



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

APEC Forum: Promoting Stakeholders' Building Capacities in Clusters and Local Economic Promotion Instruments

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Produced by:

Hernan Zeballos Olivares

Ministry of Production, Peru

Calle Uno Oeste No 060. Urb CORPAC,

San Isidro. Lima 11-Peru

Tel: + 51-987107182

Fax: 511 616 2222

E-mail: hzeballos@hotmail.com

For

Asia-Pacific Economic Cooperation Secretariat

35 Heng Mui Keng Terrace

Singapore 119616

Tel: (65) 68919 600

Fax: (65) 68919 690

Email: info@apec.org

Website: www.apec.org

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I. Introduction

On 16-17 November 2017, the **APEC Forum: Promoting stakeholder's building capacities in Clusters and Local Economic Promotion Instruments**, initiated by Peru and co-sponsored by China; Korea; Mexico; Papua New Guinea; Thailand and the United States, was held in Lima, Peru. Speakers and participants came from Chile; Costa Rica; Indonesia; Korea; Malaysia; the Philippines; Russia; Singapore; Thailand; the United States; and Viet Nam. Most of the dialogue participants were from the public sector, academic institutions or the private sector relating to either services or MSMEs.

The dialogue sought to share experiences about the best practices in public policies, programs and projects within the framework of global value chains, focusing on the capacities for the promotion of clusters to enable the MSMEs internationalization. Lastly, it is expected to exchange strategies and instruments MSME can use in order to be part of a cluster, and improve the insertion methods in global value chains.

II. Background

The project is related to the third priority of APEC 2016 "Towards the modernization of micro, small and medium enterprises in the Asia-Pacific region," which establishes the importance of promoting and coordinating industrial productive ecosystems in the economies of APEC. This initiative also represents the priorities supported by the Strategic Plan 2017-2020 SMEWG related to financing for business expansion and capability development; inclusive business ecosystem that supports MSME growth and market access for MSMEs.

In addition, this project is in line with 2015 APEC Leaders' Declaration – Investing in Human Capital Development: To redouble our efforts to empower our MSMEs providing them with the necessary tools to benefit and participate in economic growth.

III. Discussion

Outcomes

The dialogue included two days for presentations and discussions on the current state-of-play as well as opportunities and challenges of APEC internationalization programs, insertion of MSMEs in global value chains and the barriers that restrict MSMEs and entrepreneurs to be part of a cluster. The dialogue was also an opportunity to present case studies in cluster competitiveness and innovation in Asia Pacific region. The last session (recommendations for future activities) provided a roadmap in order to suggest elements of global and local policy development, as well as future economic instruments to strengthen stakeholder capacities in the promotion of clusters, and other territorial development tools, for the insertion of MSMEs into global value. Moreover, participants considered that it afforded chances for

networking among representatives from the policy community, academics and private-sector actors in MSMEs sector and services from within and outside the APEC region.

Key Issues Discussed

Opening remarks

In his opening remarks, Mr Pedro Olaechea (Minister of Production, Peru) highlighted the importance of sharing such an important topic as the productive chain, which is a challenge for all developing economies. As more companies look for a position in new markets, there is an increasing need to be organized and for the government as well to provide ad-hock logistic solutions.

Based on the last trends and the imports of developing economies, it is necessary to consider the different scenarios and products in a world that is changing and the way that businesses are being conducted; how to conduct ourselves; how to send goods. Nowadays, all the challenges are an invitation to reflect why it is essential to share experiences and knowledge, and to work together to develop the productive units.

Finally, the Minister expressed his satisfaction with the APEC meetings which allow the exchange experiences, obtain suggestions and recommendations to improve the public policy plans in the most important issues for the productive sector.

Dialogue's sessions

Experts provided presentations on the following topics:

1/ During Session 1 on “*trade policies and their impact on the development of MSMEs groups, including clusters*”, **Mr Edgar Vasquez (Vice Minister of International Trade, Peru)**, highlighted the need of developing strategic plans that focus on the potential of other regions besides Lima, due to the advantage of their many ecological floors.

He added that the government institutions first have to develop a program with many phases that benefit the MSEM and subsequently operate together with the Regional Governments in order to generate the capacity to enhance the articulation between stakeholders and then continue using the commercial skills provide by the central government obtain new market opportunities.

On the other hand, he said it was much easier to become part of the value chain in the service sector. For example, in the case of South Korea, they developed a way to build a value chain of services. Peru is leading in terms of conceptualizing this value chain in the tourism sector, and also Peru is contributing to APEC in ways to achieve the construction of value chains. The world is looking at Peru and so the MSMEs have a chance to growth but it is necessary to look at the sector, be prepared, and take advantage of the opportunities.

2/ During Session 2 on “*the dynamics of trade between national and foreign clusters and conglomerates, within and between Latin America and the Asia-Pacific region*”, **Mr Jaehoon Lee (PhD, Korea Institute for Development Strategy)** outlined briefly the special economic areas and the direct foreign investment as main variables and provided graphs showing that the prosperity of the Asia-Pacific region is consistent with exports and the economic growth. He added that the primary goal of APEC is to support sustainable economic growth and prosperity in the Asia-Pacific Region.

Mr Lee also noted that in the case of Peru, free trade agreements are a good strategy because the population is small, which implies small local markets, and if an expansion of specific economic areas is desired, expenditure is to be increased, highlighting that there is a relation between the population and the size of national economy, and that the problem is that the population in Peru is very thinly distributed in terms of geographical areas. Today, the world in general has more openness but it varies regionally. The pattern shows that exports worldwide are growing but they also vary regionally.

Through global value chains, developing countries can build productive capacity and local firms get a significant share of the added value, however technology dissemination, capacity building and upgrading are not automatic and require great investment. In terms of foreign direct investment, he pointed out that because of the lack of local investment, countries are trying to attract direct investment, which is one of the strategies of Peru. However, more than half of foreign direct investment is not going to the developing countries but instead to the developed countries

Finally, he explained the role of the government and support institutions in linkages development, such as financial aid, good infrastructure, effective policies and industrial promotion, highlighting that the logical global value chain is very important in order for local SMEs to join as a tool and then push forward and develop SMEs in the economies.

3/ During Session 3 on “*local leadership and territorial dynamics for the insertion of MSMEs in global value chains*”, the speaker was **Mr Jorge Cornick (Senior Partner, DRP: Trejos y Cornick)**. He stated by explaining the difference between S-MSMEs and V-MSMEs, a difference between economic survival and the units that are possible, which is not the same thing. He, then, proceeded to show the productivity in relation to the high stratum and participation in employment according to the production stratum.

The key then, is that in order to increase the region-wide productivity is needed to increase the productivity of those very small scale economics, but this is not the right conclusion. The first task is to make a difference between the survival units and the ones that are possible because both demand a public policy answer.

Mr Cornick ended pointing out the capabilities in and for MSMEs with regard to bringing down walls, building bridges and providing ramps up, and by emphasizing that we do not know how the future will be. In this new universe of production the main objective must not be a disciplined plan but rather a process that allows to locate north or south and move forward in a systematic manner, as well as the flexibility to adapt to changing goals and the capacity to develop on site the necessary capability to move forward to that direction through roads that are unknown and not even built but that must be built.

4/ During Session 4 on “*APEC successful programs for the internationalization of MSMEs through clusters and other local development instruments*”, **Mr Juan Pablo Davila (Project Manager, United Nations Industrial Development Organization)** further explained that the development of clusters is for many a piece of a large puzzle, which is the economic development and the industrial development of a region or a country; and as it cannot be completely isolated, for the purposes of this presentation the focus will be on what has been done on clustering and quality; likewise, many factors must be considered like policies or initiatives with regard to economic and productive development.

Mr Davila continued by explaining what a cluster is: a sectoral and geographic concentration of all enterprises that produce the same or similar products and face common opportunities and threats; it comprises the combination of products, geographical location, production units or companies but also include institutions to support the different companies and their productive quality, sales and market access processes. There is no general conception which is accepted on the geographical limit of a cluster.

Mr Davila finally pointed out that clusters should be supported as small enterprises are the longest fabric in all economies within clusters; also, small companies can prepare themselves so as not to be isolated and attain collective efficiencies by purchasing similar inputs, joint advertising and by sharing equipment and technologies. As they include support institutions, they promote a greater access to technical assistance through the different associations and investments in public infrastructure, obtaining better results through this collective effort.

5/ During Session 5 on “*Latin America: case studies*”, there were three speakers: **Mr Glicerio Felices (General Manager, Wiraccocha del Peru), Mr Jorge Lopez (Añaños Group) and Mr Larry Nguyen (Hamona).**

- Mr Felices explained that Wiraccocha is an agro-industrial company, located in Ayacucho, in the Andean region of Peru. At the beginning there was no knowledge on how to start the business, a family business that produced potato and quinoa. The company’s market was the international market but lacked financial resources to rent land in the highlands so an association with

producers was started. Thus, the chain started to grow and the producers were incorporated into the business model. Later the company started participating in national fairs as well as international fairs with the support of the government. Currently Wiraccocha exports its products to more than 22 countries, and is one of the main export companies of Andean organic grains.

- Mr López started by providing a brief history of the Aje Group, which started in Ayacucho, Peru in the 80s and is currently one of the world's largest producers of beverages, with 15,000 people employed directly and indirectly, 8 global brands, and 32 plants in 25 countries. He then provided a brief explanation of the business model and the public investment project approved as well as the measures that need to be taken to achieve such expansion: locate and evaluate the land; promote cloning; incorporate new varieties; transfer of technology; replace imports, and create synergies between entities.
- Mr Nguyen gave a brief outline of Hamona Viet Nam, a company that started its activities in 2013; it took 3 years for the company to develop this product in laboratories and 2 years to market it. It is a sole product, a coconut with a straw, a totally natural product. The business objective is to build a global scale of production, distribution and branding of Hamona coconuts and move upwards in the chain value. There is a great market across different countries, and it can be expanded to include Latin America and the USA. Based on the experiences, Mr Nguyen stated that in order to launch a product in the local market, the product must be innovative; it must be able to solve problems with distributors; also, to enter the market it is best to invest directly, calculating the capital investment especially.

6/ During Session 6 on “*what barriers restrict MSMEs and entrepreneurs to be part of a cluster? which local instruments or strategies can be used to become key players in global value chains?*”, **Ms Karina Fernandez-Stark (Institute of Global Value Chains, Duke University)** started by explaining that the presentation would feature the small- and medium-sized agricultural companies, adding that in the industrial global sector, the chains have made it difficult to access the competition and it is more difficult for MSMEs to participate today. She pointed out that some people say let's create a value chain. Global value chains cannot be created; they are a reality. Globalization is happening. It is a sort of a mix combination. Industries were vertically integrated industries. Several countries around the world can participate and some can do it in more sophisticated ways. Before, products had an entire process in a country and then the product was exported. Nowadays, products travel worldwide to finish at the end being only one product. It is possible for countries to participate in determined segments of the value chain, and other countries can participate in other more sophisticated segments of this chain.

Ms Fernandez-Stark pointed out that in order to participate in the global chain, certain strict rules must be followed. The analysis is to be made from the bottom up. There are different ways to add value and the characteristics of the value may be improved; also, by increasing the product technique, the product is enhanced. She added that upgrading is a basic concept, that is, how to add value to the industry. There are different ways to do it. One way is to enhance or upgrade the product; the other is the improvement of the process. Another form is functional enhancement. This is how to move from the global value chain to another segment. More certifications and more strict requirements will be required to do this. It is possible to grow in each sector; in agriculture, for instance, there are low and high added value activities. Upgrading is possible in each sector as there are new techniques, new varieties, new products that may be acquired in order to be part of the global value chain.

7/ During Session 7 on “Roadmap: MSMEs best insertion methods in global value chains”, the participants were:

- *Roberto Salazar (CEO, Hexagon Group LATAM/UK)*
- *Ms Karina Fernandez-Stark (Institute of Global Value Chains, Duke University)*
- *Mr Juan Pablo Davila (Project Manager, United Nations Industrial Development Organization)*
- *Mr Jorge Cornick (Senior Partner, DRP: Trejos y Cornick)*
- *Mr Fernando Gonzales-Vigil (Universidad del Pacifico)*

In this session, participants focused on the issues relating to trade, investment, actors, sectors, time and political, environmental and cultural concerns. So there are many elements in terms of actions, policies, regulations, and deregulation; and so obstacles must be considered, as well as industrialization, processes, and programs to eliminate poverty. It is not only a question of creating value but also a sense of purpose and also how to create a sustainable growth with a community purpose.

IV/ Conclusions and Recommendations

1/ The consensus view of the dialogue’s speakers, moderators and participants agreed that the project achieved its intended objectives. They considered the dialogue pointed that the most important action is to move forward, to implement efforts in terms of conglomerates, clusters and not only in terms of sectors but also in geographical terms. In such context, it is necessary to identify the potential of each region; probably it is not necessary to think about this at a national level. Policy makers and technical personnel probably think mostly at a national level but it would be better to think at a regional level, more specifically.

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

- Demystify the issue of innovation;
- Improve the characteristics of the free zones;
- Generate abilities in MSMEs to establish with technical elements competitive prices;
- Access through articulation programs to voluntary certifications;
- Tailored-made program for each developing economy to enhance MSMEs' capacities;
- Improve the business environment oriented towards globalization and political and economic stability;
- Share best practices (Government policies, private sector' practical experience) to enhance MSMEs' internationalization;