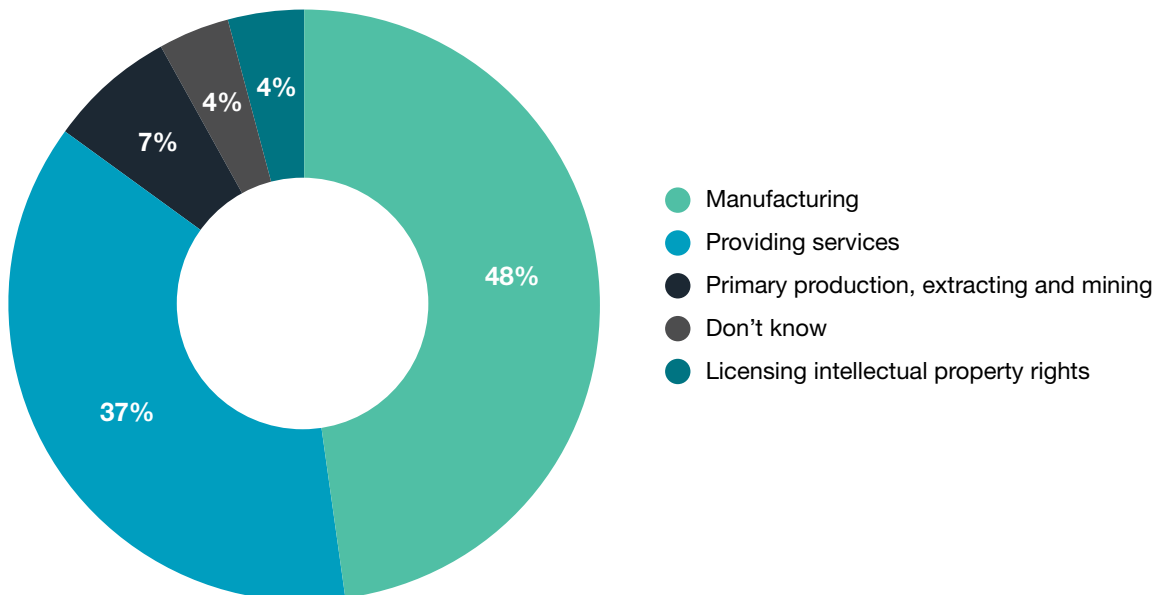
**Manufacturing Sub Sectors**



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The primary operations of most SME respondents include manufacturing (48%) services (37%).

**Primary Operations of SMEs**



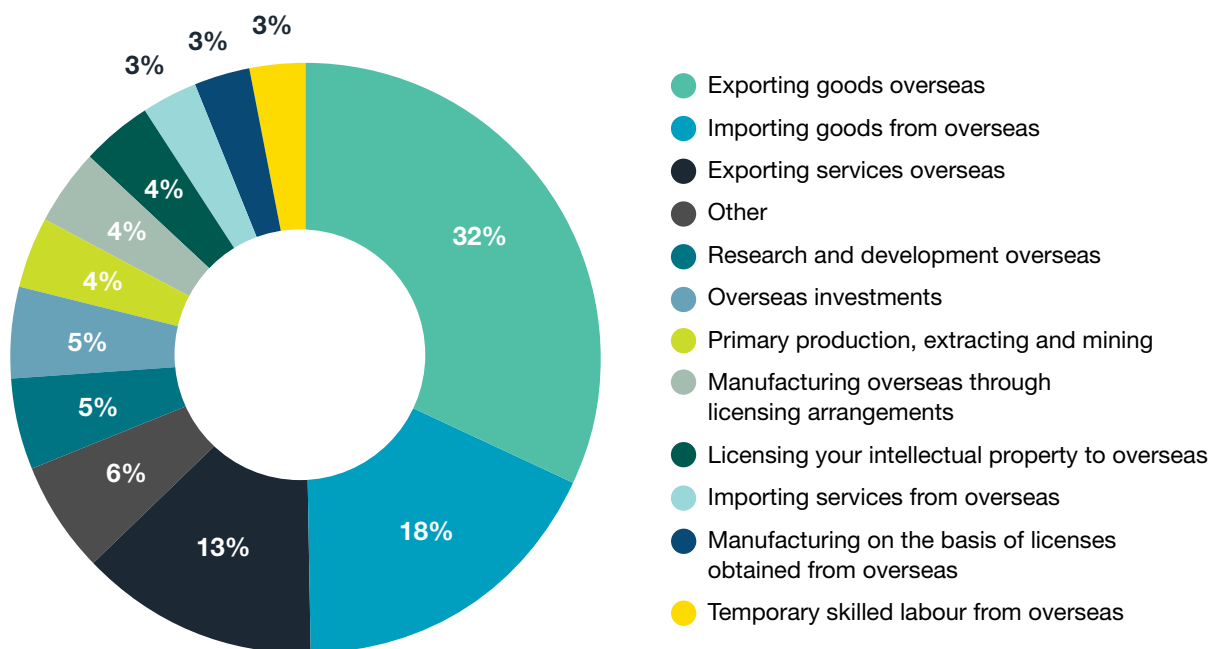
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## SME resilience during the COVID-19 response

The characteristics of the firms in the sample provide a natural segue into a discussion of how SMEs fared during the COVID-19 crisis. Before discussing the response, it is first important to understand the relative vulnerability of SMEs to disruptions in global trade wrought by the COVID crisis. As borders shut down, global trade came to a standstill during Q1 and Q2 of 2020 and has still not regained its previous levels. Despite the perception that SMEs are largely domestic industries, our results show rather that SMEs are highly dependent and thus vulnerable to disruptions that occur in global trade.

First, our results show that SMEs are actively involved in cross-border trade. Almost half (45%) are involved directly in exporting goods and services to other markets, with another 18% actively importing goods into their home economy. Many are involved in global R&D deals (5%), licensing arrangements (4%), and licensing of IP overseas (4%), suggesting the immediate impact of trade policies on these parties, and their ability to compete and support the local economy. Other global activities include overseas investments (5%), primary production (4%), and importing services (3%).

**International Business Activity**

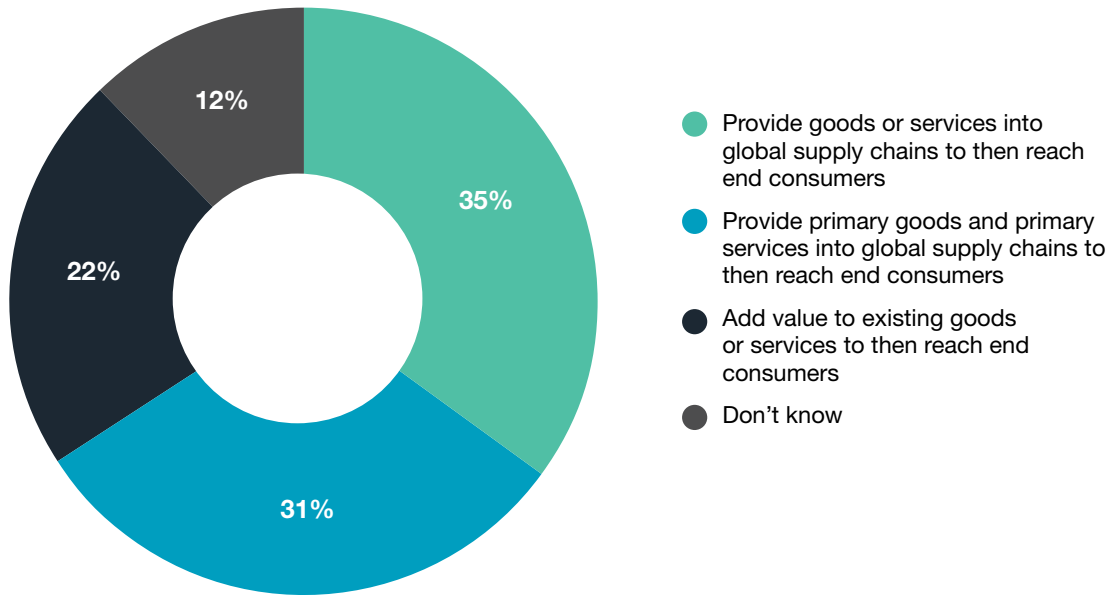


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Second, SMEs are highly engaged as key components in global supply chains, as a result of their engagement in global trade. Supply chain linkages between SMEs themselves and between SMEs and large businesses vary. About one third (35%) provide goods and services into global supply chains, 31% provide primary goods and services into global supply chains, and 22% add value to existing goods and services that reach end customers. As a result of their participation in global supply chains, most of the respondent SMEs are connected with at least one large business.

Third, in terms of their position, the majority of SMEs are “upstream” from other SMEs.

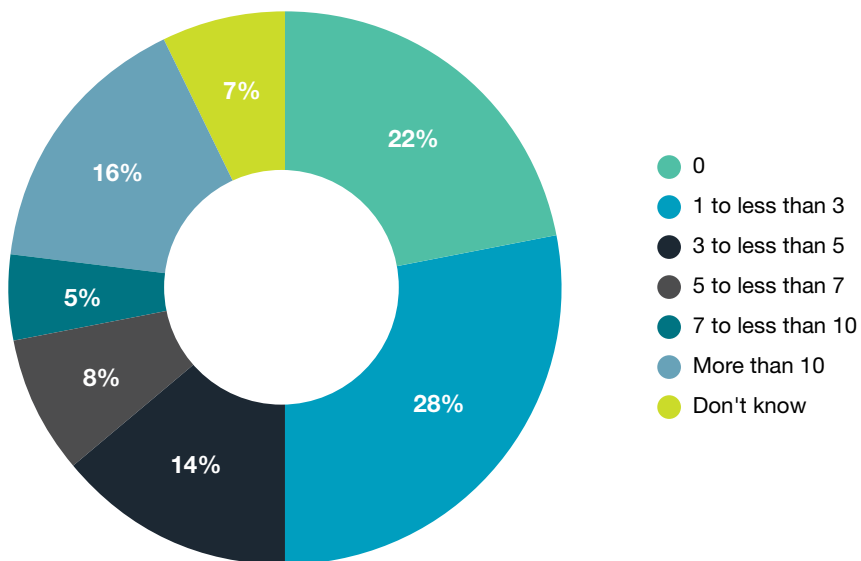
### Business Position in Global Supply Chain



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SMEs also sell into a lot of large businesses. It is also apparent that SMEs are highly dependent on a small number of large businesses, as 28% of the sample rely on 3 or fewer large businesses for a majority of their business revenue. While 16% sell to more than 10 large businesses, 14% sell to 3 to 5 large businesses, 8% sell to 5 to 7, 5% sell to 7 to 10. About 22% of SMEs do not sell to large businesses.

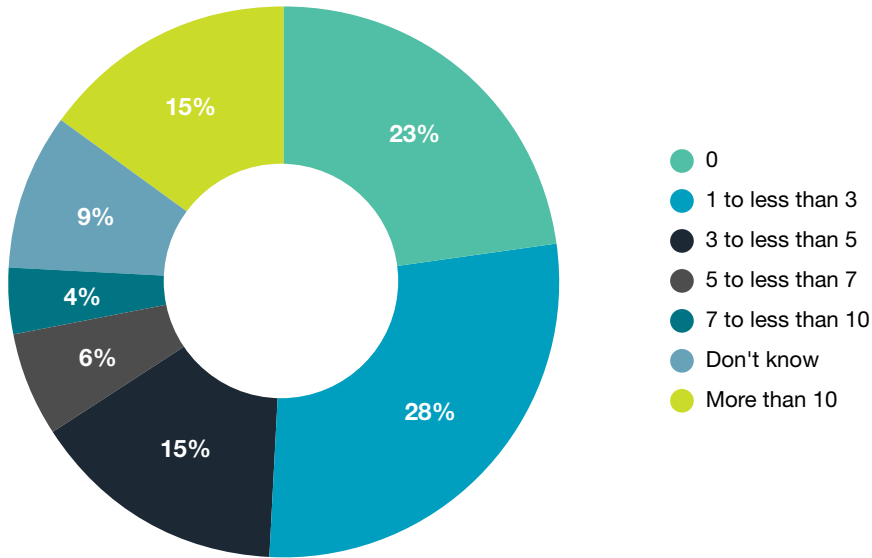
### How many large businesses do you sell to?



16

Almost 77% of SMEs receive goods and services from large businesses as inputs into their global supply chains. Almost a third (28%) source from 1 to 3 large businesses, 25% source from 3 to 10, and 15% source from more than 10 large businesses.

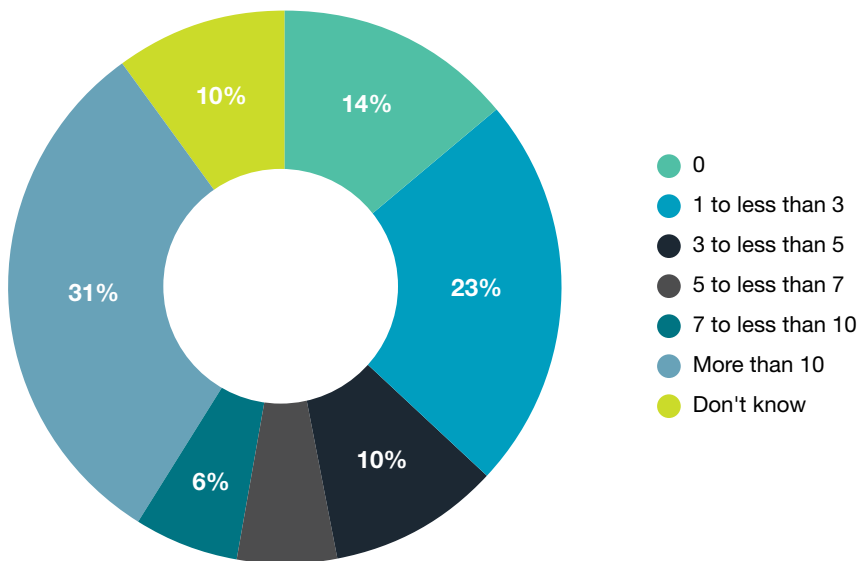
**Large businesses from which goods and services are received as inputs into SME global supply chains**



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Fourth, the sample shows that SMEs do a lot of business with other SMEs, illustrating how they are highly interconnected in supporting one another in the global economy.

**Number of SMEs You Sell To**



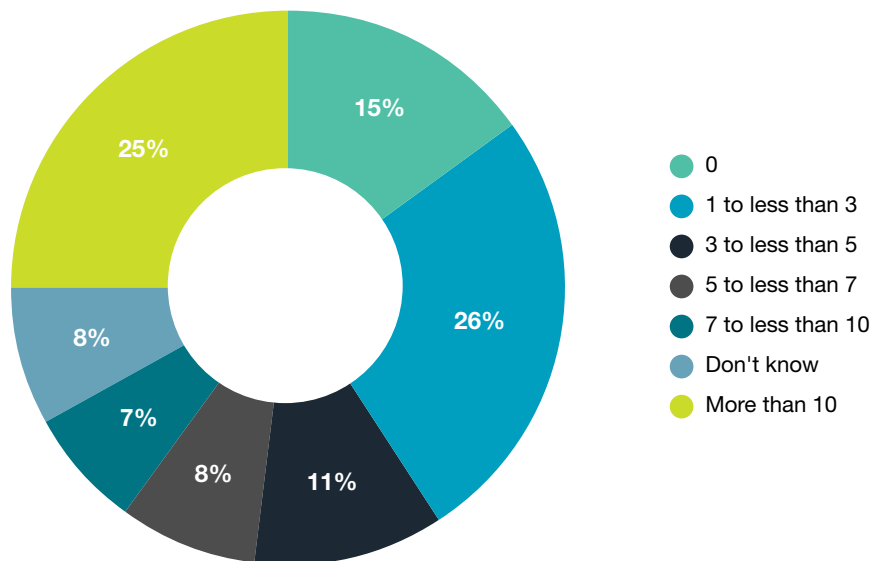
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Most SMEs (over 86%) sell to other SMEs, with almost a third of respondents (31%) selling to more than 10 SMEs. The remainder sell to 1 – 3 (23%), or 3 – 9 (22%), while 10% do not know.

In the case of SMEs receiving goods and services as inputs into their global supply chains, most SMEs (85%) also buy from at least one other SME. Our results suggest that more than a quarter of SMEs (26%) receive goods and services either from 1 to 3 SMEs, and another quarter (25%) source from more than 10 SMEs. The remainder (26%) source from 4 to 9 other SMEs. We find that a diversity of sourcing patterns exists here, with many SMEs working with multiple other SMEs.

Many of these differences can likely be attributed to industry characteristics, given the wide variety of industries included in this sample. The key takeaway from these insights is that SMEs play a large role in the global economy and rely on global trade partners as both customers and supplies in global supply chains. Government policy must be aligned with these facts, and policy makers should focus on providing high levels of support to small and medium businesses to facilitate or expand business opportunities between SMEs, and between SMEs and large businesses.

**SMEs from which goods and services are received as inputs into  
SME global supply chains**





## SME resilience during the COVID-19 response

When barriers such as tariffs or coronavirus shut down orders, SMEs are put under a huge amount of financial stress, and have a higher likelihood of failing, as they do not have the working capital resources of many larger firms.

Their position in the global supply chain as shown in this survey, suggests that they are highly susceptible to shifts in, or disruptions to, the global trade ecosystem, and are not at all insulated from the disruptions that impact cross-border trade.

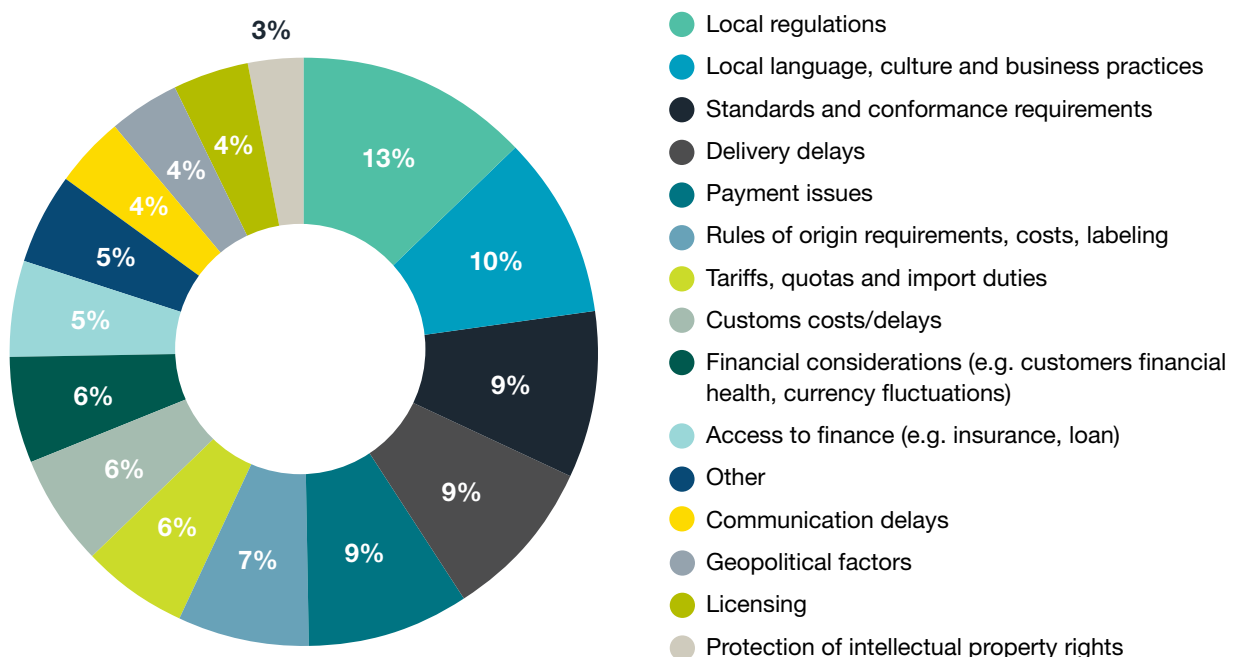
Government policy makers need to be much more aware of this fact. In this section, we explore further how this delicate balance can be supported and facilitated by governments and the private sector, in the face of global disruptions experienced in 2020.

An important trend observed is that SMEs require direct government support in some specific areas to participate in supply chains, but what they specially need is governments to focus more on removing obstacles and creating a conducive environment to trade and do business.

This was the case even before COVID interrupted global business, and many of the trade barriers and tariff wars that existed prior to COVID were making life difficult for SMEs.

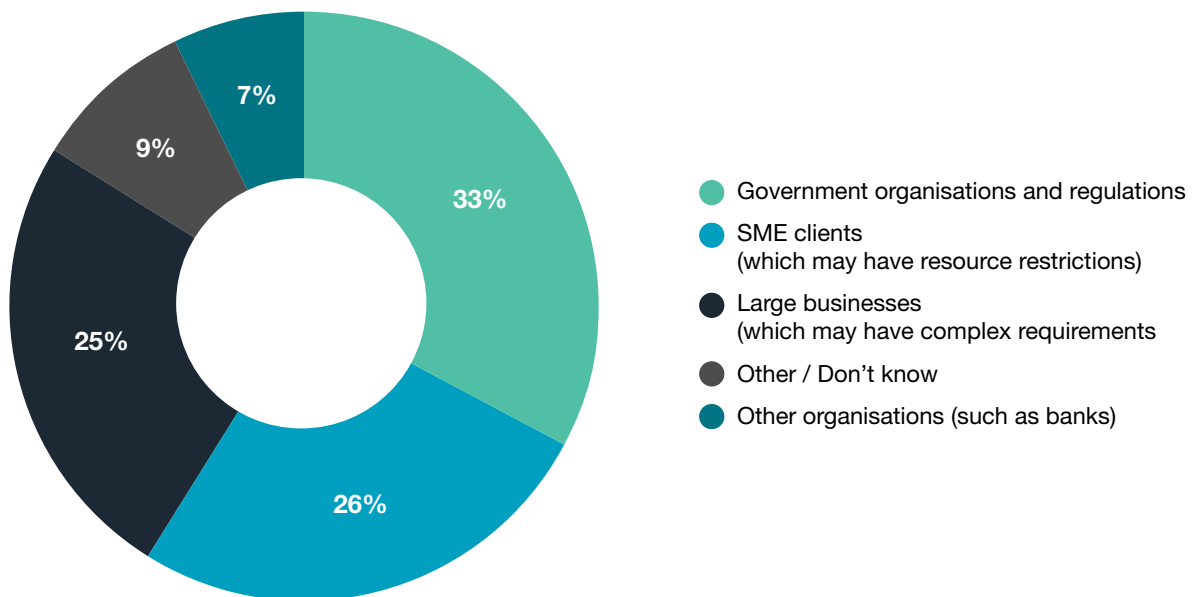
Respondent SMEs indicated that the main challenges they faced when selling goods and services into global supply chains before the COVID-19 pandemic were local regulation (13%), local language and business practices (10%), standards and conformance requirements (9%); delivery delays (9%); payment issues (9%), rules of origin requirements (7%), tariffs and quotas (6%), customs costs and delays (6%), and financial instability (6%).

**Challenges Selling into Global Supply Chains  
Before Covid**



For a third of SMEs respondents, the main causes of the challenges to conducting business in global supply chains is government organisations and regulations (33%), followed by resource restrictions (26%), and large businesses counterparties having complex requirements (25%). For SMEs operating in global supply chains, their main demand is to create a business environment that, on one hand, enables them to operate and grow, while on the other hand, reduces considerably logistics, compliance and financial risks. This was before COVID struck!

**Main Cause of Challenges in Global Supply Chains**



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However, SMEs still value the advice from government agencies (including trade promotion organisations) to grow their business internationally (23%), slightly more than industry associations (22%) and business consultants (14%).

Similarly, the main risks that they had to overcome before the pandemic were financial risk (including supplier financial stability and payment terms) (22%); transportation/delivery risk (lead times, frequency, cost) (14%); compliance risk (labelling, customs requirements, and rules of origin) (12%); quality and capacity risk (9%); and geopolitical risk (tariffs, protectionism and domestic policy) (9%).

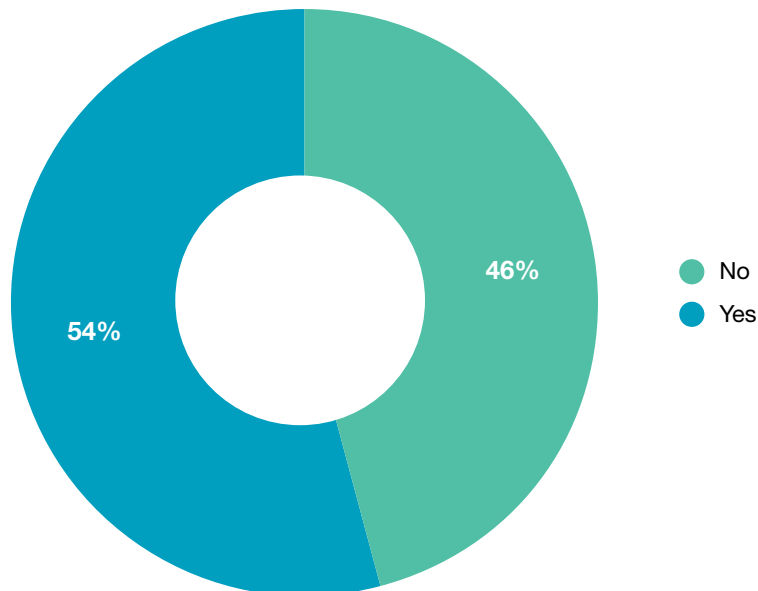
These results indicate the extent to which transactional costs play a role, especially around payment terms, government-controlled geopolitical risks, and regulatory compliance, which amount to more than half of the major risks in the sample (53%).

Regarding the main risks that businesses experienced prior to the COVID-19 pandemic while selling goods and services in global supply chains, the respondents mentioned a ranked list that began with financial risks, geopolitical risks (tariffs and protectionism), compliance risk (labelling and rules of origin), delivery delays and long lead times, legal risks, cultural risks, and customer and contract risks. These disruptions reflect the underlying conditions, as financial flows ground to a halt, as did global deliveries between member economies as export restrictions went into effect, and air freight capacity was consumed by global demands for PPE and medical equipment in response to the COVID wave.

The responses also reflect the number of IP risks as counterfeit products surged during the COVID crisis. Sales of paper products, laptop computers, bicycles, meat, and other consumer products were dramatically skewed as demand for these items surged. While such disruptions could not be foreseen due to the exceptional nature of the pandemic, they reflect in a way the trade facilitation and business development needs already present before the pandemic.

To operate in a global environment, compliance with international standards is an important hurdle for many SMEs. In our sample, only half (54%) of SMEs possessed any recognised certifications or standards in relation to supply chain management. This will be an important component to support increased global trade in this segment of the economy. Training in how to comply with these standards will be an important part of the support governments can provide to SMEs.

### Do You Use Recognised Certifications of Standards?



Respondents in the survey were invited to list any recognised industry, private or international certifications or standards in relation to supply chain management utilized by their business[e.g. ISO 9001:2015; ISO 34101-3:2019; ISO 14001:2015; ASCM-SCOR Enterprise Certification; Qualsys EQMS; Starbucks Ethical Sourcing: Coffee; McDonald's Sustainable Sourcing; Nestlé Commitment to Child Labour in Agriculture; FairTrade Certification].

## Commonly used standards used by SMEs



Overwhelmingly, ISO/IEC standards are by far the most adopted standards, with ISO/IEC 9001:2015 the most common.

*ISO 9001:2015 specifies requirements for a quality management system when an organization:*

- a) *needs to demonstrate its ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and*
- b) *aims to enhance customer satisfaction through the effective application of the system, including processes for improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.*

All the requirements of ISO 9001:2015 are generic and are intended to be applicable to any organization, regardless of its type or size, or the products and services it provides. One of the most important requirements for becoming ISO/IEC 9001 certified is the ability to document existing business processes, and to ensure compliance with this written document upon inspection. Developing process guidelines and written documentation is a skillset that may not be available in all SMEs, and consulting guidance can be an important component of working to create such documentation and subsequently passing the ISO audit.

Regarding the main disruptions that businesses have experienced as a result of the COVID-19 pandemic while selling goods and services in global supply chains, and to a certain extent mirroring the challenges and risks experienced before the pandemic, the respondents mentioned: reduced customer demand (25%) delivery delays/failure (20%), customer insolvency/cash flow issues (10%), cost of logistics (7%), air freight/rail capacity (7%).

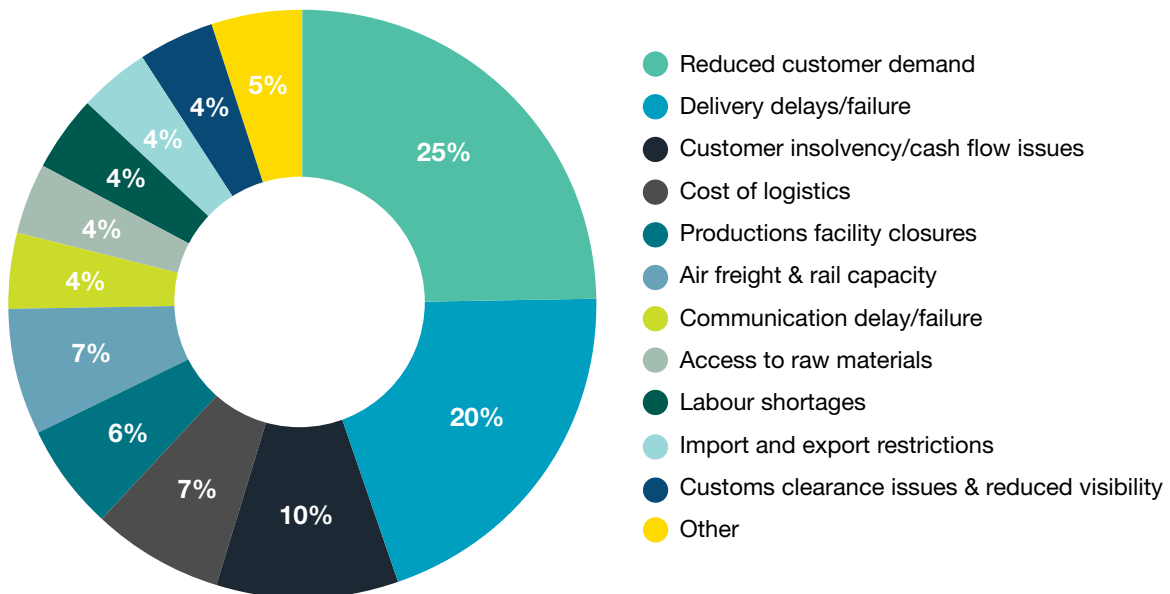
SMEs in the sample were also susceptible to the domino effect imposed by worldwide closures and shutdowns of supply chains, including production facility closures (6%), communication delays (4%), lack of access to raw materials (4%), labor shortages as people stayed at home (4%), import and export restrictions (4%), and customs delays (4%).

These disruptions were felt not just by SMEs but by all businesses alike but were particularly difficult for the manufacturing and import/export sectors to bear.

As market borders were shut down, particularly those from China, Europe Japan, and the US to the rest of the world, the global economy ground to a halt.

Air freight became the only way of transporting desperately needed healthcare supplies and medicines, and access to these logistics channels became clogged due to heightened demand.

#### Disruptions as a result of COVID 19



Another general trend observed is that SMEs require a more comprehensive set of policies to navigate the current and future transformations in global supply chains, one that entails supporting the businesses that are fundamentally transforming and those that are not. Naturally, SMEs are not reacting like large businesses would to the disruptions created by the COVID-19 pandemic, which is understandable. Given their limited resources, SMEs have few choices but to hope that economic conditions get better and seek out any government support that can cover fixed costs and/or employee benefits until such time as business resumes back to normal.

Despite this fact, it was somewhat alarming to observe that SMEs have little in the way of long-term strategic planning to deal with the “new normal” conditions that may arise in a post-COVID economy.

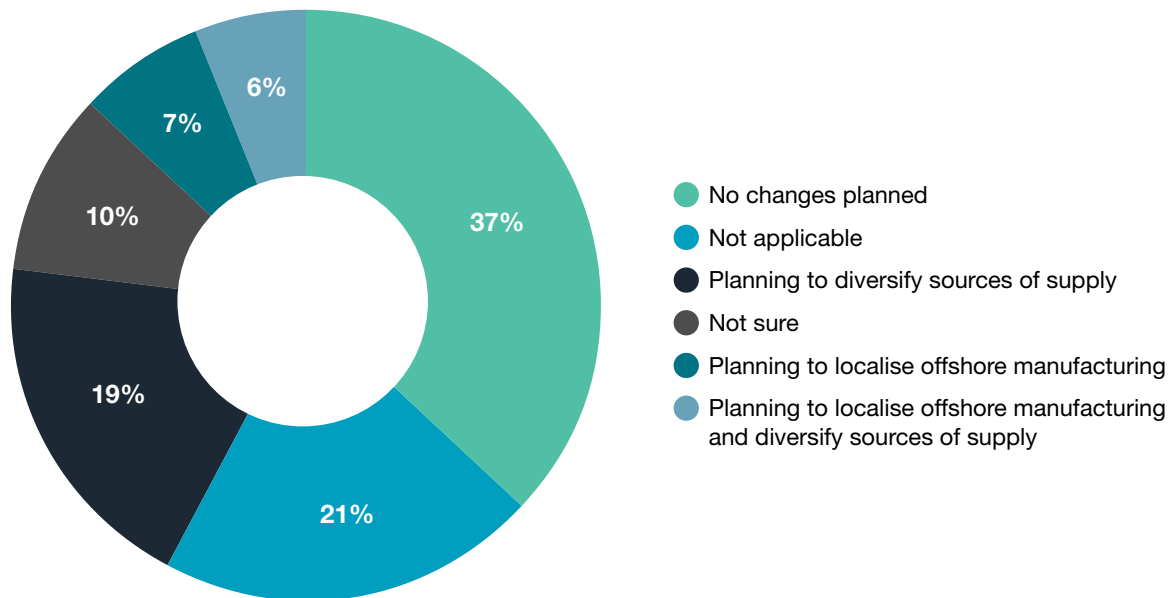
More than a third (37%) of SMEs respondents have no plans to make any changes in response to COVID19. Another 21% believe that the changes wrought by the COVID19 pandemic are not applicable to them, however this could be due to the nature of the business and other factors. This is a rather naïve view of the global supply chain.

Only 7% plan to localise offshore manufacturing (if any currently exists) or diversify sources of supply in their global supply chain, while only 19% are planning to diversify sources of supply and 7% are planning to localise offshore manufacturing. Similar percentages are shown for SMEs planning to localise offshore services (if any currently exists), while 19% plan to diversify sources of supply of services in its global supply chain as a result of the COVID-19 pandemic.

A minority (6%) are planning to do both, while 10% of the SME firms have no idea what they are going to do. These results suggest that the government can play a role in advising SMEs to develop a more robust supply chain network of customers and suppliers, in light of the devastation wrought by the COVID pandemic.

It is clear that these organizations have a very fragile base of resilience upon which to rely in the face of global disruptions, or which there will no doubt be more.

### Response to COVID-19



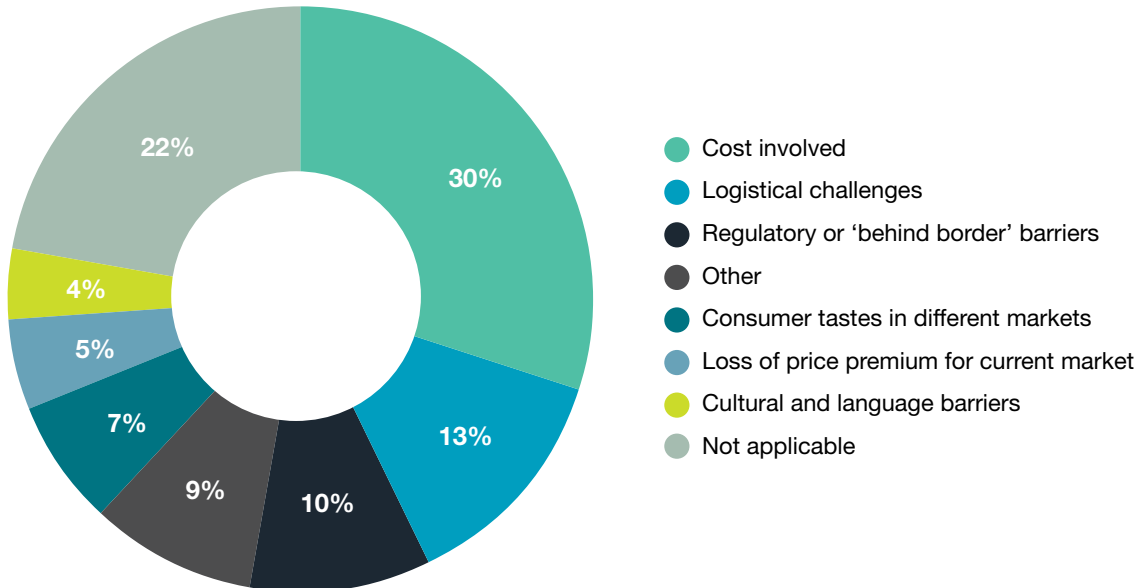
While the highest percentage of SMEs have no plans for any changes, those with plans to diversify sources of supply for manufacturing of goods state that the main obstacle is cost (30%), logistics challenges (13%), and regulatory challenges (10%). There are also considerations of different consumer tastes (7%), loss of price premiums (5%) and cultural barriers (4%).

We consider it important to note, that despite the risks entailed by diversification, certain SMEs are showing some appetite for doing so. Specifically, diversifying sources of supply to reduce risk may require government support to create incentives for development of local start-up businesses, as well as government contracts to guarantee a return on investment by entrepreneurs, in the form of demand contracts and forgivable loans for a period of time.

Without these guarantees, many SMEs will find it difficult to diversify supply to local sources, due to a perception of insurmountable barriers.

Thinking of innovative ways to harness this drive for sourcing locally while reducing risks is a key consideration for governments to consider from a trade policy perspective.

### What is preventing diversifying of supply?



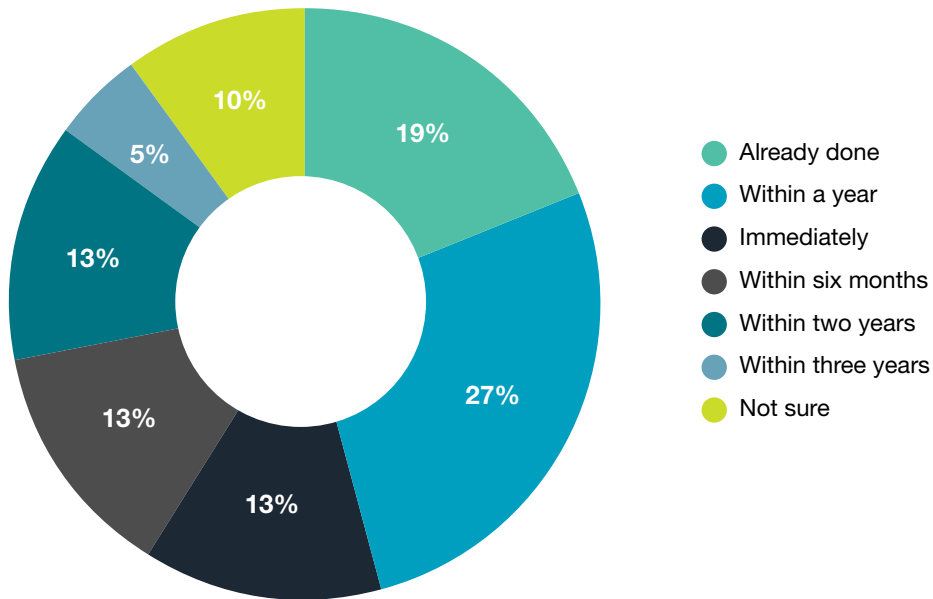
For those SMEs that are planning to relocate their offshore manufacturing, some have already begun doing so (32%) and many plan on doing so within the next year (40%). The remainder plan on doing so in the next two to three years (18%), while 10% are unsure.

### Additional factors can impact on business resilience for SMEs



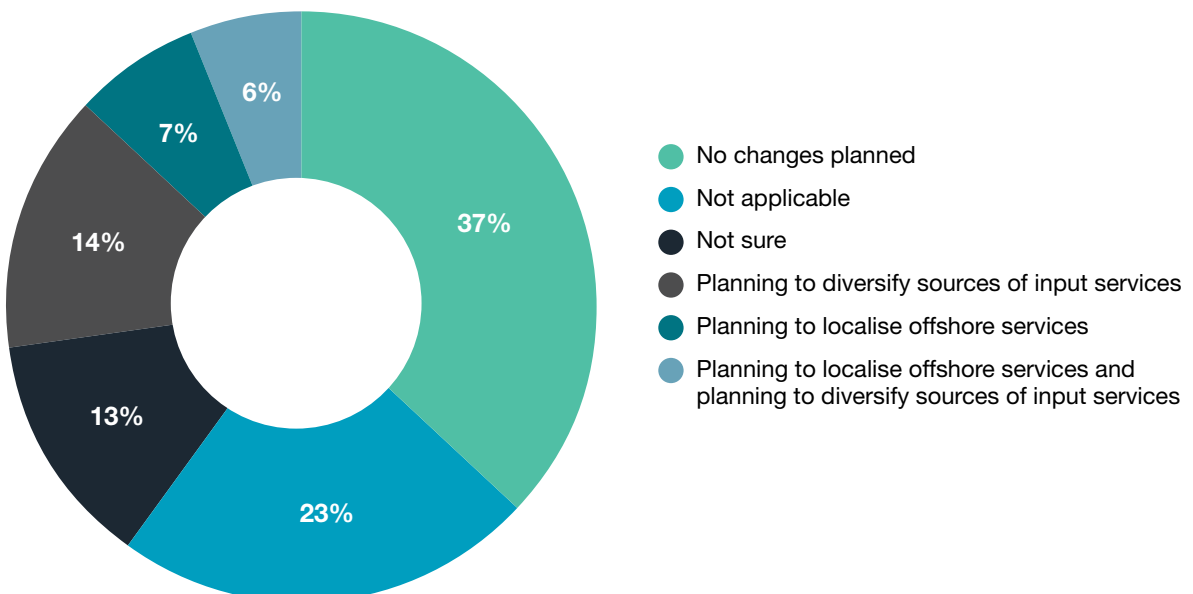
In the services industry, results are the same. About 37% of firms have no plans to localize services. Only 14% are planning to diversify sources of input services, while 7% are planning to localize offshore services, and 6% plan to localize offshore services and diversify sources of input services. Like the manufacturing scenario, a minority firms have any plans to make any changes to their current services offshoring activities following COVID.

**When do you plan to relocate offshore?**



The major reasons preventing diversification of input services is the cost involved (33%), followed by logistical challenges (11%), regulatory barriers (9%), consumer tastes (9%), or loss of price premium (8%).

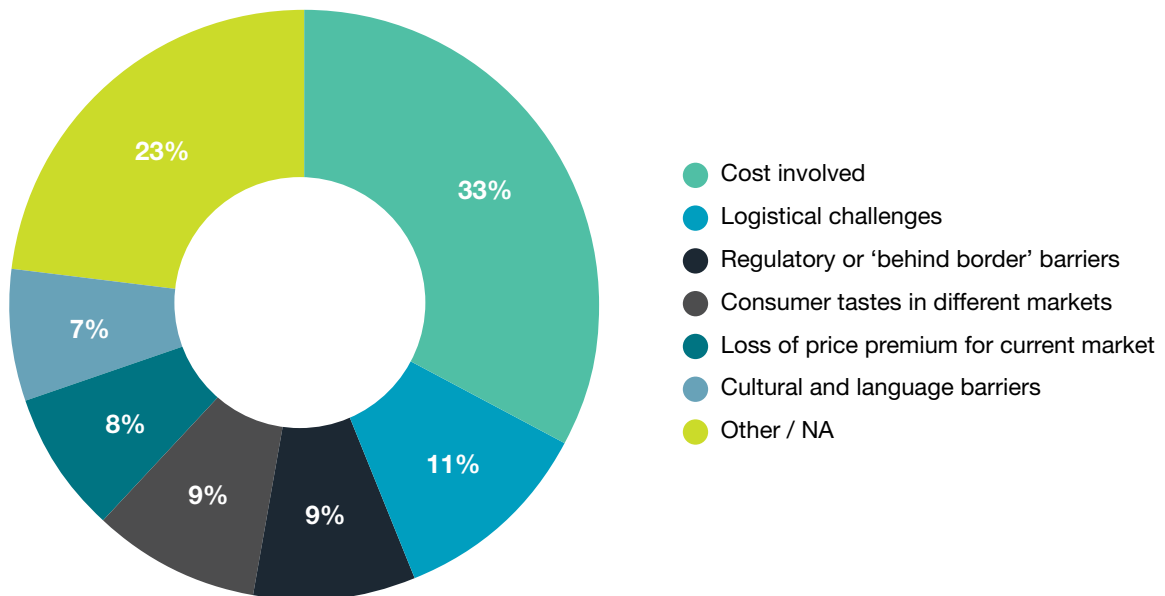
**When do you plan to relocate offshore services?**





These results are similar to the diversifying manufacturing scenario, where concerns over costs involved are preventing SMEs from considering alternative sourcing arrangements.

#### Reasons preventing you from diversifying sourcing of input services

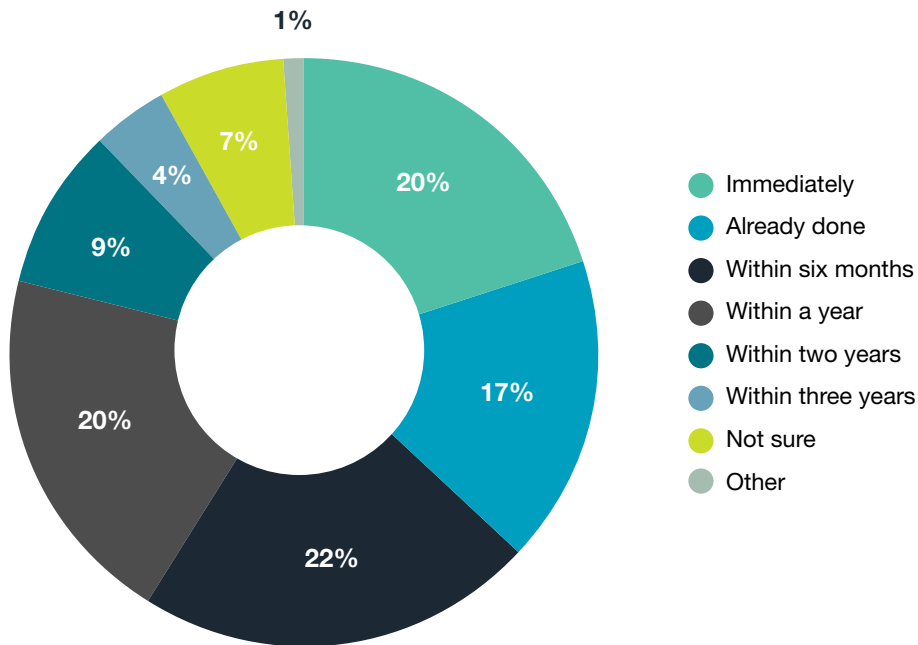


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For those SMEs planning to diversify their sources, 37% have already done so, and another 42% plan on doing so in the next year. About 13% plan to do so in the next two or three years, and 7% are unsure.

Our results also suggest that most SMEs are not involved in industries that can support domestic responses to COVID. Only 22% of firms (554 responses) had the capability to provide domestic support of COVID-related materials such as PPE, hand sanitizer, gowns, masks, etc. This may be an area for governments to support, and nurture development of such industries to become more self-sufficient, and less reliant on Asia where the bulk of such supplies are produced today.

### When are you planning to implement changes to offshore operations?



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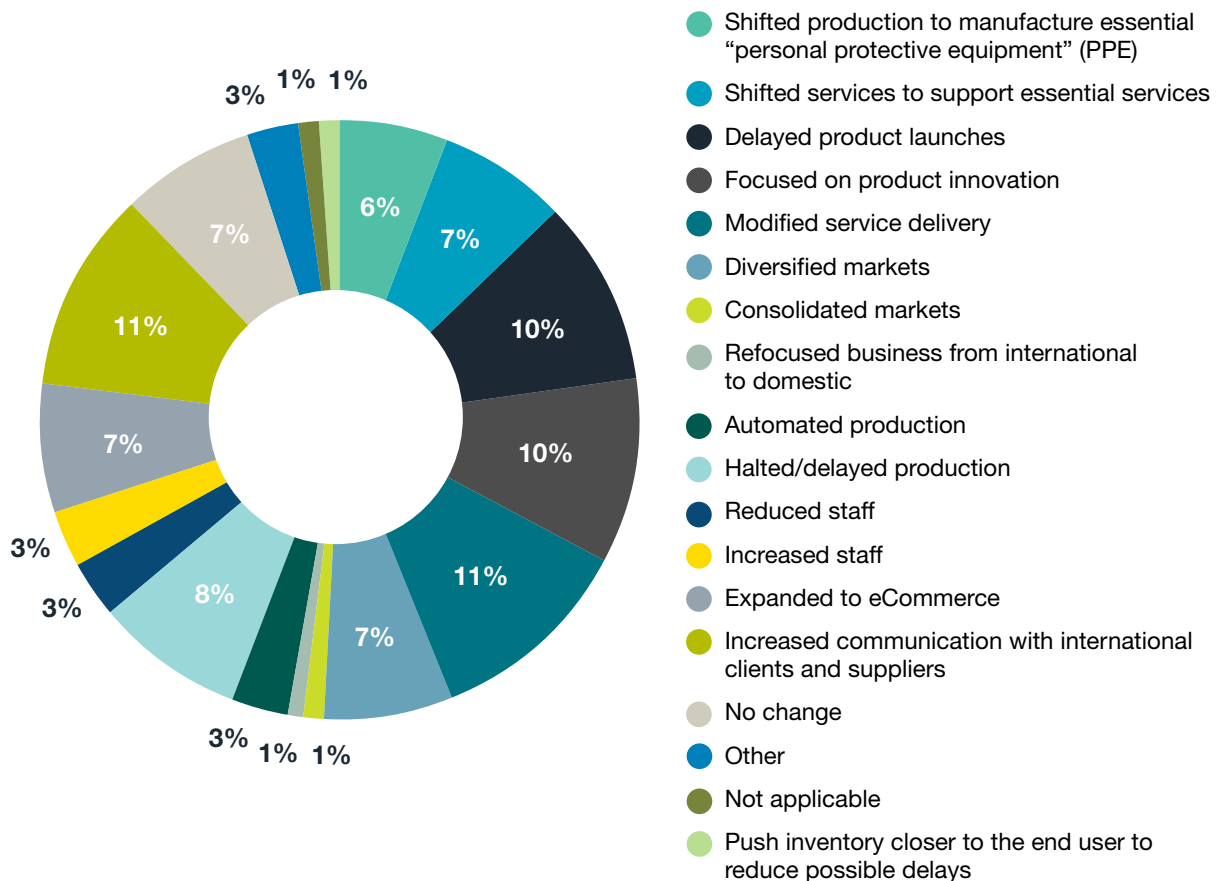
SMEs are also making a diverse set of strategic changes to their businesses as a result of the COVID-19 pandemic, recognizing that the nature of the business ecosystem has permanently shifted. Some of the diverse changes include shifting production to manufacture essential PPE (6%), focusing more on product innovation (10%), diversified markets (7%), shifting services to supported essential services in the economy (7%), delaying product launches (10%), and refocusing business from international to domestic (1%).

SMEs have also had to downsize, by delaying production (8%), and reducing or furloughing staff (3%).

The diversity of different strategic responses suggests that SME business owners recognize that in a competitive global market, differentiation is an important strategy, and that competing on low costs is no longer a differentiator but not the only differentiator.

In particular, innovation, targeted services, and domestic demand shifts must be deployed to remain competitive and stay afloat in a post-COVID economic ocean.

### How has your business changed as a result of COVID19?



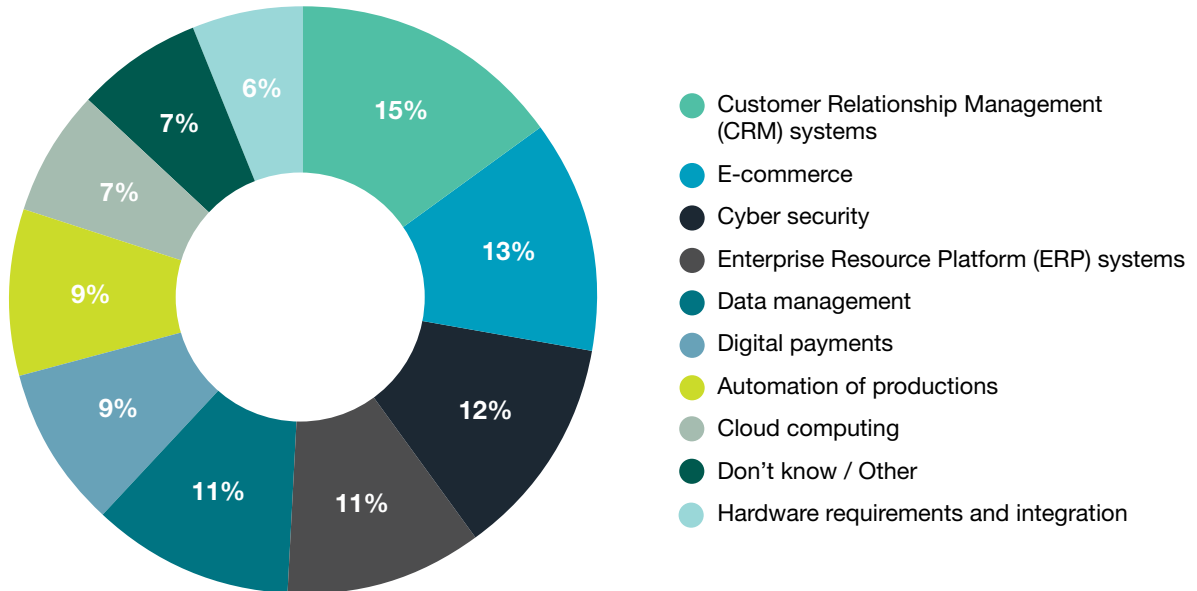
To expand their global footprint, SMEs recognize that they need to upskill their digital capabilities. Specifically, there is a need for SMEs to continue to get support in niche and developing areas for support and training in digital transformation.

These needs include software platforms such as Customer Relationship Management [CRM] systems (15%), E-commerce (13%); cybersecurity (12%), ERP systems (11%), Data management (11%), e-payments (9%), and automation of production (9%).

Digital transformation and automation and the development of skills in these areas are essential for SMEs to remain a part of the global supply chain, and to successfully integrate their procurement and sales systems to major customers, allowing them to grow.

This is particularly important during and after the COVID pandemic, as work from home initiatives will require employees to be able to work and access enterprise-wide systems from home.

### Digital areas where our business needs support



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Additional digital areas that SME business need support to facilitate a digital transformation include:

*“Creating virtual environment for events and customers engagement.”*

*“Travel and strengthening the trust involved in business relationships.”*

*“Marketing of digital platform.”*

*“Better Internet services.”*

*“Remote installation of manufactured products.”*

*“Reliable and fast internet connection.”*

## The role of government supporting SMEs

To adapt to this changing ecosystem in a post-COVID world, SMEs noted that they are seeking government action to support their business in exploring new international business relationships.

Specifically, SMEs are seeking to expand their markets into the global supply chains of large enterprises.

Government actors can play an important role here supporting SMEs to develop business relationships. SMEs are hoping to develop business through introductions to potential international customers (11%), participation in trade exhibitions (10%), access to grants (10%), and access to new markets to leverage free trade agreements (9%).

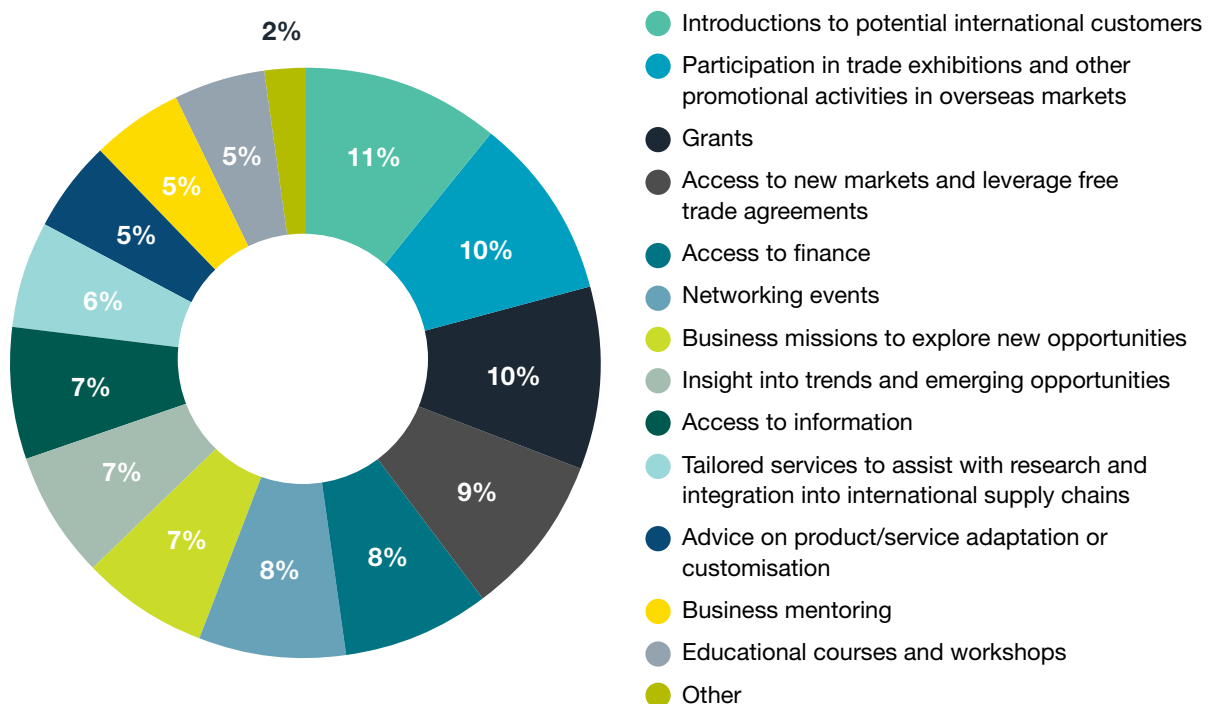
They are also hoping to gain access to financing opportunities (8%), networking events (8%), and business missions and insights into emerging opportunities overseas (7%).

Other support services can be offered in access to financing, business mentoring, networking events, and services to help support integration into global supply chains.

These delivery mechanisms suggest that government agencies need to create active learning environments where peer to peer engagement takes place, and less focus on intensive onsite learning, which does not reflect modern executive education best practices.

Several participants noted that government promises to make introductions to businesses have been useful.

**Government Support to Explore International Business**

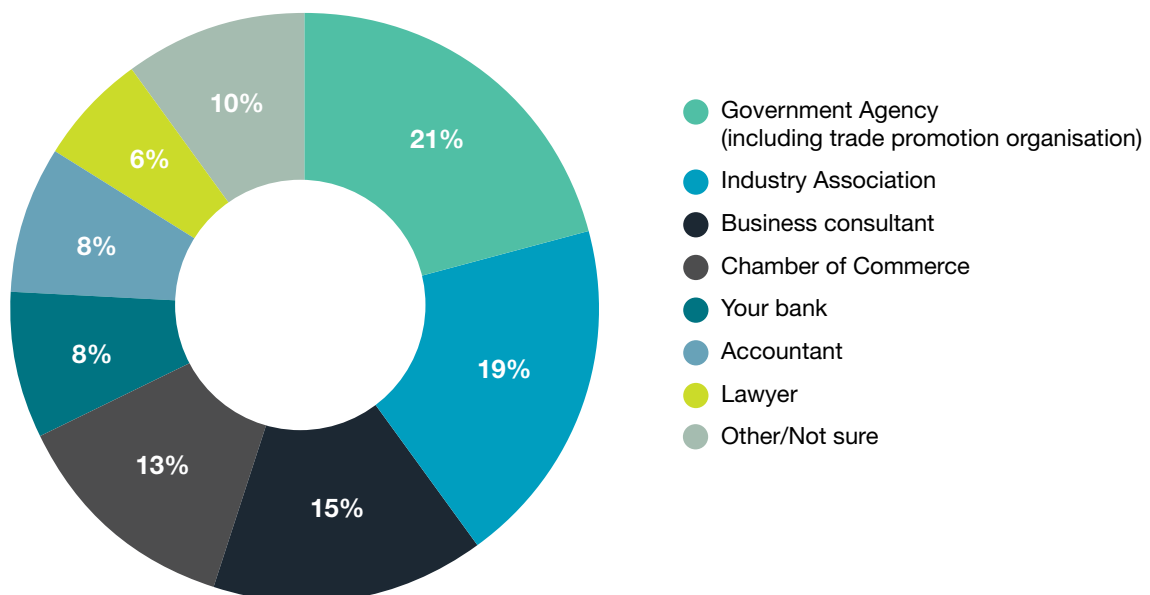


An important percentage of businesses believe their primary source of advice to grow their business internationally is through government agencies (21%), followed by industry associations (19%).

This is an opportunity for governments to step in and take advantage of this perception as a supporter to SMEs, the lifeblood of many economies.

SMEs are getting advice through other channels such as business consultants (15%), the Chamber of Commerce (13%), Banks (8%), Accountants (8%), and from other sources.

#### Where would you seek advice?



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There are additional comments from respondents and potential avenues for governments to consider in terms of providing support to SMEs.

#### Access to networks

*“Introduction to customers.”*

*“Trade delegations.”*

*“Networking with clients and customers internationally.”*

*“Include Buyers-Sellers Meetings, Market Contact Meetings, and Virtual Trade Missions with ECOWAS Countries, and other African Markets. My Company is ready to partner with GTPA to implement. Your Survey is very timely and strategic. Well done!”*

*“Finding importers of our products to sell to.”*

*“Ideally being introduced to prospective buyers through trade missions or other networking programmes.”*

*“During COVID-19 it would be great to have a platform which is easily accessible to network and find opportunities to grow your business internationally.”*

*“How to connect with customers that we traditionally connect with at trade shows.”*

*“Better cooperation with research organisations would help. R&D tax concessions need to be better streamlined.”*

*“Support on the ground in overseas markets, that we could access remotely.”*

*“Need more businesswomen networking events even if they are online. (B2B meetings, start-up conferences for example). We must encourage the young business lady nominees by networking, sometimes they have brilliant innovative ideas we inspire our formal business sphere. Local business practices and multi-cultural communication trainings and trainings for international business practices are required. Gender equality must spread across all international business corporates. The NGOs which works for women initiatives should include all advanced trainings projects meetings within corporations and Chambers of Commerce. Microcredits must enlarge from manufacturers till traders.”*

*“Introduction to agents in international markets.”*

*“Help with accessing markets domestically and overseas would be beneficial.”*

*“Trade Missions and fairs.”*

*“New suppliers with quality products.”*

*“Exposure in professional industry network.”*

*“Post COVID-19, publicly available access to data bases and sources of relevance to and generated by APEC and ABAC should be encouraged.”*

*“Assistance with marketing and developing packaging for individual markets as to what flavors and types of products in tea are favorable for the consumer.”*

## Financial support

*“Access to grants.”*

*“Grants and funding. As a small business it’s what is limiting our growth.”*

*“Financial support.”*

*“Financial support, online certified courses and institutional help.”*

*“Help with advice, support, financial grants and support. It us too difficult to access now.”*

*“Deep pockets to employ skilled personnel who are happy to travel.”*

*“Access to manufacturing grants.”*

*“Business development loans, grants. Support for participating in international trade shows.”*

*“We require financial support due to the COVID-19 impact destroying our business.”*

*“Our technology is disruptive and has a very large potential, getting assistance financially or being introduced to companies overseas we could partner would be a great assistance.”*

*“With payment delays from customers access to cash to sustain the business is vital.”*

*“Grants.”*

*“Manufacturing grants.”*

## Access to training and business support

*“Professional development.”*

*“How to develop an e-Commerce business and the requirements of eCommerce B2C vs B2B in terms of product readiness, packaging, installation and use of Product, Risk.”*

*“International marketing support.”*

*“Perhaps the establishment of a cross-border platform for global trade enablers like us!”*

*“On the ground/real time advice and information from those positioned in-market that have knowledge specific to our industry.”*

*“Government agencies only appear interested in medium to large export business opportunities. When approaching for assistance there is no practical day to day knowledge or hands on small business appreciation is obvious. Smaller business needs assistance with customer introductions and grants to offset expenses in reaching out to new and existing customers.”*

*“Government agency support.”*

*“Be more supportive of digital products focusing on export markets - this has huge potential for growth.”*

*“One on one mentoring and guidance that is also to assist position our business to be export service ready.”*

*“Access to a business support centre and marketplace to meet new and approved quality manufacturers in the garment industry.”*

## Trade facilitation

*“Reduced export freight costs. Simplified export documentation made available on-line.”*

*“Market access. More commercial protocols.”*

*“Information to assist with tariffs that keep changing around the world and setting up global e-commerce trading.”*

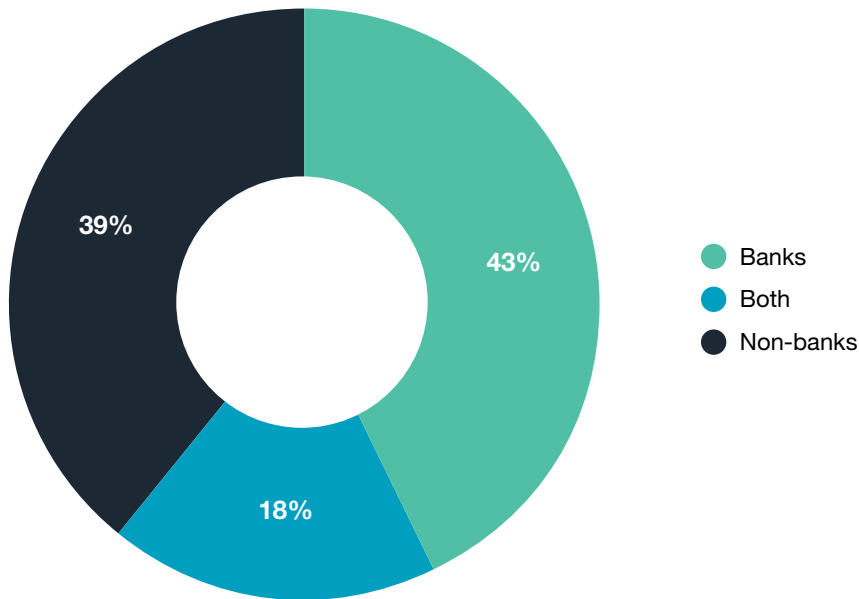
*“Focus on streamlining border controls/customs processes, fees, etc.”*

*“It is difficult to find information on setting up a foreign company overseas. So, if there can be documents available and then a follow up mentor to assist in reviewing and tailor mentoring to each business needs.”*



The majority of funding for most SMEs comes from banks (43%), while 39% come from other sources. About 18% of SMEs rely both on banks and other sources.

Sources of Funding



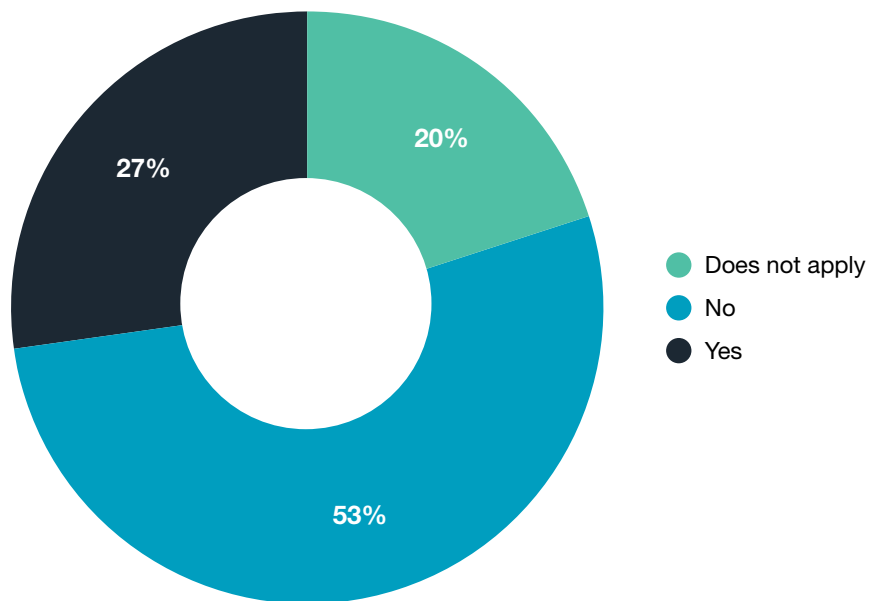
27

Additional funding for SMEs is mainly driven from self-funding or family funds



Generally speaking, over half of firms (53%) have not experienced problems accessing trade financing during COVID. However, almost a quarter (27%) have experienced difficulties, while 20% note that this does not pose a problem for them. However, this is fairly unusual, as many studies over time have reported that access to finance is still a major barrier for SMEs. A factor in terms of why SMEs are reporting that access to trade finance during the COVID pandemic is not an issue could be tied to other factors such as reduced global trade activity.

**Have you had issues accessing trade finance or insurance?**

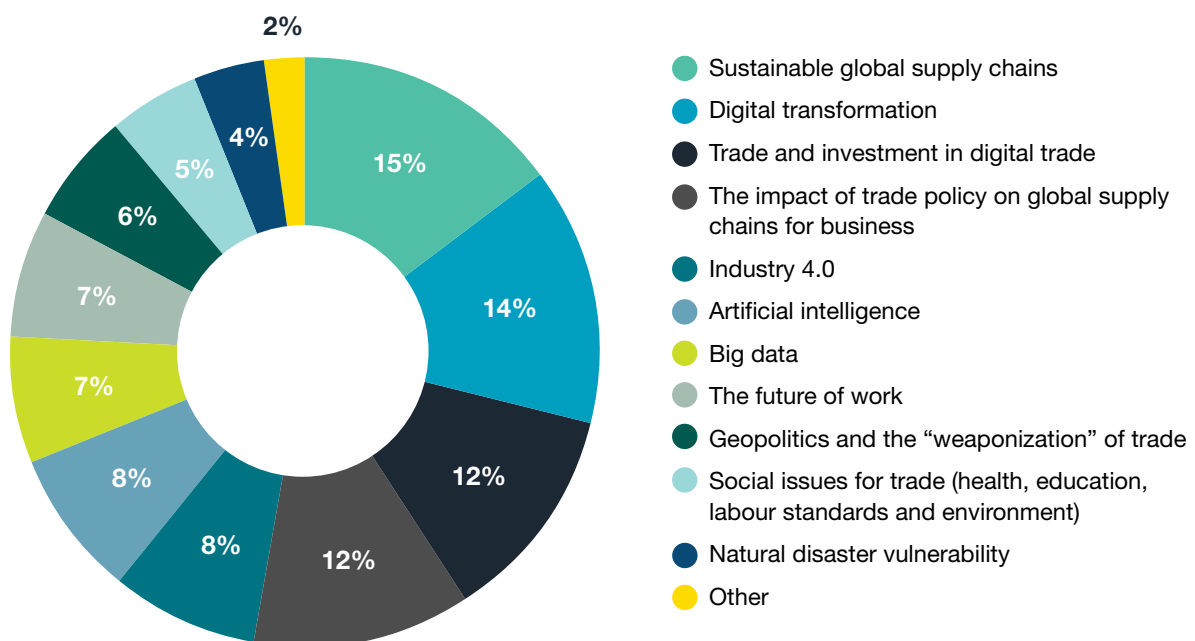


## Workforce changes to build resilient skills

Future skills development is needed in areas that are important to integration with large business supply chains, including business practices such as sustainability (15%), including training in labour and human rights to comply with the Modern Slavery Acts that are passing in many markets, digital transformation (14%); trade and investment in digital trade/e-Commerce (12%); the impact of trade policy on global supply chains for business (12%); and Industry 4.0 (8%) and artificial intelligence (8%).

The move to digital transformation is an area of focus for by SMEs, and many recognize that they are short on skills in these areas. This is an area where the government can ramp up skill sets and establish training classes. Other areas where skills are needed are in big data, the future of work, and the need for trade improvements.

**Areas for Future Skills Development**

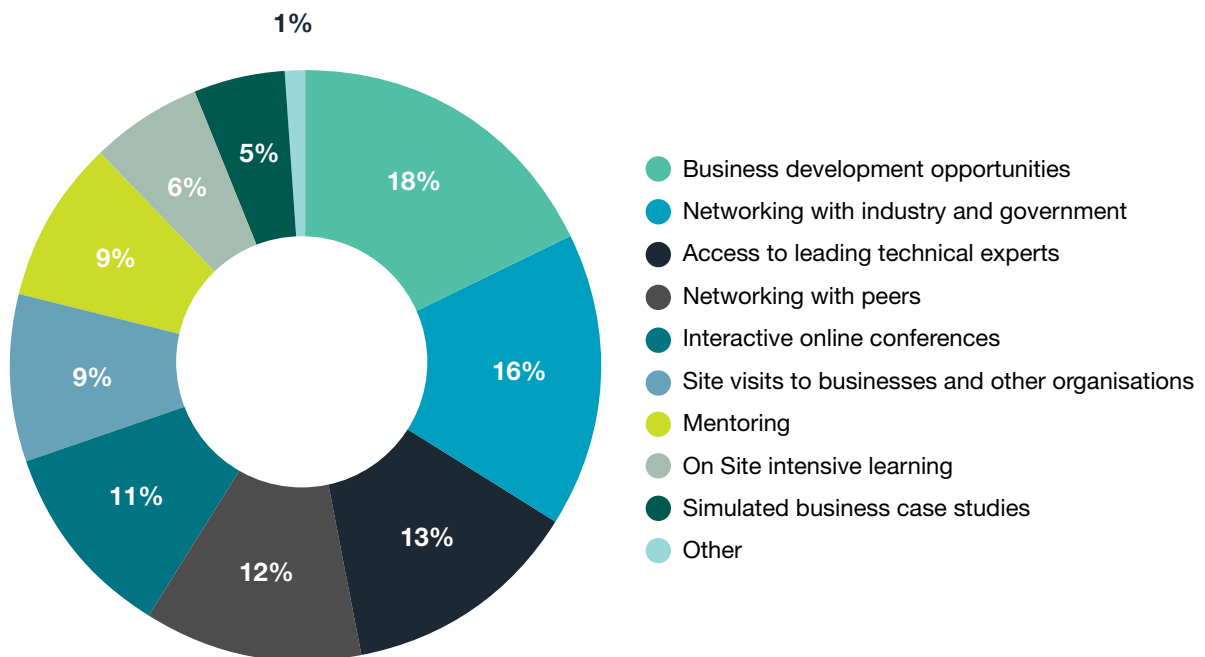


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SMEs believe that the most effective delivery mechanisms to build capabilities that the government can support would be to create more business development opportunities (18%), facilitate networking with industry and government officials (16%), arranging access to leading technical experts (13%), and networking with peers (12%).

Other activities would include conducting interactive online conferences (11%), site visits to businesses (9%), mentoring (9%), and onsite intensive learning experiences (6%).

### Most effective delivery mechanisms to build capabilities



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There are additional comments from respondents on the challenges facing SMEs when it comes to future skills development within their organisations:

*“Readiness is limited, adaptability is good, leadership needs more training.”*

*“Lack of experience.”*

*“Understanding of Restrictions, Trade Regulations, Duties and Tariffs.”*

*“The cost of visiting and opening export markets.”*

*“Finding customers.”*

*“Knowledge and training.”*

*“Overseas market knowledge, marketing channel opportunities, access to clients for marketing purposes and how to identify good potential local agents in markets of interest.”*

*“Lack of training on global supply chains.”*

*“Access to finance.”*

*“Business development on using digital platforms.”*

*“Digital marketing.”*

*“International relationships.”*

*“Keeping up with the changes and accessing real time data.”*

*“Accessing government opportunities and international trade agreements.”*

*“Obtaining comparative information regarding compliance and time zone challenges.”*

*“Disruptions caused by pandemic. Delays caused by component shortages.”*

*“Adaptability.”*

*“Experience; ability to adapt; effective cross cultural, political and generational leadership.”*

*“Experience on the ground.”*

*“Disruption in supply chain at different stages in different markets, depending on their impact by COVID19.”*

*“Selling, Marketing and Promotional Skills.”*

*“Not being able to travel as face to face contact with potential clients is important. We have set up a business in Brazil and this helps and most probably will need to establish a business in Canada next year.”*

*“Experience and knowledge to operate in global supply chains.”*

*“Moving B2B business from a contractor model supplying personal services to a vendor model (e.g. fixed price contracts rather than daily rate); expanding beyond the personal output of key individuals.”*

*“Having enough human resources and the time to invest in improvement.”*

*“Professional growth training regarding policy uncertainty.”*

*“Not being able to have face to face meetings with key stakeholders.”*

*“The restriction in movement meant that the supply chain simply could not operate, our service suppliers went into hibernation.”*

*“Inventory finance.”*

In general, in most SME organisations it is the managing director or business owner that drives the international business activity. Although there are many different job roles involved in supporting global supply chain and international activities.

### The main job roles for those engaged in driving global trade activities



Most SMEs can identify critical capabilities which are needed to support their team, and others in global supply chains and international trade, to expand critical skills development.

### International business capabilities that SME's are seeking to support business resilience



Additionally, SMEs need access to the right training programmes that will provide the right skill sets and leadership experience in order to fully take advantage of global opportunities.

### Types of skills that SME's are seeking to support business resilience





Many SMEs believe that they can strengthen business resilience through support in training and government initiatives that concentrate on these core competencies.

### Types of training programmes that SME's are seeking to support business resilience



## Conclusion

Global trade and global value chains will be continuing transforming due to the COVID-19 pandemic.

While many aspects of global trade will change in the near future, others like making trade more sustainable, innovative, and inclusive to fight poverty and natural disasters, especially for SMEs, won't change. These truths will still hold after the COVID-19 pandemic. If anything, the commitments of the international community and the private sector on them will have to redouble. There are both principled and economic reasons to do so.

Conditions for global trade were far from normal before the outbreak and will certainly not be normal after it recedes. While SMEs will have to reinvent themselves, this should not entail substituting proven sources of global prosperity creation like economic integration and free trade.

Yet, renewed efforts for international cooperation will be needed to lift the more vulnerable groups such as SMEs in APEC economies including maintaining the soundness and stability of the multilateral trading system.

Opportunities for APEC members to support trade initiatives for SMEs is a priority, however, must be more innovative, sustainable, and inclusive than in the past decades.

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## References

- 1 The number of respondents for certain sections or questions varies, depending on whether a response was optional or not.
- 2 A total of 1068 responses
- 3 A total of 1035 responses
- 4 A total of 1035 responses
- 5 <https://scm.ncsu.edu/scm-articles/article/women-in-supply-chain-panel-offers-great-advice-to-future-supply-chain-leaders>
- 6 <https://scm.ncsu.edu/scm-articles/article/women-in-supply-chain-panel-offers-great-advice-to-future-supply-chain-leaders>
- 7 A total of 894 responses
- 8 A total of 1,555 responses
- 9 <https://sloanreview.mit.edu/article/avoid-the-pitfalls-in-supplier-development/>
- 10 [https://www.sba.gov/sites/default/files/FAQ\\_Sept\\_2012.pdf](https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf)
- 11 <https://www.rba.gov.au/publications/confs/2015/nicholls-orsmond.html>
- 12 A total of 599 responses
- 13 A total of 714 responses
- 14 A total of 1,388 responses
- 15 A total of 800 responses
- 16 A total of 418 responses
- 17 A total of 660 responses
- 18 A total of 777 responses
- 19 A total of 1,454 responses
- 20 A total of 833 responses
- 21 A total of 66 responses
- 22 A total of 278 responses
- 23 A total of 70 responses
- 24 A total of 1388 responses
- 25 A total of 794 responses
- 26 A total of 1061 responses
- 27 A total of 477 responses
- 28 A total of 475 responses
- 29 A total of 739 responses
- 30 A total of 803 responses

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