APEC Workshop on Promoting SMEs' Integration into Global Value Chains in Services - Logistics
Summary Report
Ho Chih Minh City, Viet Nam, 26 August 2017

APEC Committee on Trade and Investment
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Summary Report

I. Introduction

On 26 August 2017, the APEC Workshop on Promoting SMEs’ Integration into Global Value Chains (GVCs) in Services - Logistics initiated by Viet Nam and co-sponsored by Indonesia; Korea; and Mexico was held on the sideline of the SOM 3 Meetings in Ho Chi Minh City, Viet Nam. Speakers and participants came from representatives from private sector, business associations, international organizations, research institutions, and officials from APEC member economies’ relevant ministries and agencies.

The APEC Workshop on Promoting SMEs’ Integration into Global Value Chains (GVCs) in Services - Logistics was aimed at the following objectives: (i) Empowering policy makers and regional businesses with better understanding of GVCs in logistics; (ii) Making recommendations on strategies and policies to facilitate SMEs’ integration into logistics GVCs; and (iii) Enhancing SMEs’ participation in logistics GVCs.

II. Background

Aware of the importance of Global Value Chains (GVCs), APEC Leaders have endorsed the APEC Strategic Blueprint for Promoting Global Value Chain Development and Cooperation since 2014. While GVCs are recognized “as a dominant feature of the global economy and offer new prospects for growth, competitiveness and job creation for APEC economies at all levels of development”, services might be highlighted as a driver of the GVCs since they play crucial roles in increasing competition, supporting manufacturing, and making economic sense.
Following the Blueprint in 2014; member economies’ multi-year successful efforts on Promoting SMEs’ Integration into GVCs in Major Industries; and APEC Ministers’ instruction to further work and develop initiatives in promoting SMEs’ integration in GVCs, Korea and Peru have proposed and led an initiative which aims to complement economies’ efforts by directly focusing on GVCs in various services industries. In that sense, Viet Nam volunteer to take up the role as a Sector Lead in logistics, an area that is strongly believed to contribute significantly to facilitating international trade and investment as well as increasing enterprises’ competitiveness. With a focus on logistics, the project will help gain a deeper understanding of GVCs in logistics and come up with more practical solutions to promote SMEs’ integration in logistics through positive trade and investment outcomes.

The project responds to the CTI’s priorities on supporting Regional Economic Integration (REI) agenda by promoting SMEs’ integration into GVCs in services in general, logistics in particular as part of the MSMEs internationalization; and to the trade facilitation & connectivity agenda.

In addition, the project contributes to the Boracay Action Agenda and the Services Cooperation Framework by enhancing GVC participation of all businesses especially SMEs. Also, it can constitute as a contribution to the implementation of the Manufacturing related Services Action Plan (MSAP).

Last but not least, the APEC Workshop on SMEs’ Integration into Global Value Chains in Logistics contributes to facilitating and liberalizing trade and investment in services which has been outlined in the Part 1, Section C of the Osaka Action Agenda.

III. Key Issues

1. Opening remarks

In the opening remarks, Mr Luong Hoang Thai, Viet Nam Senior Official stressed APEC’s efforts in facilitating APEC business community and its people in the past years. Among those, GVCs development and
cooperation and promotion of SMEs’ Integration into GVCs have been high on agenda and supported by the APEC member economies via a vast chain of initiatives and activities that directly target and facilitate SMEs as key drivers for the global economy, thus making contribution towards the end of regional economic, financial and social inclusion. In line with those efforts, in 2016, the Initiative Promoting SMEs’ Integration into GVCs in Services Industries was launched to provide capacity building for the economy and business in services.

Logistics is an integral part of global value chains and remains service industry itself. Since logistics involves in a variety of areas such as sourcing procurement, order fulfilment, storage of raw materials, production planning, scheduling, controlling cost effective flow, assembly, packaging, maintenance, warehousing, distribution, finished goods and customer service, and so on, there is a huge room for SMEs’ involvement. Good logistics management, both from the governments’ and business perspectives, hence, would contribute to enhancing business competitiveness and economic growth as well. In the sense, Mr Thai call for active discussion from the experts, business representatives and delegates on how to promote SMEs’ integration into GVCs in services – logistics.

2. **Overview of logistics in the region**

Asia intra trade has witnessed its greatest growth in the past years thanks to manufacturing and promotion of e commerce. Apart from China, other economies such as Indonesia, Malaysia, Philippines Singapore, Thailand and Viet Nam, etc., sustain stable economic growth thanks to import – export. E – commerce B2C trade grows dramatically with the web sales in Asia alone cost a $816 billion market and growing two times faster than global web sales (2015). In that course, logistics remain an important enabler of economic development and open up hugh opportunities for the industry’s development as well. However, it is facing a great deal of challenges: from regulatory and policy incoherence, market barriers such as market access, border clearance, market competition, etc., to new emerging issues namely sustainability and urban congestion, workforce gaps, and business ethics and compliance, so on.
3. Challenges for SMEs’ Integration in Logistics with a focus on policy and regulations and sharing experiences in taking advantages of policies to support SMEs

In case of Indonesia, total Trade of Indonesia both trade in goods and in services measured by percentage of GDP for the last fifteen years tends to decrease, it means that the interdependence of Indonesia to the global economic tends to decrease too. Similarly, Indonesia's role in Global Value Chains also decreased, as indicated by the decrease of intermediate goods’s import from 36.26% in 2000 to become 29.91% in 2014. On the other hand, there is a shift in the interconnection between Indonesia and Global Value Chain to China and India. It showed by although Indonesia’s import of intermediate goods from world decreased in the last 2 (two) years but Indonesia’s import of intermediate goods from those two economies increased. Indonesia has a comprehensive policy on Global Supply Chain, which is called Blue Print of National Logistic System Development through Presidential Regulation No. 26 of 2012. One of the policy reforms related to Global Value Chain, previously in Government Regulation No. 32 of 2009 required paying taxes and import duties revised to Government Regulation No. 85 of 2015 that allow goods to enter Indonesia postpone to pay taxes and import duties if placed in the Bonded Logistic Center until transaction. Some of the conveniences associated with Global Value Chain and Trade Liberalization are the expansion of opportunities for foreign capital to invest in Indonesia.

Singapore is a successful case of logistics industry with many efforts to promote the industry’s development in general, SMEs’ integration in the industry in particular. One of those is efforts to drive the Industry Transformation Map (ITM) with three pillars: (i) government to Update trade policies & Align ITM efforts; (ii) trade associations to Identify common industry problems & Garner adoption by SMEs; and (iii) centre of innovation that provides Industry training & Benchmarking. ITM initiatives to promote Singapore logistics industry include Container Management System (CMS); Transport Integrated Platform (TRIP); highly interconnected & vibrant e-trade (HIVE); and pilot advanced technology. It is concluded that Singapore Goverment has done its best
by providing a robust eco-system for SMEs to excel and innovate; in return SMEs need to continue to strengthen supply chain management and control of company and service attributes; the public and private sectors should identify common industry problems and facilitate industrywide support to elevate and transform the industry.

4. Challenges for SMEs’ Integration in Logistics in aspect of outsourcing process and sharing experiences in promoting SMEs

In this session, various views on challenges related to outsourcing processing has been shared. From the perspectives of a multinational corporation like UPS, the following challenges have been listed:

(i) Ability to understand importance of and meet rigor of multinational firms such as: Adopting MNC code of conduct on business ethics, safety, sustainability; Compliance with processes and MOPs; Regular reviews and audits; Record keeping, receipts, documentation, data protection; Ensuring service, quality and performance; Regular training programs; Compliance with local laws

(ii) Technological skills, although training is provided.

(iii) Some upfront costs required to meet standards e.g. must have insurance. Nominal costs that they must cover as a vendor;

(iv) Future ready skills.

It is recommended that governments can play important roles in supporting SMEs’ integration in terms of outsourcing such as providing Capacity building modules for logistics working with Lead Firms and Workforce retraining and upgrading.

In Chinese Taipei, the government promulgated the Act for the Establishment and Management of Free Trade Zones (FTZ) in 2003 to induce multi-national enterprises and logistics service providers to operate value-added logistics services in free trade zones. The FTZs are intended to encourage private enterprises via various tax and duty incentives to re-export or transship cargo with value-added processing out
of international seaports or airports, and thereby boost domestic economic growth and the economy's foreign trade surplus. With the advantages that Chinese FTZs offer, apparently they have attracted a great deal of business models to these zones. On the other hand, the demand for Multiple Country Consolidation (MCC) grows rapidly. Logistics service providers collect less than container-load cargoes from different economies, consolidate them into containers in the hub port and transport the containers to their destinations respectively. MCC combined cargo from different economies into same destinations by implementing logistics services including assembling, simple processes, packing, and labeling to increase cargos’ added value. In the past, MCC operations could only be carried out in commercial port’s transshipment warehouse by shipping companies. Since 2014 October Customs administration deregulated customs act to allowed that freight forwarder could handle mcc business and apply for customs declaration for transshipment and transited goods.

5. Challenges for SMEs’ Integration in logistics in aspect of supply chain management and lesson learnt

In this session, lessons on supply chain management (SCM) from different economies and angles was shared. From the case of Philippines, SMEs face the same supply chain risks as big businesses and even higher risks due to disasters. Therefore, it is stressed that much work need to do to enhance the capacity of SMEs to resist, absorb and recover from the effects of disasters in a timely and efficient manner. Apart from that, lack of resources (technology, finance access, labour, etc.,); increasing market competition; limited capability related to innovation, creativity, so on are the challenges that prevent SMEs’ integration in logistics.

It is recommended that:

➢ Government play key roles to enact policies to attract investment, to enhance SMEs competitiveness and integrate them into GVCs, namely: (i) Create policies and programs that will assist SMEs to increase their participation in value chains; (ii) Develop and efficient innovation system that facilitates investments in knowledge, technology dissemination, skills upgrading and entrepreneurship; (iii) Policies that help link SMEs into lead firms
to build on for many small and innovative firms; (iv) Improve investment climate;
- For SMEs supply chain management: They should actively innovate and upgrade their capabilities to remain competitive in the global trade.

China has made great efforts in both domestic and international levels to promote logistics. At regional level, the Asia Pacific Model E port Network (APMEN) was established with aims of creating an enabling environment for model e-ports; enhancing connectivity among cargo hubs in Asia Pacific; and promoting supply chain connectivity and trade facilitation. At the same time, the APMEN Operation Center (AOC) provides instruments to SMEs that help them integrate into the industry, e.g. remain as a FTA information sharing platform or supply chain information sharing platform.

In Viet Nam’s case, it is common issues for SMEs in logistics that not many managers understand about supply chain management (SCM) and that logistics change very fast, especially in the 4.0. According to the World Bank’s Logistics Performance Index (LPI) in 2014, Viet Nam ranked 48th; and lag behind at 64th in 2016. Viet Nam targets till 2025 to build logistics centers to make it a regional logistics hub; support to develop logistics enterprises with good management of supply chains.

In Thailand, they are transforming to the 4.0 or from heavy industries to innovation and technology and value-based economy. It also means to transform from traditional SMEs to “smart SMEs”. However, they face a great deal of challenges, namely a few: lack of awareness in Value added strategy, still focusing in cost reduction and tend to remain as SMEs - many companies are small and less innovation; capability in collaboration with others and accessing to cross border logistics services; and lack ability to obtain new information, e.g. market and customer information, rules & regulation, import-export custom procedures. Some lessons are concluded as followings:

(i) SMEs need to change the business approach from inside-out to outside-in. Government Agencies should take the roles to support
in-depth export market economy information for SMEs and promote more Big brothers program.

(ii) For Value-added service or service innovation, Government Agencies should promote the capabilities building and financial support. Marketing research, export promotion, service development, export financing through collaboration with business associations and Academic. (R&D network from universities)

*Information + Innovation + collaboration => Government, Private sector, Academics*

(iii) Advance Technology is very important to enable the service excellence. Government Agencies should promote R&D and applying new technology.
- Enhanced access to SME finance
- Promote Start up to develop Logistics & Digital Technology.
- Facilitate SMEs’ adoption of world standards and credible certifications

IV. Group Breakout Discussion and Recommendations

Through the group breakout discussion, all experts and participants were engaged in in depth discussion to address the two key questions: (i) What the governments and business can do to facilitate SMEs in logistics; and (ii) what are APEC’s roles in facilitating SMEs’ integration in GVCs in services in general; and logistics in particular.

1. *What the governments can do to facilitate SMEs in logistics?*
- Governments should ensure an enabling regulatory and business environment for SMEs in services in general, logistics in particular to facilitate their integration in GVCs.
  ✓ Have strategies and regulations to open up logistics sector;
  ✓ Have measures to ensure fair competition and policy coherence (different service providers, services…)
  ✓ Assign a Government Agency to facilitate SMEs in services GVCs in general, logistics in particular.
- Enhance human resource development and capacity building support.
✓ Establish websites to enhance awareness and knowledge sharing among SMEs; as well as governments’ regulations updates related to the relevant areas;
✓ Provide education and training programs to develop workforce, soft skills, technologies for SMEs;
✓ Provide capacity building for SMEs in terms of supply chain connectivity, GVC management issues such as on corporate governance, sustainability; skills, etc.,
- Assist access to market, finance.

2. *APEC’s roles in facilitating SMEs’ integration in GVCs in services in general; logistics in particular?*

- APEC should take the roles to coordinate APEC joint efforts in promoting a favorable regulatory and business environment for SMEs in GVCs in services in general and in logistics in particular.
✓ Promote paperless trade, e-trade, improve connectivity, broadband infrastructure;
✓ Promote fair competition;
✓ Scope out all services and assist liberalization;
✓ Focus on areas such as transportation, border clearance.
- APEC should raise the awareness of importance of promoting SMEs’ integration in the areas and provide capacity building support to the member economies.
✓ Prepare e-learning programs;
✓ Provide skills standards and skill certification programs.
- Assist access to market, finance, and customers.
✓ Provide platforms for logistics and services SMEs.