INTRODUCTION

Over the past decades, the majority of Asia-Pacific developing countries have focused on fostering their domestic business sectors as the engine of growth. They have typically followed export-led development strategies, while promoting foreign direct investment (FDI) inflows, mainly into the manufacturing sector. Combining supply-side capacity-building with utilizing natural resource endowments, low cost labour, stable demand and improved access to major export markets in the world, these strategies have accelerated the volume and value of export operations in the region. In addition, the region has become increasingly attractive to investors: capital inflows to Asia and the Pacific have rapidly increased since the late 1990s, mainly consisting of substantial inflows of FDI and, to a lesser extent, commercial loans, portfolio investment and official development assistance (ODA), which have fostered business sector development in the region. Overall, these factors have generally resulted in increased export competitiveness of Asian and Pacific developing countries, including those heavily hit by the Asian financial crisis during 1997 and 1998.

But business in the Asia-Pacific region, like the rest of the world, is facing one of the most complex challenges as the overall business environment has deteriorated rapidly in most countries. Since the business sector in many developing countries of the region mainly consists of small and medium-sized enterprises (SMEs), the roles of SMEs in the national economy need to be reviewed and the focus of policymakers on business competitiveness needs to be revisited. Emphasis must be placed on enhancing policies and strategies to improve the competitiveness of businesses in Asia and the Pacific in the midst of the global economic downturn and to support their survival, recovery and further development as the global economy improves.

The business sector in the Asia-Pacific region has faced tremendous challenges in the global economic and financial crisis.

This chapter elaborates on options for maintaining and enhancing business competitiveness in Asia and the Pacific in response to the current global economic crisis, with a special emphasis on SME development, and the role of global and regional value chains. It covers: (1) business competitiveness and its determinants (section A); (2) recent trends and issues in business sector development in Asia and the Pacific (section B); and (3) emerging challenges and opportunities for business in the present crisis (section C). Section C also includes a review of the importance of corporate social responsibility (CSR) for business competitiveness and an analysis of the impact of the crisis on various business sectors. The chapter concludes with a number of policy options and areas for further research to increase the capacity of the business sector in the region (section D).
A. DETERMINANTS OF BUSINESS COMPETITIVENESS

Business competitiveness can be defined as the ability of enterprises to compete for markets, resources and revenues as measured by indicators such as relative market shares, growth, profitability, or innovation levels. In particular, it reflects the ability of enterprises to sustain superior market positions and profitability relative to their domestic and international competitors by producing products and/or services of superior quality and functionality, at competitive prices and delivered in a timely manner (ESCAP, 2009a). In addition to competitors and customers, enterprises have to consider three other key market forces when developing a corporate competitive strategy: suppliers, potential entrants and substitute products, all of which shape the structure and the nature of competitive interaction within an industry (Porter, 2008). In this context, competitiveness can be referred to as the relative performance of firms in a particular product (or service) market at the national, regional or global level.

According to the Global Competitiveness Report of 2008-2009, only 2 of the 10 most competitive countries are from the ESCAP region, compared with six from Europe and two from North America.¹ Many interacting factors influence the competitive performance of enterprises. Major determinants, classified as either external or internal to the firm, are presented in table 5.1. In addition to these factors, the competitive performance of enterprises is also affected by other general conditions, such as the natural resource endowment, macroeconomic conditions and microeconomic factors prevailing in the home and host countries of the enterprise. Growing public awareness and pressure with

Table 5.1. Determinants of business competitiveness

<table>
<thead>
<tr>
<th>Determinants</th>
<th>Examples</th>
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</thead>
<tbody>
<tr>
<td><strong>External</strong></td>
<td></td>
</tr>
<tr>
<td>1. Market access</td>
<td>Domestic markets; penetration into export markets; GSP treatment; trade and investment liberalization (e.g. regional trade agreements (RTAs), bilateral trade agreements (BTAs), bilateral investment treaties (BITs); and the establishment of foreign operations</td>
</tr>
<tr>
<td>2. Access to resources</td>
<td>People; skills; capital; finance; physical assets; technologies; knowledge; and supplies</td>
</tr>
<tr>
<td>3. Regulatory framework which conditions business performance</td>
<td>The process of business registration and licensing; taxation; competition; bankruptcy; property and intellectual property rights; trade and investment policy; customs procedures; and export/import procedures</td>
</tr>
<tr>
<td>4. Supporting services provided by both public and private organizations</td>
<td>The quality of physical infrastructure and logistics systems; general and vocational education; training services; and professional services, such as accounting and legal advice; business development services</td>
</tr>
<tr>
<td><strong>Internal</strong></td>
<td></td>
</tr>
<tr>
<td>5. Contestable market power</td>
<td>Branding; customer loyalty; and distribution channels</td>
</tr>
<tr>
<td>6. Capacity to respond effectively to competitors</td>
<td>Substitutes for products and services; diversified product and service lines; and low cost structure</td>
</tr>
<tr>
<td>7. Capability and flexibility to respond to changing circumstances</td>
<td>The availability of key resources; capacity for process and product innovation; and flexible supply chains</td>
</tr>
<tr>
<td>8. Capability to create new market niches</td>
<td>Marketing capability; culture of innovation; and customer (or market) orientation</td>
</tr>
</tbody>
</table>


regard to CSR-led business activities from civil society and consumers make CSR an increasingly crucial determinant for business survival and competitiveness.

These critical determinants of business competitiveness clearly point towards the important role to be played by governments in enhancing competitiveness by creating enabling environments, facilitating better market and resource access, and in providing pro-business regulatory frameworks and business support services. In addition, the government could support institutional capacity-building and developing human resources for new businesses through such policy actions as providing a high quality formal education system, technical and vocational training and education (TVTE) systems, business and innovation incubation facilities, and consulting services. These support programmes should all be geared to facilitating the activities of enterprises working to improve their market positions and their contribution to inclusive and sustainable development. They should have a special emphasis on SMEs which are typically in a disadvantaged position.

B. BUSINESS SECTOR DEVELOPMENT: TRENDS AND ISSUES

1. Increased presence of Asian and Pacific enterprises in global markets

Over the past decade, Asia-Pacific enterprises, especially from the region’s developing countries, have made tremendous strides in global markets. Of the world’s top 2,000 firms in 2009 ranked by Forbes Global 2000, 722 were from the region (36.1%), a substantial increase from 2005 (599 enterprises). As Europe and North America experienced losing shares of 5.5% (from 526 to 497 enterprises) and 21.5% (from 796 to 625 enterprises) respectively since 2005, the Asian and Pacific region is now home to the largest number of the world’s top enterprises (see details in figure 5.1). These top Asia-Pacific enterprises were mainly from five business sectors: banking, finance, materials, transportation, and oil/gas operations. However, the region still has the lowest number of companies with strong consumer brands, except in a few sectors such as automobile, electronics and high-tech companies in East and North-East Asia.

Among the Asia-Pacific enterprises ranked in 2009, 288 are from Japan, 239 from East and North-East Asia, 62 from South and South-West Asia, 55 from South-East Asia, 29 from North and Central Asia, 2 from Pacific economies and 47 from other developed countries in the region (i.e. Australia and New Zealand). The number of enterprises from the region’s developing countries grew by an impressive 64.7% from 2005 to 2009 (from 235 to 387 enterprises), while Japan’s share fell by 11.4% (from 325 to 288 enterprises). Among the subregions of Asia and the Pacific, East and North-East Asia grew by the highest rate of 85.3% (from 129 to 239 enterprises), with the majority in China. The number of enterprises from North and Central

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2 The Forbes Global 2000 is an annual ranking of the top 2,000 public companies in the world by Forbes. The ranking is based on a mix of four most recently available indexes, namely sales, profits, assets and current market value (Forbes, 2009).
Asia more than doubled from 13 in 2005 to 29 in 2009, while India increased its share by over 30% from 30 enterprises in 2005 to 40 enterprises in 2009. Two Pacific enterprises entered the ranking in 2009 for the first time (see figure 5.2).

Figure 5.2. Top Asia-Pacific enterprises by subregion, 2005 and 2009


2. The emergence of global and regional value chains

One significant development in the Asia-Pacific business sector has been the emergence of global and regional value chains. A global value chain (GVC) refers to the full range of cross-border value-added business activities which are required to bring a product or service from its conception, through design, sourcing raw materials and intermediate inputs, production, marketing, distribution and support to the final consumer (ESCAP, 2007). A number of enterprises, including SMEs, participate in a GVC and provide services based on their expertise, such as suppliers, distributors and business service providers (e.g. third-party logistic providers, financial institutions and market research firms). Value chains are normally coordinated by a leading enterprise, typically a transnational corporation (TNC), which possesses power through control of business factors such as, brand recognition, indigenous knowledge and technology, production assets, distribution channels and control over critical inputs (see figure 5.3). Since the end of the 1980s, TNCs have invested in the region to set up value chains built on national export-oriented development strategies and matched with global demand.

Figure 5.3. A simplified global or regional value chain


GVCs have grown as a result of developments accompanying globalization since the 1980s. Such developments include trade and investment liberalization and the development of inexpensive and fast logistics systems and information and communication technology (ICT) applications which enable products and services to move across the world quickly and efficiently. In the Asia-Pacific region, GVCs have spread to the automotive, electronics, food and apparel/garment sectors (ESCAP, 2007). The development of GVCs is characterized by shifts in location of production, increased concentration of production and distribution, smaller numbers of tougher competitors and independent suppliers and the potential for taking advantage of complementary comparative advantages among enterprises or economies involved in the value chain.
The new competition is no longer taking place among individual enterprises, but rather among regional or global value chains

Many regional enterprises, including a number of SMEs, have participated in GVCs by providing products and services based on their specific competencies, often collaborating with foreign investors through joint ventures, strategic alliances and other partnerships. Indeed, GVCs have changed the traditional mode of competition among enterprises that was based on low costs and prices. The new competition is no longer taking place among individual enterprises, but rather among regional or global value chains based on the efficiency of their entire production and distribution networks. Competition now depends on a wider range of determinants in both export and domestic markets, such as brand power, the capacity to meet a variety of stringent global product and process standards, the level of flexibility and rate of innovation, the speed of design and extent of differentiation, the degree of reliability and level of timeliness, and the extent and quality of networks with both horizontally and vertically linked enterprises (ESCAP, 2007). CSR is a new opportunity for value creation and competitive advantage.

Few enterprises from developing Asia-Pacific have created globally recognizable brands and fully control their own value chains

Although many Asian and Pacific enterprises have participated in various GVCs, only a small number of them, mainly in East and North-East Asia, actually control the value chains as leading enterprises; the majority of participating enterprises, typically SMEs, are minor members within the value chains. The initial findings of an ongoing ESCAP review3 of the top 100 non-financial TNCs from developing countries in UNCTAD World Investment Report 2008 suggest that only a few enterprises have developed globally recognizable brands and fully control their own value chains (e.g. Acer, Hyundai, Lenovo, LG and Samsung).4 Many enterprises listed in the UNCTAD report have struggled to develop global brands, but have generally chosen to expand their roles in the GVCs through strategic business actions, such as vertical integration, diversification and mergers and acquisitions (M&A), including the acquisition of foreign brands.5 Another development in the 2000s is that certain Asian and Pacific enterprises, facing pressures from high commodity prices, have aggressively acquired foreign enterprises which control access to natural resources, such as oil, minerals, metals and other strategic commodities.

3 Covering the annual reports and websites of 77 Asian and Pacific enterprises, listed in the top 100 non-financial TNCs from developing countries in UNCTAD World Investment Report 2008.

4 Global brands are defined as those with substantial market presence in at least two of three major export markets, namely Europe, Japan and North America.

5 Examples include Lenovo’s acquisition of IBM’s personal computer department, and Tata Motor’s acquisition of Jaguar and Land Rover. However, it has become apparent that Asian and Pacific manufacturers acquiring renowned global brands have faced difficulties both in enhancing the value of their own original brands and maintaining the value of the newly acquired foreign brands.

6 This is another annual global corporate ranking conducted by Fortune magazine. It is determined based on total revenues.
The regulatory environments of many countries in the region could become significantly more business-friendly

First, there remains scope for the regulatory environments of many countries in the region to become more business-friendly, both to maintain and improve business competitiveness as well as to attract foreign investment. Business-friendly regulatory reforms which could be considered include simplifying procedures for registering a business, enforcing contracts, paying taxes, getting credit, registering property and closing a business (ESCAP, 2009c; World Bank, 2008). As illustrated in figure 5.4 below, the World Bank 2009 Doing Business study shows that the four subregions in Asia and the Pacific (i.e. South and South-West Asia, Pacific, South-East Asia and North and Central Asia) are ranked below average, while developed countries in the region are on average ranked in the eighth place (the smaller the number, the easier it is to do business) and East and North-East Asia are also ranked well over average. In particular, South and South-West Asia have an average ranking of over 100. The ranking provides an indication of how easy (or difficult) it is to conduct business, including – but not limited to – trading across the border, in each country (see also chapter 4).

Second, only a very few large Asia-Pacific enterprises, mainly Japanese, Chinese, Indian and Korean enterprises, operate globally, while most focus on their home and regional markets. This is partially due to the fact that many enterprises in Asia-Pacific developing countries are small in scale and young compared with renowned TNCs.

Third, many large enterprises in Asian and Pacific developing countries are state-owned or state-controlled and in sectors such as banking, finance, energy, materials, transportation and utilities. These are critical sectors, but they only play supporting roles within GVCs. Except for some East and North-East Asian countries, the scale of enterprises in consumer goods, electronics, food, high-technology and retailing is typically weak.

Fourth, few enterprises from developing Asia-Pacific countries have developed global brands. Even those enterprises which have managed to develop global brands, particularly in the high-technology sector, are struggling to maintain brand value under fierce competition (e.g. Acer and Lenovo).

Fifth, most product innovations (including ICT applications and hardware) still originate in developed countries. It is commonly perceived that enterprises in Asia-Pacific developing countries have a comparative advantage in industries utilizing natural resource endowments and exploiting low labour costs of their home countries rather than in higher value-added and knowledge-and technology-intensive industries.

Finally, the business sector itself is still underdeveloped in many countries in Asia and the Pacific. In particular, the SME sector remains relatively weak in Asia-Pacific developing countries, especially in the least developed countries, although the importance of SMEs in the national
economy is well recognized in terms of their substantial shares in the number of enterprises, and their contribution to employment and exports. Figure 5.5 shows that developed countries possessed a large number of SMEs, including micro-enterprises, with 63.2 enterprises per 1,000 people for developed countries in the Asia-Pacific region. In contrast, the Asia-Pacific region’s developing countries had only 27 enterprises and its least developed countries nine enterprises per 1,000 people. In addition, many enterprises in the region are in the informal sector, which is neither taxed nor monitored by the government.

Figure 5.5. The number of microenterprises and SMEs per 1,000 people, 2001-2006

<table>
<thead>
<tr>
<th></th>
<th>Developed countries</th>
<th>Developing countries</th>
<th>Least developed countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>61.8</td>
<td>29.6</td>
<td>14.9</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>63.2</td>
<td>27.0</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Source: Developed by ESCAP based on data from World Bank, World Development Indicators, 2009 (July).

C. BUSINESS COMPETITIVENESS: CHALLENGES AND OPPORTUNITIES

1. Emerging challenges for the business sector in the Asia-Pacific region

The present crisis has brought new challenges to enterprises, especially to SMEs, in Asia and the Pacific. Five major external shocks, among others, have particularly impacted business performance in the region.

(a) Slumped exports. The slump in exports has hit businesses hard, in particular SMEs which have faced particular problems obtaining trade finance, orders and production inputs. Corporate bankruptcies have soared in both developed and developing countries in the region, and many jobs have been and are expected to be lost, further decreasing consumer demand. Increased underemployment and lower earnings are also expected. As the financial crisis causes contractions in the real economy in Asia and the Pacific, efforts will be required to address excess export production capacities through restructuring or seeking new markets for existing exports. In this process, suppliers and other members in value chains, which are typically SMEs, will also be affected, resulting in low profitability throughout the value chains in the region.

(b) Credit crunch. The credit crunch resulting from the global financial crisis has hampered the performance of Asia-Pacific enterprises. Financial institutions worldwide are seeking to reduce their exposure to credits and loans, even limiting financial services to low risk and historically profitable borrowers. This is the case for Asian and Pacific enterprises even though financial institutions in the region are generally healthier than their counterparts in Western developed countries, primarily due to conservative management practices. SMEs in developing countries are particularly vulnerable to a credit crunch due to heavy dependencies on credit and low profit margins (APO, 2002). As long as confidence in global financial markets remains weak, resources to support SMEs as they grow out of the financial crisis are likely to remain limited. The access to finance of SME sectors in general are often compounded by asymmetric access to financial information (compared with that of large enterprises) and distortions in credit markets that restrict SMEs’ access to finance (ESCAP, 2009a). The issue of trade finance was comprehensively dealt with in chapter 4.

(c) Foreign exchange volatility. Foreign exchange volatility has been increasing during the 2000s, particularly since the outbreak of the present crisis (ESCAP, 2009b). Stable foreign exchange rates are critical for an enabling business environment, and unexpected or large shifts in foreign exchange
rates may threaten the viability of enterprises, in particular SMEs, which typically have a limited resource cushion. Under stable economic conditions, the depreciation of the region’s currencies against the United States dollar could help Asia-Pacific developing countries increase their exports to major markets, though a competitive devaluation cycle as witnessed during the 1997 crisis should be avoided. However, due to the present lack of global demand, a positive outcome is not likely. The experience of Asia-Pacific economies with large exchange rate adjustments during the 2000s provides lessons for corporate management of international businesses, which may in particular require the adoption of additional currency hedging measures. In addition, the business sector in the region needs to assess the risk and impact of competitive devaluations which some countries might adopt to boost their exports.

(d) **Falling capital inflows.** Private capital inflows have facilitated capital formation in and technology transfer to the region and have contributed to the development of export-led industries and new jobs (ESCAP, 2009a; UNCTAD, 2008a). Arguments have therefore been made in favour of a development model in the region based on a combination of business-friendly policies and FDI promotion.7 However, enterprises in the region, both large enterprises and SMEs, face strong pressures to cut operating and production costs to ensure their survival, resulting in low expenditure on FDI.

The global fall in FDI in 2008 resulted from companies’ expenditure cuts as they faced negative

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7 While adopting policies that promote export-oriented FDI, many developing countries in Asia and the Pacific have tried to protect their local markets from imports and market-seeking investments. These policies include the adoption of sector-specific negative lists, setting equity limits, restrictions on land ownership and employment of foreign staff, requirements on local staff participation at the management level, and excluding export-oriented investment from such restrictions while still providing fiscal incentives. Although such restrictions and requirements have been relaxed as a result of the WTO Agreement on Trade-Related Investment Measures (TRIMs), the signing of a number of bilateral investment treaties (BITs) and recent liberalization policies, the basic regulatory structure for market-seeking FDI remains in force in the region (ESCAP, 2009a).

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**Box 5.1. How should Asian and Pacific IPAs deal with the crisis?**

As the global economic crisis leads to tougher competition for investment projects, IPAs around the Asia-Pacific region will need to carefully reassess their current activities and strategies in view of the new business context.

In general, IPAs might consider:

(a) Continuing or strengthening investment promotion activities that yield proven results;

(b) Scaling down or ceasing promotion efforts unlikely to yield results in the context of the global slowdown (but bearing in mind the importance of maintaining valuable relationships that may be useful in the future); and

(c) Shifting promotion efforts towards countries and sectors less affected by the crisis (e.g. South-South investment and agriculture and food sector), or actively target investors that may need to reallocate operations due to the crisis.

However, a new direction for IPAs in countries and regions most affected by the crisis should be to make the most of existing investors by:

(a) Strengthening investor aftercare activities to help financially troubled investment projects stay in business. These activities include both post-establishment facilitation services and development support activities, and enhance project implementation rates, reinvestment, retention, and development impacts of investment; and

(b) Undertaking policy advocacy initiatives aimed at improving the investment climate to counter the effects of the economic downturn and prepare for the recovery. In addition, policy advocacy can improve business linkages and transfers of technology.

operating results and growing uncertainty about the future. The economic crisis poses several challenges to investment promotion agencies (IPAs). First and foremost, less FDI will lead to tougher competition between countries for investment projects. Second, governments seeking to save resources may review the funding of IPAs and perhaps even the rationale for such institutions. Box 5.1 discusses some indications as to how IPAs should respond to the crisis.

(e) Bursting of the commodity bubble. The bursting of the commodity bubble drastically reduced prices of key industrial inputs, leading to a reduction in operating and production costs for enterprises, especially manufacturers, in the region, while causing lower incomes in those countries which have undertaken natural endowment-driven development strategies. However, as the crisis comes to an end, commodity and, hence, input prices, are expected to rise again.

In order to address these challenges, Asian and Pacific developing countries should facilitate the growth of SMEs and enhance their role in socio-economic development; the development of regional value chains; and regional integration through South-South cooperation (see details in section D).

2. The impact of the crisis on different sectors

(a) The automotive sector

The automotive sector has local supply networks consisting of large numbers of domestic enterprises, including a sizeable number of SMEs, which are dynamic and well-established in the region. It is one of the sectors which has been hit the hardest by the crisis (The Economist, 2009).

(i) Pre-crisis structural adjustments in the automotive sector

Since the 1990s, several critical developments in the global automotive sector forced significant structural adjustments. These developments are generally direct products and/or byproducts of globalization and include intensified competition, increased environmental concerns, and technological advancement.

First, automobile assemblers have aggressively developed their GVCs and production networks in order to alleviate trade disputes, to reduce foreign exchange risk, and to produce automobiles near their main markets. Second, although the global demand for automobiles increased steadily during the last two decades, the continuous over-capacity of production facilities has led to price competition and low profit margins among automobile assemblers. Third, assemblers have increased their presence in global automobile markets. Fourth, emerging Asian markets have begun to provide significant business opportunities to automobile assemblers. Fifth, as the outsourcing of component and module development to the automotive parts suppliers has steadily increased, assemblers increasingly tend to work with a limited number of preferred suppliers (Doran, 2003). Finally, competition for the development of environmentally-friendly and fuel-efficient vehicles and “green” cars could lead to important structural changes in the automobile industry.

(ii) Excess capacity for export

Roughly one in two new cars in the world was produced in the Asia-Pacific region in 2007. After the Asian financial crisis of 1997-1998, the region steadily increased the production of automobiles.

Recent production capacities and domestic sales in the automobile industry in the region indicate that excess export capacity had been developed. It is estimated that approximately one quarter of automobile production capacity was used for exports, most of which went to European and North American markets. Falling demand has weakened the GVCs hitting the weakest links, i.e. the SMEs, which are more vulnerable due to their low profit structure.

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8 Based on data from OICA (2009) and EIU (2009).
(iii) **Market potential for the automotive sector in Asia and the Pacific**

There is potential for domestic demand in the region’s automobile producing countries based on the national stock of automobiles and GDP per capita. Countries which have a lower national stock of automobiles per capita, such as China, India and Indonesia have a high domestic demand potential even though their GDP per capita is relatively low. China and Turkey have two of the lowest market penetration rates per $1,000. These low automobile stocks and penetration rates coupled with the large population size of those countries strongly indicates substantial market opportunities for the automobile sector in the future.

(iv) **Future direction of the automotive sector and policy implications**

Three broad future directions of the automotive sector can be identified. First, the overcapacity of automobile production is likely to continue. The higher entry barriers as a result of the consolidation of the industry, as well as substantial research and development burdens will make it hard for developing countries’ national brands to survive. Minor automobile assemblers, including national brands, may need to find niche markets to survive. Alternatively, they may need to seek alliances with other stronger assemblers and join in their GVCs in order to reduce research and development costs through technology transfer and sharing.

Second, a pentagonal auto industry will emerge with five main markets⁹ linked by a complex web of GVCs. Emerging Asian markets are expected to grow steadily to become major automobile markets and important production hubs. Automobile assemblers in China and India clearly aim to develop their national brands to be global brands. This may add further pressure to the overcapacity concern and possibly invite tensions between automobile producing countries as foreign assemblers try to increase their market shares in these markets as a response to the present economic slowdown.

Third, the successful developers of environmentally-friendly and fuel-efficient cars (i.e. “green” cars) are expected to dominate the future global automobile markets, introducing further structural changes in the sector.

Based on this examination of the automotive industry, the following suggestions can be identified for policymakers in Asia and the Pacific: (1) develop global brands; (2) develop a local supplier base; (3) link with emerging Asian markets; and (4) develop niche markets: environmentally friendly and fuel-efficient vehicles.

(b) **The apparel industry**

The apparel industry, which is labour intensive, is a classic “starter” industry for export-oriented industrialization, and one that has played a key role in regional development. Its GVCs are dominated by three types of large buyers, namely retailers, brand marketers and branded manufacturers. These buyers focus more on marketing, design and branding and for apparel production increasingly rely on the linkages with global and local suppliers, including a substantial number of SMEs.

North America and Europe are the world’s two main apparel markets. In 2007 the global apparel retail market grew by 2.6% to reach a value of $862.3 billion, of which 43.2% was generated by the United States. Asian countries are the major producers of apparel, including ready-made garments, and many of them generated most of their export earnings from this sector, including Bangladesh, Cambodia, China, India, Indonesia, Pakistan, Sri Lanka and Viet Nam. For example, Cambodia earns approximately 50% of its foreign exchange income from the export of textiles and apparel to the United States. In Indonesia, more than a million people are employed in the apparel industry.

With the outbreak of the global economic crisis, the decline in consumer spending hit North American and European markets hard. Consumer spending has dropped sharply and people are more conscious about price than about brand. The United States took measures to protect domestic producers by regulating apparel imports and cutting…

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⁹ Comprising three traditional markets (Europe, Japan and North America) and two emerging markets (China and India).
down import quotas in an attempt to save jobs at home. As a result, United States clothing demand contracted by 7.2% in 2008, the first drop since the late 1940s. In 2008, apparel exports from Indonesia, Republic of Korea, Thailand, Turkey and Viet Nam all fell at double digit rates. The Indonesian apparel industry laid off 100,000 workers. The exceptions were Bangladesh; China, the largest apparel exporter in the world; and India. Thanks to their low-cost strategy, the apparel exports of these three countries grew in 2008 by 16.2%, 6.5% and 6.8%, respectively.

For a safe exit from the present crisis, several policy options may be considered for the apparel industry in the region:

(i) Export markets and products should be diversified. Excessive dependency on a limited range of markets and products is one of the major reasons for the severity of the blow to the Asian apparel industry.

(ii) Productivity and quality should be improved with the help of enhanced logistics, and clusters of producers should be developed and supported by reliable public services (e.g. special economic zones and reasonable utility services).

(iii) Globally recognizable brands should be developed with effective marketing channels to control GVCs and attain higher value added.

(iv) Producers should improve negotiation capacity with foreign buyers to attain fair prices.

(v) More commercial credit services should be provided, especially for SMEs. Banks lack expertise to fund SMEs properly in a time of economic crisis.

(c) The electronics industry

Since 2000, the electronics industry, which comprises such key market segments as consumer appliances, automobiles, ICT, aerospace, defense and industry, has experienced steady expansion that was both consumer-driven and infrastructure-driven, particularly in the ICT segment. The exponential growth of Internet use for business and personal data communications particularly fuelled such growth. ICT equipment accounted for roughly two thirds of global electronics production in 2008, increasing demand for core components such as semiconductors and printed circuit boards, while global electronic equipment production grew from approximately $1 trillion in 2000 to nearly $1.6 trillion in 2008.

Developing Asia, including China, India and ASEAN countries, expanded its production capacity as the supplier of components and manufacturing systems to major electronics TNCs, significantly increasing production facilities throughout the 2000s. Several notable developments can be observed:

(i) Many Asian producers, mainly from North-East Asia, have made the transition from technology followers to technology leaders engaging locally in system design and component production, while maintaining the advantage of low labour costs by spreading their operations throughout the region.

(ii) GVCs for electronics equipments in the Asia-Pacific region are well developed, especially among countries in North-East and South-East Asia, linking various levels of production inputs, such as materials, technology and labour, to assemble competitive final products for export.

(iii) Consolidation occurred in the upstream supplies of the electronics industry value chains as leading materials and equipment companies moved to become major global suppliers and even developed a capacity for designing systems such as integrated modules, which enable short lead times and cost reduction (e.g. electronic manufacturing system (EMS) by Flextronics and Foxconn).

(iv) “Green” manufacturing and products have emerged as a significant technological trend in the sector.
Emerging markets in the region (e.g. China, India and Russian Federation) have gained increasing importance in the global electronics market.

However, the present economic slowdown is predicted to cause a deep double-digit drop in global electronic equipment production in 2009, exacerbated by spending reductions in almost all market segments. The industry has faced a period of unprecedented uncertainty without any sign of early demand recovery. Many leading electronics producers announced massive job cuts, while excess export capacity throughout the region has further impacted domestic incomes in many developing countries. SMEs in particular have faced a slump in orders and a credit crunch and require urgent assistance from the government. A recovery in market demand will depend in part on the effectiveness of the various measures undertaken by governments to restore consumer confidence, improve liquidity and stimulate economic growth, but emphasis should be placed on progressive development of technology, productivity and brands in the region to enhance competitiveness in the sector, while regional value chains should be strengthened by promoting trade, investment and technology transfer through South-South cooperation.

3. The role of CSR in the sustainable development and competitiveness in Asia and the Pacific

The current crisis is presenting some new opportunities. Increasingly, the interest of business in CSR is shifting from mere protection of value by managing risk and maintaining reputation to viewing CSR as an opportunity to create new value and achieve competitive advantage.

The debate on the impact of investment on development has heated up over the last decade as the focus has shifted from economic growth only to consideration of sustainable and inclusive development. On the one hand, FDI has undoubtedly contributes to economic development through the transfer of financial resources, generation of employment, payment of taxes, and the transfer of technology, knowledge and skills. On the other hand, FDI may have negative effects associated with long-term social and environmental costs.

This is where CSR comes in. Implementing voluntary CSR initiatives – codes of conduct, environmental management systems, safety standards, company reporting on social and environmental performance, participation in certification – can enhance the contribution of FDI to inclusive and sustainable development of the region. The challenge to policymakers is to develop a policy environment which encourages and facilitates FDI inflows and at the same time ensures that the benefits flowing from foreign investment are shared between the investor and the domestic economy in ways that are acceptable and to the mutual advantage of both parties.

Growing public awareness and pressure with regard to CSR-led business activities from civil society and consumers make CSR, in fact, an increasingly important determinant of business survival and competitiveness. Product features such as being labeled environmentally friendly and fair trade play an increasingly important role in global competition. Corporations pursuing growth in the global market inevitably encounter these new challenges which may take the form of non-tariff barriers, environmental restrictions, food and safety standards, and varying understandings of labour exploitation.

Large corporations and SMEs alike have to address such issues of socially responsible practices to remain competitive. While TNCs are looking to consolidate suppliers in their GVCs that are dedicated to responsible business conduct, SMEs can gain competitive advantage by incorporating social and environmental standards. The actions that corporations take today to incorporate CSR throughout their organizations represent a real point

10 Richard Welford, “Maximizing the benefits of corporate social responsibility for small and medium-sized enterprises participating in regional and global supply chains”, paper presented at the Expert Group Meeting on SME’s Participation in Global and Regional Supply Chains, 9 November 2005, Bangkok, ESCAP.
of differentiation and competitive market advantage on which future success can hinge.

Incorporating CSR standards in domestic business also has implications for governments and changes governments’ roles in relation to promoting the social and environmental practices of business. Governments in the region have often adopted CSR – if at all – in a reactive way, for example, in response to requirements in export markets rather than in a more proactive way (see box 5.2 for the case of China). This might be due to the fact that CSR is seen as a voluntary approach taken by the private sector and as such, not enforceable by governments.

However, these initiatives, although voluntary, are affected and shaped by the broader environment – cultural, social, legal, economic and political. In other words, they are to a significant degree shaped by public policy. While business might see CSR as a cost that it cannot afford in times of crisis, incorporating CSR has become the only sustainable approach to ascertain long-term survival and competitiveness.

Therefore, governments should step in and enable markets that reward business practices which take into account social and environmental as well as economic results. Governments should not only ensure effective governance – including freedom from corruption, effective tax administration, regulatory certainty, and an effective judicial system – but also provide mechanisms that position CSR as a benefit rather than a cost, for example, by making CSR a requirement in government procurement. The adoption of CSR initiatives at the corporate level can give a considerable boost to competitiveness at the national level. Conversely, the current economic crisis would not have been so severe if businesses had had more effective CSR strategies in place. Consequently, governments should encourage voluntary social and environmental practices that go beyond companies’ legal obligations, as a matter of public policy.

Until now, deliberate CSR initiatives have often been pursued outside national planning processes related to development strategy or poverty reduction and their design and implementation lack inputs from key development actors. For CSR to

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**Box 5.2. Evolution of CSR in China**

The beginning (1996-2000)

TNCs start to demand CSR-related standards from Chinese suppliers, especially with regard to labour issues. The Government of China, public, media and domestic enterprises still have limited awareness of CSR issues.


International organizations and NGOs are increasing pressure on compliance of Chinese suppliers with CSR requirements. The Government adopts a “wait-and-see” approach toward CSR activities.

Proactive engagement (2004 onwards)

CSR issues are commonly accepted across businesses from export-oriented companies to domestic and state-owned enterprises. The Chinese Government shifts from a reactive approach to proactive participation, such as creating Chinese-style CSR standards that take local peculiarities into account to maintain competitiveness in the global market. While some standards are sector-specific, others are applicable to all sectors, such as the China CSR Management System with guidelines on labour protection, credit, environment protection, social charity and product quality.


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make a more significant contribution to sustainable development and to the competitiveness of businesses, governments have to integrate CSR as part of their national strategy.

Given the importance of SMEs in many developing countries, the public sector should also seek to raise SMEs’ awareness of CSR and the support required from them. Recognizing the potential for CSR to open new export opportunities and to avoid exclusion from existing markets, governments should engage in setting CSR standards and enable domestic businesses to meet them. Such activities raise familiarity with different kinds of ethical business tools that are specifically important for SMEs. It allows for national and cultural specificities to be incorporated in CSR standards taking into account the circumstances of developing countries.

Besides encouraging and enabling domestic business with regard to CSR strategies, putting CSR on the public policy agenda of Asia-Pacific countries can make them and the region more attractive to FDI. Promoting CSR might as such be seen as an investment promotion strategy.

D. POLICY RECOMMENDATIONS TO INCREASE THE COMPETITIVENESS OF ASIAN AND PACIFIC BUSINESSES

In the short term, the present global crisis and the slump in the world’s major export markets is sure to reduce the effectiveness of export-driven development strategies in Asia and the Pacific. Large uncertainties in the business environment, including a credit crunch, foreign exchange volatility, unstable commodity prices, and soaring unemployment are the most immediate threats to policymakers. Countries which have relied heavily on natural resource endowments have also suffered from sudden and large drops in commodity prices. Many Asian and Pacific policymakers have sought new strategies to maintain their countries’ growth momentum, including stimulus packages to increase domestic demand. However, stimulating domestic purchasing power requires continuous and long-term efforts, which may include redistribution of incomes, for instance through tax reforms.

How else should Asian and Pacific policymakers react to the challenges posed by the ongoing economic crisis? The final section of this chapter reviews specific policy recommendations on how business sector development in the region could be taken in new and potentially fruitful directions, with a special emphasis on supporting and promoting SMEs. Such policy recommendations will be presented in three major parts: (1) adoption of an SME-driven development strategy; (2) development of regional value chains; and (3) regional integration through South-South cooperation.

1. Adoption of an SME-driven development strategy

Asia-Pacific developing countries should facilitate the growth of SMEs and enhance their role in socio-economic development. SMEs, which typically account for over 95% of domestic companies and over 60% of employment in the region, have not fully realized their potential as the backbone of the business sector. They are often more flexible and innovative than large firms in making changes, which is needed in the current uncertain environment.

Therefore, an SME-driven development strategy with seven sub-strategies is presented: (a) pro-business regulatory reforms; (b) supply-side capacity-building; (c) enhanced access to finance; (d) reform of public procurement systems; (e) providing SME development services; (f) developing entrepreneurship and innovation; and (g) promoting good corporate governance.13

(a) Pro-business regulatory reforms. Countries should continue to undertake pro-business regulatory reforms by simplifying and streamlining bureaucratic procedures and regulations which hinder the expansion and export potential of SMEs (cf. World Bank, 2008). Such efforts should include easing entry and exit for enterprises and simplification of import-export policies and procedures. The costs and benefits of specific regulations, which sometimes place a dispro-

13 Some of the strategies and policy recommendations in this part are drawn from ESCAP’s earlier studies (2007 and 2009a forthcoming).
portionate burden on SMEs, should be assessed as an element of such reform efforts.

(b) Supply-side capacity-building. Supply-side capacities of SMEs must be further improved in various sectors. Governments should improve productivity by promoting knowledge, governance, technology and innovation. Developing skills and knowledge is a crucial component of supply-side capacity-building efforts. Once domestic SMEs have improved their capabilities, governments could play an important matchmaking role in providing information to TNCs on SMEs’ capabilities for entering the value chain. The Penang Skills Development Centre (PSDC) in Malaysia is a good example of an institution that plays this two-way brokerage role in the electronics and ICT industries, along with providing a comprehensive range of SME capacity-building activities. At the regional level the Asian and Pacific Centre for Transfer of Technology (APCTT) performs an important role in promoting regional cooperation in technology transfer (box 5.3).

(c) Enhanced access to finance. Access to finance for Asian and Pacific SMEs should be further enhanced through multiple channels of loans and credits including bank loans, trade finance (see chapter 4 for details) and public credit guarantee schemes for long-term and low interest financial services. Adequate access to financing has been frequently cited by SMEs in the region as a critical factor determining their viability and growth. Commercial banks have traditionally been more reluctant to finance SMEs than large enterprises and, when they do provide loans to SMEs, the interest rates and collateral requirements tend to be high due to higher perceived risks and transaction costs, incomplete accounting records, inadequate financial statements and weak business plans. Without public support, including financial assistance, SMEs tend to fail more easily than large enterprises when faced with large external shocks.

Note: MSME – micro and/or small and medium enterprises.

Box 5.3. Strengthening SMEs through technology transfer capacity-building

One of the objectives of ESCAP Asian and Pacific Centre for Transfer of Technology (APCTT), located in New Delhi, India, is to assist member countries of ESCAP to strengthen their capacity to effectively plan and manage the transfer of technologies relevant to the region with emphasis on SMEs. As part of this initiative, APCTT has developed a comprehensive web-based tool known as Technology4sme (http://www.technology4sme.net) that serves as an online technology market for SMEs and provides a free platform for technology buyers and seekers to interact with each other and explore possibilities of cooperation. This website, which has information on 905 technologies in 37 industrial sectors (580 technology offers, 294 technology requests and 31 joint venture and partnership requests) attracts an average of over 1.2 million hits per year. In addition, APCTT has designed the Asia-Pacific Technology Information Tracking and Unified Data Extraction (APTITUDE) Search Engine. APTITUDE searches a list of specified technology databases available in the public domain in addition to technology4sme. At present 11 technology databases, from a range of countries, are linked to APTITUDE and more will be added.

In addition to its web-based services, APCTT uses its technology transfer networks in the region to support and strengthen technology intermediaries in member countries that assist SMEs to build technology partnerships. For instance, in 2008, APCTT assisted Mind Branch Asia Pacific (MBAP), Republic of Korea to partner with the University of Manchester Intellectual Property Limited (UMIP), United Kingdom to gain access to useful technologies for SMEs. Another partnership was facilitated between the Vacuum Equipments Manufacturing Association of Japan and the Engineering Export Promotion Council of India to conduct joint technology exhibitions in Japan and India for the benefit of SMEs. APCTT has also been providing similar support that includes business-to-business (B2B) meetings with the Nanjing International Technology Transfer Center (NITTC), China, the Institute of Information Technology Advancement (IITA), Republic of Korea, the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Foundation for MSME Clusters, India. At the firm level, APCTT has helped SMEs from China, India, Pakistan and Sri Lanka, among many others, to gain access to technologies from Romania, the Islamic Republic of Iran and India in areas such as the manufacture of soda ash, polymers, textiles, and animal feed.

Note: For a more detailed review of the PSDC, see ESCAP (2007) and http://www.psdc.com.my.
Governments could do much to make public procurement policies more transparent and inform the SME sector about the criteria and processes to become an approved government supplier

(d) Reform of public procurement systems. State agencies are often important customers and major sources of revenues for private enterprises. This is particularly true among Asia-Pacific developing countries, where business sectors are at a nascent stage of development, but SMEs often struggle to qualify as suppliers to these agencies. Governments and SME development agencies in particular, could do much to make public procurement policies more accessible by informing the SME sector about the criteria and processes to become an approved government supplier. State agencies should also streamline their procurement policies, a process which can yield efficiency and cost gains and serve as a check to corruption. Governments should also ensure that procurement policies do not discriminate against SMEs, a measure especially crucial under the current global economic downturn which has prompted many governments to increase their spending, through stimulus packages, to support their local enterprises.15

(e) Providing SME development services. An adequate range of SME development services provided by both public and private entities should be available throughout the region. SME development services refer to all types of business support services, including training in business-related skills; legal advice; accounting; counselling and consulting; technology development and transfer; information on markets, buyers and technology; business linkages and networking; and innovation and creativity among SMEs and entrepreneurs, typical in Europe and North America, could be a useful catalyst for promoting innovation and productivity in the region’s SMEs. Governments should stimulate entrepreneurial skills and promote a culture of creativity and risk-taking through various interventions to improve the conditions for entrepreneurship and business innovation. These could include business and innovation incubation services, intellectual property rights protection, tax incentives, facilitating access to finance, human resources development, and institutional capacity-building.16 Special attention should be paid to developing youth entrepreneurship as youth unemployment rates in the region are typically twice as high as total unemployment rates (ILO, 2007). Moreover, youth workers are particularly vulnerable to economic downturns as was observed earlier.

Governments should stimulate entrepreneurial skills and promote a culture of creativity and a mentality of risk-taking by improving the conditions for entrepreneurship and business innovation

15 The Standards, Productivity and Innovation Board of Singapore, called SPRING, provides a good example of providing SME-support services, including its user-friendly guide to SMEs on public procurement. SPRING is the main agency for enterprise development and the national standards and conformance body under the Ministry of Trade and Industry of Singapore. It aims to enhance the competitiveness of enterprises through nurturing a pro-business environment and enhancing innovation and enterprise capabilities of SMEs.

16 Possibly a good starting point would be to support the inclusion of more Asian and Pacific developing countries in the Global Entrepreneurship Monitor (GEM) exercise, which is an evidence-based diagnostic platform for national level entrepreneur activities. Fourteen developing countries in the region have already participated in the exercise. Visit http://www.gemconsortium.org for more details. Box 5.4 also presents a range of relevant activities under APCTT that support the development of national innovation systems.
(g) Promoting good corporate governance. The importance of good corporate governance has gained ground under the ongoing economic crisis, especially as inadequate accountability and corporate greed are blamed for many of the problems. While this is sometimes related to CSR, it has more often been driven by efforts to enhance the transparency and financial management of all players along the GVCs. SMEs in the region face increasing pressure from their customers, who need to cut operational and material costs for their own survival. To ensure that the current business slump and credit crunch are not used as an excuse for large enterprises to disregard the effects of their operations on disadvantaged business partners, seminars and workshops could be held to enhance the understanding of the need for better governance throughout the value chain. These activities could involve sharing of good examples of cost-reduction measures and capacity-building of SMEs to improve transparency and openness in value chains.

(h) Promoting CSR. Governments could promote broadly accepted CSR principles on environmental sustainability, labour rights, human rights and good governance that enterprises can use to structure their own CSR policy.\footnote{The major initiatives of international organizations include the Global Compact, advocated by the United Nations, OECD Guidelines for Multinational Enterprises and ILO Tripartite Declaration on Multinational Enterprises and Social Policy.} As discussed earlier in this chapter, governments could also integrate CSR in their national strategy to promote competitiveness with the overall purpose of inclusive and sustainable development.
2. Development of regional value chains

There is a tendency for policymakers to focus their SME support policies on overcoming the hurdles preventing initial market entry by SMEs (ESCAP, 2007 and 2009a). Linking domestic SMEs to global and regional buyers and suppliers, including those in emerging Asian markets (i.e. China and India), has been a basic objective of global and regional value chain development initiatives. However, an arguably more important long-term policy option for Asia-Pacific developing countries is to foster leading enterprises which supervise and control members of entire value chains, using their own specific assets, knowledge, technology, distribution channels and brands. Few Asia-Pacific enterprises have established their own value chains, created widely recognized brands or assumed the role of leading enterprise

A number of Asia-Pacific enterprises have advanced their positions in global and regional markets, but few enterprises have established their own value chains in the region, developed widely-recognized brands or assumed the role of leading enterprise. By controlling value chains, leading enterprises can achieve economies of scale, lower costs, enjoy higher profits, and create more employment opportunities. To become the leading enterprise primarily requires initiatives by enterprises themselves, but governments do have a role to play in facilitating investment to foster product and process innovation and to promote the development of strong brands.

In this connection, government interventions in value chains should aim at achieving substantive results in a reasonable timeframe on the basis of specific strategies, which may include the following:

(a) Promote agri-business value chains, based on the agricultural sector which plays a critical role in alleviating poverty and absorbing excess labour during an economic slump.18 Government interventions could aim particularly at enhancing the productivity of food-processing enterprises, improving their market access and promoting their brand development at the regional level so that these enterprises can gradually climb up the ladder of the GVCs. These interventions should include the wide range of technical and policy support discussed in the previous section. At the regional level, the Asian and Pacific Centre for Agricultural Engineering and Machinery (APCAEM), an ESCAP regional institution, provides important support in this area (box 5.5).

(b) Foster stronger backward linkages with SMEs, encourage existing TNCs to develop such linkages and promote new FDI (in particular intraregional South-South investment) with the potential to forge such linkages. Foreign investors with a strong domestic market orientation frequently have closer links with local enterprises and adapt their products and services to meet local consumers’ tastes and requirements. In addition, since foreign enterprises usually produce goods and services in accordance with international standards, they can assist local enterprises in improving their own standards and become more competitive in global markets; this can greatly facilitate the integration of domestic SMEs into regional and GVCs. In this area, the effective intervention of IPAs through strategic relocation of resources would be necessary.

(c) Facilitate SMEs’ adoption of world standards and credible certifications of inputs, products, production and distribution processes. While foreign investors can help in this area, as mentioned above, governments need to support the development of recognized certification systems and ensure that

18 In Cambodia for example, agriculture and agri-business is the only one of the four main pillars of economic growth that continues to show potential in the face of the economic downturn – garments, tourism and construction have all entered into recession. Rural communities are already acting as major safety nets for workers laid off from the other sectors. 19 In the Lao People’s Democratic Republic, the Swiss agency Helvitas has made progress in developing clean and organic agriculture in support of the Government’s agriculture policies. A key element of Helvitas’ programmes – in rice, fruits and vegetables, and in coffee and tea – has involved the building of associations of farmer small-holders to share the responsibilities of technical support, organic certification and marketing. See http://www.laosorganic.com.
they are accessible to SMEs at reasonable costs.\textsuperscript{20} There is no doubt that meeting international standards and acquiring the necessary certifications are essential in strengthening the competitiveness of Asian and Pacific SMEs.

\textbf{(d) Form alliances, groups or clusters among SMEs to reduce the transaction costs for global buyers and producers sourcing from small suppliers.} It is costly, time-consuming, and even risky for global buyers to deal individually with many small suppliers, so they prefer to deal with a small number of core suppliers. Further, the investment requirements of participation in GVCs coupled with the many constraints imposed by their small size make it difficult for individual SMEs to be competitive and to upgrade within production networks. Through collective action, SME clusters and other similar groupings can lower the transaction costs of collecting inputs and marketing outputs, while sharing required investments in process and product upgrading that would be beyond the technical or financial capabilities of individual SMEs.\textsuperscript{21}

\textbf{(e) Raise productivity through infrastructure development and improved logistics.} Global and

\textsuperscript{20} An example is the monitoring and inspection undertaken by the International Labour Organization (ILO) of Cambodian garment manufacturers, which has been a key factor in transforming Cambodian producers into successful suppliers in apparel global value chains. SPRING is another example. It developed a highly informative guide for SMEs about global standards, which could be duplicated in many countries in the region.

\textsuperscript{21} Successful examples of SME clustering include the Sialkot Surgical Instruments Manufacturers Association and Sialkot Chamber of Commerce (Pakistan), the Tirupur Exporters Association (India) and the Penang Skills Development Centre (Malaysia).
regional value chains require reliable and timely imports of inputs, components and sub-assemblies, as well as exports of intermediate products to the next level in the value chain. Therefore, domestic trade regimes and import/export systems and procedures must efficiently support such intra-industry trade. Competition within the framework of GVCs hinges on the effectiveness of logistics systems that link geographically distributed producers and buyers. Many Asia-Pacific developing countries need to concentrate at this stage on building critical basic infrastructure such as airports, highways, ports, and telecommunications and ICT systems.22

(f) Improve the cross-border flow of goods. Costly and time consuming import and export procedures undermine the ability of local SMEs to participate effectively in GVC or to attract global buyers. Therefore, a key challenge involves the removal of obstacles related to tariff structures, administration and customs clearance procedures. This will likely include technical issues related to: the institutional, legal and regulatory environment of logistics services; the efficiency of multi-modal transport linkages; containerization; load and warehousing centres; hub and feeder networks; e-communications and e-commerce; and the linking of logistics services to improvements in trade facilitation procedures (see chapter 4 for a more detailed discussion of these points).23

3. Regional integration through South-South cooperation

Regional integration should be promoted as a key to increasing market access and trade and investment flows within Asia and the Pacific by creating an expanded and coherent market which can increase the region’s business competitiveness. Regional integration requires bold and decisive South-South cooperation among all Asia-Pacific countries, especially the major emerging markets such as China and India. Ambitious initiatives may include measures to coordinate regulatory frameworks and physical infrastructure; to develop an integrated approach towards FTAs, RTAs and BITs; to strengthen regional financial and foreign exchange markets; and to enhance the movement of goods, capital, and human resources across borders.

To accelerate regional integration, Asia-Pacific countries must undertake a variety of South-South cooperative initiatives to overcome the following challenges: (a) lack of macroeconomic and trade policy coordination; (b) weak business regulatory frameworks; (c) inadequate access to finance for business, especially for SMEs; (d) large foreign exchange rate fluctuations; (e) poor trade facilitation measures, including access to trade finance and payment settlement systems; (f) inadequate physical integration of regional infrastructure (e.g. transport and communication links, power grid connections and shared water management systems); and (g) lack of agreements on treatment of migrant workers.

Specific recommended initiatives for South-South cooperation to promote regional integration include:

(a) further utilization of the Asia-Pacific Business Forum as a multi-stakeholder forum to review various policy coordination issues in the region;

(b) expanding membership of the Asia-Pacific Trade Agreement (APTA);

(c) concluding an Asia-Pacific agreement on the promotion, liberalization and protection of investment, with a special emphasis on the facilitation of South-South investment;

22 An interesting partnership which is underway in the Greater Mekong Subregion (GMS) between the GMS Business Forum (a grouping of GMS enterprises) and donor and development agencies, such as ADB and ESCAP, is focusing on strengthening the logistics and transportation infrastructure in the region. The GMS Business Forum, in particular, brings together an impressive range of GMS business leaders and supports a number of international logistics operations. See http://www.gmsbizforum.com for more information on the GMS Business Forum.

23 Interestingly, the present activities of the GMS Business Forum, which mirror the recommendations in this section, are aimed at: (a) supporting the GMS Cross-Border Trade Agreement through setting up a GMS Freight Transport Association and promoting economic corridors; (b) encouraging SME suppliers through developing export financing facilities; and (c) strengthening advocacy around the GMS through strengthening provincial and local chambers of commerce, especially along the economic corridors.
(d) developing benchmarks and identifying good practices for business regulatory reforms in the region, and disseminating such benchmarks and practices through convenient and effective communication channels, such as regional forums and working groups;

(e) creating or strengthening national SME development and financing agencies as well as the regional networking of such agencies to share and exchange knowledge and resources;

(f) launching a forum to discuss the establishment of a regional financial system that would promote robust financial systems as well as stable foreign exchange regimes;

(g) developing a regional agreement on cross-border trade and transport flows to facilitate the movements of goods and capital, including human resources;

(h) developing a regional master plan (or blueprint) on infrastructure development and its effective utilization for business facilitation;

(i) developing an integrated approach to improve the working conditions of migrant workers; and

(j) cooperating with relevant economic integration activities of subregional Asia-Pacific groupings and agencies such as the GMS, the Central Asia Regional Economic Cooperation Programme, and others.

4. A summary of policy recommendations to increase competitiveness of Asian and Pacific businesses (SMEs)

The policy recommendations proposed above for Asia-Pacific countries are summarized in table 5.2 below and divided into external and internal options. The first category requires mainly public interventions, while the second category could be indirectly handled, probably through public-private sector partnerships.

<table>
<thead>
<tr>
<th>Competitiveness determinants</th>
<th>Policy options</th>
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<tbody>
<tr>
<td><strong>External aspects</strong></td>
<td></td>
</tr>
<tr>
<td>Market access</td>
<td>Open markets for trade and investment: avoid protectionism (e.g. limited public bail-outs of enterprises which are ineffective and inefficient; market mechanisms determine the future of enterprises)</td>
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<tr>
<td></td>
<td>Regional integration to create a region-wide market (including development of regional regulatory frameworks and infrastructure)</td>
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<td></td>
<td>Strengthening, deepening, consolidation and integration of free trade and investment agreements, possibly on an Asia-Pacific wide basis</td>
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<td></td>
<td>Business matchmaking services between foreign investors, including regional firms, and local enterprises, in particular SMEs, with an emphasis on backward linkages in regional and global value chains</td>
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<td></td>
<td>More open and transparent government procurement practices</td>
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<tr>
<td>Access to resources</td>
<td>Enhanced access to finance through the development of a conducive financial services framework and capacity-building of financial institutions:</td>
</tr>
<tr>
<td></td>
<td>● Public credit guarantee schemes</td>
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<td></td>
<td>● SME loans</td>
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<td></td>
<td>● Trade finance</td>
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<td></td>
<td>● Loans for restructuring and cost saving initiatives</td>
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<tr>
<td></td>
<td>Entrepreneurship development</td>
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<td></td>
<td>● Improving the framework for entrepreneurship for business innovation</td>
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<td></td>
<td>● Training of youth entrepreneurs</td>
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Table 5.2. (continued)

<table>
<thead>
<tr>
<th>Competitiveness determinants</th>
<th>Policy options</th>
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<tbody>
<tr>
<td><strong>Regulatory framework which conditions business performance</strong></td>
<td>Formulation and implementation of a strategic pro-SME development policy</td>
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<td></td>
<td>Pro-business regulatory reforms (e.g. registration, licensing, closure and bankruptcy) through a regional capacity-building programme which develops best practice manuals and tool kits</td>
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<td></td>
<td>South-South cooperation for coordinated regulatory frameworks, including regional monetary and financial systems to achieve steady and stable fund flows and more stable foreign exchange rates</td>
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<td></td>
<td>Productivity improvement through infrastructure development and enhanced logistical efficiency</td>
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<td></td>
<td>Promotion of CSR principles, also within value chains</td>
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<tr>
<td><strong>Supporting services provided by both public and private organizations</strong></td>
<td>Development of commercial and public business advisory services, such as accounting, engineering, legal advice and marketing</td>
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<td></td>
<td>Business advisory services to enterprises which require restructuring of their export operations due to the global financial and economic crisis</td>
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<td></td>
<td>Development of public business incubation programmes</td>
</tr>
<tr>
<td><strong>Internal aspects</strong></td>
<td>Fostering GVCs led by Asian and Pacific enterprises, and development of regionally and later globally recognized regional brands</td>
</tr>
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<td></td>
<td>Fostering strong market orientation in the business sector to penetrate deeper in markets and increase market shares</td>
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<tr>
<td><strong>Capacity to respond effectively to competitors</strong></td>
<td>Investment in R&amp;D to build regional brands (e.g. regional products/service development with low cost-plus application of CSR principles)</td>
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<tr>
<td></td>
<td>Improved capacity for process and product innovation</td>
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<tr>
<td><strong>Capability and flexibility to respond to changing circumstances</strong></td>
<td>Strengthening of enterprises’ capacities to meet GVC-related standards and certificates, including corporate governance and CSR requirements</td>
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<tr>
<td></td>
<td>Fostering innovation and a culture of creativity</td>
</tr>
<tr>
<td><strong>Capability to create new market niches</strong></td>
<td>Intraregional trade promotion through business networking (e.g. cross-border partnerships among SMEs)</td>
</tr>
</tbody>
</table>

The above policy options may require further analytical work and technical assistance activities at both national and regional levels. This could include: (a) preparation of feasibility studies on the development of Asia-Pacific-led value chains; (b) implementing projects to foster and support the development of cross-border partnerships between enterprises; (c) raising awareness and knowledge among Asian and Pacific SMEs of standards and certification as increasingly crucial prerequisites for entering GVCs; (d) developing national business environments that are more conducive to entrepreneurship and business innovation; and (e) promotion of sustainable business practices in SMEs, covering CSR principles, within the context of value chains.
REFERENCES


