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**Final Summary Report - Project CTI 07/2015
Promoting the Participation of SMEs into the Textile
and Apparel Global Value Chains**

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Promoting the Participation of SMEs in Textile and Apparel Global Value Chains

Ha Noi city, Viet Nam

March 29th - 30th, 2016

Summary Report

I. Introduction

On March 29th and 30th, 2016, the **APEC Workshop on Promoting the Participation of SMEs in Textile and Apparel Global Value Chains**, under a project initiated by Viet Nam and co-sponsored by Korea, Indonesia, Papua New Guinea, Malaysia, Peru, Thailand and USA, was held in Ha Noi city, Viet Nam. Speakers and participants came from ten APEC member economies (Australia, China, Chile, Indonesia, Malaysia, Mexico, Peru, Russia, Thailand, and Viet Nam) and a representative from the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). Most of the Workshop participants were from the public sector, academic institutions or the private sector relating to textile and apparel industry.

The Workshop sought to present the outcomes of 4 case studies on “Promoting the Participation of SMEs in Textile and Apparel Global Value Chains” in China, Indonesia, Mexico and Viet Nam. It aimed also at facilitating the integration of SMEs into GVCs in the textile and apparel industry through positive trade and investment outcomes and building their capacity for sustainable and inclusive business growth. In addition, it targeted at identifying the main barriers to trade and investment, such as tariffs and Non-Tariff Barriers (NTBs), that prevent SMEs from participating in GVCs in the textile and apparel industry. Last but not least, it is expected to develop policy recommendations and concrete action plans that APEC economies can undertake to facilitate the integration of apparel and textile SMEs into GVCs, resulting in positive trade and investment outcomes and improved competitiveness.

II. Background

This project is in line with the instructions of APEC Economic Leaders of 2014, where Leaders “endorsed the Terms of Reference of Promoting SME’s Integration into the global value chains, and welcomed the launch of the related activities.” Second, this project also conforms to the instructions of APEC Ministers. At the APEC Ministerial Meeting of 2014, APEC Ministers endorsed the initiative on Promoting SME’s Integration into Global Value Chains in Major Industries and welcomed the voluntary participation of leading economies in the key industrial sectors, which encouraged APEC economies to make concerted efforts to bring concrete policy recommendations that can facilitate the integration of SMEs into GVCs. Third, the project is expected to directly contribute to the APEC Strategic Blueprint for Promoting Global Value Chains for Development and Cooperation, which was endorsed by APEC Economic Leaders in 2014.

Themes covered during the two-day event included: *(i) Present outcomes of 4 case studies on “Promoting the Participation of SMEs in Textile and Apparel Global Value Chains” in China, Indonesia, Mexico and Viet Nam; (ii) Challenges in Promoting the Participation of SMEs in Textile and Apparel Global Value Chains; (iii) Case Studies of Promoting the Participation of SMEs in Textile and Apparel Global Value Chains in other APEC Member Economies. The Workshop participants also spent the afternoon of March 29th to visit a local textile and apparel SME: TBT Apparel Company Limited, Thanh Ha district, Hai Duong province, Viet Nam.*

III. Discussion

Outcomes

The Workshop included two days for presentations and discussions on the outcomes of 4 case studies on “Promoting the Participation of SMEs in Textile and Apparel Global Value Chains” in China, Indonesia, Mexico and Viet Nam, as well as good practices and challenges in promoting the participation of SMEs in textile and apparel global value chains in APEC member economies. Overall, the Workshop achieved its main objectives as described in the project proposal. Moreover, all participants considered that it afforded many chances for valuable networking among representatives from the policy community, academics and private-sector actors in the textile and apparel industry.

Key Issues Discussed

Opening remarks

In his opening remarks, His Excellency Mr Nguyen Cam Tu, Vice Minister of Industry and Trade of Viet Nam reiterated that the textile and apparel industry has its own characteristics, with the high usage of labour and small value added after each production stage. Thus, each of the production stages of the GVCs of the textile industry creates added value for the final product and each enterprise are now contributing in part of the value chain. With the understanding of the concept and the establishing process of GVCs in the textile sector, enterprises in general and SMEs in particular will have creative approaches in order to effectively increase their values and benefits in the GVCs.

In the opinion of Mr Nguyen, in the developing economies in the Asia - Pacific region, especially in Viet Nam, more than 90% of the firms are SMEs and microenterprises. The existence and development of the SMEs type play an important role not only for the economic growth, but also for the stability of social security, job creation and sustainable development of a country. It is worth noting that this group occupies a large proportion in total enterprises and is vulnerable in economy due to both objective and subjective factors.

According to the Vice Minister, understanding the importance and necessity of enhancing participation in GVCs for the business community in general and for the SMEs in particular in the Asia - Pacific region, in 2014, at the 22th APEC Summit, in Beijing, China, the APEC leaders adopted the “**APEC Strategic Blueprint for Promoting Global Value Chain Development and Cooperation**”. Mr Nguyen stated that this proposal is a premise for new initiatives to address barriers directly affecting the development of GVCs for enterprises in the region. Thus, Korea has cooperated with Viet Nam and some members to develop and implement the project on “Promoting the participation of the SMEs in the GVCs” in 5 main sectors: Electronics; Automotive, Medical Products, Agriculture and Textiles. Within the framework of this initiative, Viet Nam volunteered to lead the textiles sector - which is one of the strong and leading sectors in Viet Nam’s manufacturing and exporting strategy in the process of the regional and international economic integration.

During the two-day workshop, Mr Nguyen hoped that the participants would exchange, discuss GVCs issues in general and the results of the 4 case studies that have been implemented and develop and propose several helpful, practical and feasible cooperation initiatives in order to support and create the most favorable condition for SMEs to participate actively and efficiently in the GVCs in the textile sector.

Workshop’s sessions

*1/ In Session 1 about “**Case Studies’ Outcomes – China and Indonesia**”, there were two speakers in this Session including **Mr. Liu Yaozhong, Deputy Director, International Trade Office of China National Textile and Apparel Council and Deputy Director, Trade and Investment Promotion Department of CCPIT TEX, China; Mr. Acuviarta, Lecturer and Researchers, Faculty of Economics, Pasundan University, Indonesia.***

* To begin the Session, Mr. Liu Yaozhong presented about the overview of textile and apparel industry in China, which is the leading manufacturing capacities. The total fiber processing volume are

50 million tons, account for more than 50% of the world share, the growth rate of the industry is 10%. Mr Liu Yaozhong shared that, this industry is the market-driven industry, with the engagement of private sectors and resilient SMEs. Textile and apparel industry in China participate deeply in all aspects of the global textile value chains and produce high level value added in domestic supply chain. In the second part, Mr Liu Yaozhong presented more details about the SME's integration into GVCs in the Chinese textile and apparel industry. According to Mr Liu, SMEs create jobs and improve worker's living standard, contribute more than half of the total Chinese textile and apparel export and contribute a lot to the prominent international competition, especially in fabric, accessories and garment production sectors. To the success of textile and apparel industrial cluster in China, Mr Liu emphasized that industrial cluster is home to SMEs, no cluster – no SMEs. In 2015, CNTAC has named up to 204 industrial clusters in textile industry all over China, produce about 40% of total output, near 4 trillion Yuan income in 2014. Mr Liu presented briefly about the two industrial clusters including Dalang town and Shishi city. From the cases studies, Mr Liu figured out some main barriers and challenges to the industry, mentioning about high tariff, surging wages and shortage of workforce, unseasonable cotton policy and rising comprehensive costs. To conclude the presentation, Mr Liu recommended some policies for better performance of the industry including more high standard FTAs, reform on the cotton policy and more specific supporting policies from central government.

* Mr Acuviarta Kartabi presented about the participation of micro, small, medium enterprises textile and apparel sector in global chain value: case study Indonesia. Mr Kartabi informed that, textile and apparel sector is the strategic sector which is the top contributor non-oil exports and the main labor absorption. The speaker provided some data to illustrate about the performance of the industry in Indonesia, including the number of SMEs participating in the industry, the growth index, total input-output, and labour of the industry. The study focus to discuss on some issue such as should SMEs textile and apparel industry in Indonesia should be involved more in the GVC network; the lack of infrastructure, transportation, services at port, connectivity of the economy, lack of materials, lack of coordination among ministries and institutions as well as the coordination of central and local government. Mr Kartabi listed out some challenges to the SME in participating to the GVCs and shared about the current status of Indonesia. From those findings, the speaker concluded his presentation by giving some solutions in policy making to encourage SMEs involve more in the GVCs. The policies should focus on solving the problem of raw materials, financial support, technology, training, trade promotion and so on...

2/ In session 2 about “**Case Studies’ Outcomes – Mexico and Viet Nam**”, there are two speakers in this Session **Mr. Alberto Saracho Martinez, Founding Partner and Director of the Economic Development Area, C-230 Consultores – Fundacion IDEA, Mexico; Ms. Nguyen Huong Tra, SME Development Expert, Viet Nam.**

* Mr. Alberto Saracho Martinez started his presentation by giving an executive summary and briefly introducing the case study of Mexico. He shared that past trade agreements have had a strong impact on the current Mexican textile/clothing industry by supporting assembly activities while neglecting longer supply chains, design and full-package sourcing. Mexico has traditionally exported over 95% of manufactured clothing to the United States, but in recent year Mexico has lost American market share to Asian economies. According to the speaker, Mexico historically had an overall surplus in the apparel value chain, although it has always been an importer of yarn and fabric and an exporter of assembled clothing and textile products. While the entire textile/apparel industry in Mexico suffers from certain structural problems, SMEs in the industry face greater risk than larger firms when attempting to join GVCs. The principal reasons include informality and unfair competition, sub-optimal human capital, and asymmetry between SME supplier and purchasers. Mr. Martinez indicated that there was a lack of serious government programs from 2000 to 2010, but there has been an increase in programs recently; these include those enunciated in a recent directive as well as general government activities. Government strategies to support the textile/clothing industry are clustered around improving baseline market conditions, financing, and collaboration. While certain measures are seen to be protectionist, SMEs do not demand them. From the study, Mr. Martinez shared the main findings on barriers for Mexican textiles and apparel SMEs to participate into GVCs, which

include tariff barriers, non-tariff barriers, under-invoicing, tax and duty evasion, counterfeiting and intellectual property, cargo theft and retail shrinkage, capital and financing, human capital, innovation, and lack of communication. To conclude the presentation, the speaker recommended that Mexican policy should be comprehensive and long-term and include package contractor sourcing, an improvement in human capital, and easing of development bank requirements.

* Ms Nguyen Huong Tra presented about the SMEs' integration in the textile and apparel global value chains, the case study of Viet Nam. To begin the presentation, Ms Tra briefed about the overview of the study including the methodology. The speaker provided some analysis about the Vietnamese textile and apparel sector listing about the size, export and import volume of the sector. Textile and apparel is the second largest manufacturing –based export of Viet Nam, which account for about \$27 billion in value, more than 5,000 companies, create 2.5 million jobs and produce 10% total industrial production value. Ms Tra illustrated the status of Viet Nam in the GVCs through some diagrams which showed the current position of Vietnamese SMEs in the GVCs of textile and apparel industry. The speaker cited out some impacts of the government policies that affect the industry including FTAs, foreign direct investment policies, sector and SME specific policies and national trade policies and regulation. There are still some barriers for SMEs in the GVC such as the dependence on imported fabric and accessories, labor skill shortage, lack of horizontal and vertical linkages in the value chain. At the end of the presentation, Ms Tra presented some recommendations to support SMEs and the Government to enhance the participation in the textile and apparel global value chains.

3/ Session 3 - **"Panel Discussions on Case Studies' Outcomes"**, there were three panelist in this Session ***Dr. Vo Tri Thanh, Former Vice President of Central Institute for Economic Management (CIEM), Viet Nam; Mr. Masato Abe, Economic Affairs Officer, Trade, Investment and Innovation Division of ESCAP; Dr. Sitanon Jesdapipat, Associate Professor, Vice Dean for International Affairs, College of Social Innovation, Rangsit University, Thailand.***

* Dr. Vo Tri Thanh said that there were some similarities among these 4 case studies. Viet Nam and Indonesia have low value added and stay at the lowest positions in the GVCs, therefore, these 2 economies import a lot of intermediate goods to sustain exports. For the case of Mexico, the GVC is moved with a new direction with innovation. For the case of China, Dr Vo observed that China has less advantages because less involvement in FTAs so the customs tariffs for their textile and apparel products remained high. For the specific case of Viet Nam, Dr Vo commented that Viet Nam does not have the capacity for mass production in the past years. Therefore, Viet Nam needs new ways to meet the new demands of consumers, for example, cleaner, safer, smarter, more creative (3D printing). In order to move up in the GVCs, it is essential to have higher value added due to buyer driven value. Dr Vo informed that the trends to take advantage on rules of origin and new labor standards in the textile and apparel in Viet Nam is quite apparent. In conclusion, he alerted that it is necessary to prepare for new evolution of technology (especially 3D printing), which may change the textile and apparel industry and GVCs.

* Mr Masato Abe introduced briefly about the characteristic of GVCs and SMEs' challenges and opportunities in GVCs. The speaker shared that the development of GVCs in Asia has provided unprecedented business opportunity for export-oriented SMEs and supporting industry SMEs. SMEs generally play limited roles within GVC due to low value-addition, lack of proper networking, small scale and knowledge to penetrate regional and global market. According to Mr Abe, in order to participate effectively in GVCs, SMEs must break high entry barriers by meeting wide range of increasing stringent global standards with regard to quality price, timely delivery and flexibility. SMEs would access the GVC in the capacity of a higher-tier supplier, as the lower tiers are generally characterized by unstable conditions and one SME could be easy replaced by other. Alternatively, if direct access to a higher tier is not possible, it would be important for SMEs to have the chance to move up in the GVC and become a provider of higher value. The transformation of regional business by the emergence of GVC signals potentially new and important directions for SMEs development in Asia. For the overview of textile, garment and apparel GVCs, Mr Abe mentioned about five main components of the industry and listed some leading firm in the GVC represent. He also discussed

about the transformation of the industry in which the retailer have shifted from being passive buyers to producing private-label or store-brand lines through active engagement at different points in GVCs. The general restructuring of global retailing is also reshaping the apparel industry, with important implications for the nature and scope of participating by local producers from developing Asia. The speaker mentioned about the impacts of ASEAN Economy Community (AEC) on the textile, garment and apparel GVCs which bring a lot of opportunity for ASEAN countries especially CLM. To conclude the presentation, Mr Abe shared that, there were two key factors shape the structure and dynamics of apparel GVCs including (i) pressure to meeting stringent international standard and (ii) demands from global buyers for cheaper products, higher quality and shorter lead times.

* Dr. Sitanon Jesdapipat joined the panelist with the discussion on the selected APEC Cross-country Experience on Taking the Benefit from Trade Liberalization for the Textile and Apparel. Firstly, the speaker shared an overview about the SMEs and Micro business in the economy industry and emphasized on their important roles in all economies. From the case study of Donghua and two city examples, Dr. Sitanon Jesdapipat presented some lessons learnt such as rooting the domestic demand and fashion to create market demand and marketing options, capitalize on ICT, global resource, money + minds x entrepreneurship, supporting government and plans. He also mentioned about caution that might affect the SMEs for example adaption to changes in the chains, pressure on environment and resources and externalized environmental costs to the societies and host economies. In summary, according to the speaker, China has taken a great leap in leading the global trade and value chain, the alliance with the United State may not produce automatic success on the long run, while market fails for benefiting SMEs requires calculated thinking planning and execution and most importantly concerted efforts of all stakeholders. Effective intervention of China is noted and celebrated.

4/ Session 4 was about **“Challenges in Promoting the Participation of SMEs in Textile and Apparel Global Value Chains”**. There were two speakers in this session ***Mrs. Dang Phuong Dung, Former Vice Chairwoman, Viet Nam Textile and Apparel Association; Ms. Kiri Delly, Deputy Head, Industry Engagement, RMIT University, Australia.***

* Mrs. Dang Phuong Dung presented about the Challenges in Promotion the Participation of SMEs in Textile and Apparel Global Value Chains in Viet Nam. Mrs Dang started her presentation by giving an overview about the current development and integration of textile and apparel industry in Viet Nam which was evaluated to have rapid increase export but still depend on import materials. In the second part, the speaker illustrated current status of global textile and apparel value chains through some diagrams. Developed economies such as US, EU, Japan concentrate to highest value added (design, marketing, retailers) while developing economies concentrate on processing, some other economies like Hongkong, Korea, Taiwan focus on vender and trading. About the challenges to join global integration, Mrs Dang cited out three main reasons including high quality, competitive prices, quick delivery; administrative procedures and poor infrastructure in developing economies and incomplete and not sufficient laws; qualify high and mixture requirement. The speaker also recommended some solutions to enhance the performance of the SMEs in the GVCs. The solution focus on building supply chain linkage among SMEs in order to increase cooperation and sharing purchase order, linkage between garments companies and distribution, linkage between companies in view of sharing big order and increase competitiveness. At the end of the presentation, Ms Dung demonstrated an example about SAFSA case study – an alliance of ASEAN's top textile mills and garment factories offering a full package source of quality textile and apparel. The study showed how the company establishes direct business relationships between buyers – suppliers, integrate suppliers with customers. She also provided information for businesses on how to get involved with SAFSA.

* Ms. Kiri Delly introduced briefly about RMIT University – School of Fashion and Textile to start her presentation. After that, she went through an overview about textile and apparel industry and the current status of GVCs. According to the speaker, there has been an evolution of relations between buyers and suppliers with respect to sourcing principles, supplier selection policies and supply base management. The buying power of the major retailer can greatly affect the success of these smaller

suppliers & their ability to participate in global value chains. Ms. Kiri Delly shared that there are many challenges in promoting SMEs to participate in textile and apparel GVCs including supplier access to buyers within GVC, buyer sourcing capabilities and location, ability to meet required lead times and quantities, current potential relationship, changes in consumer behaviors... Besides, there are challenges related to investment, finance, ICT, technology, IPR, infrastructure, R&D, labor cost, government support and so on. At the end of the presentation, the speaker raised some questions on how to address SMEs challenges, how to work to promote and provide information, skill and knowledge to the SMEs.

5/ Session 5 was about **“Case Studies of Promoting the Participation of SMEs in Textile and Apparel Global Value Chains in other APEC Member Economies”**, there were two speakers in this Session **Ms. Mahani Awang, President Bumiputra Designers Association, Malaysia; Mrs. Mariela del Carpio Neyra, National Technical Assistance Coordinator Supplier Development and Quality Management, Ministry of Production, Peru.**

* Ms. Mahani Awang brought out a picture of trade integration in the region in which Malaysia involved in three main international platform (APEC, RCEP and TPP). According to Ms Awang, there was an emerging of SMEs participation of SMEs participation in GVCs. Textile and apparel industry are expected to remain important export for Malaysia. The contribution to the domestic economy will remain significant, in terms of investment and export earnings. The speaker shared that, Malaysian Government had some strategies and policies to support SMEs to join GVCs effectively. However, there are still challenges for SME in Malaysia textile and apparel industry for example demands for “fast fashion”, trend of R&D and pressure to meeting stringent international standards. Many international events that promote SMEs in the industry have been organized including the Malaysia RIAS Fashion Week, The Malaysia international Fashion Week, The INTRADE Trade Expo and Kuala Lumpur Fashion Week. In this period, Islamic clothing has been reported to be the main segments of the global clothing industry value chain. Spending by the Muslim population is expected to grow from \$224 billion in 2012 to \$322 by 2013, comprising about 11.2 percent of the global spending. To conclude the presentation, Ms Awang provided some recommendation related to government support to facilitate SMEs growth, upgrading of the quality of products, improve standards and infrastructure which is lacking in SMEs in Asia and the Pacific and new approach to breaking barriers and challenges.

* Mrs. Mariela del Carpio Neyra started her presentation by introducing about textile and clothing cluster Gamarra which has the highest number of business transactions per minute in Peru. Gamarra is the first shopping centre in Lima with 200 galleries and 20.000 entrepreneurs, employ 100.000 people and 60% of its customers are end consumers. Mrs Neyra shared that the objective of Gamarra is to identify and strengthen the level or degree of innovation, talent and entrepreneurship and improve the competitiveness of entrepreneurs of SMEs in the textile and apparel. The speaker also introduced about event taken at Gamarra as a promotion campaign which was “Gamarra Produces 2015” with 4 categories including ladies apparel, clothing for men, clothing for children and denim garment. Mrs Neyra provided guidance for competitors from the internet registration to the detail rules and date of each activity during the event. At the end of the presentation, Mrs Neyra demonstrated a video about this competition.

IV/ Conclusions and Recommendations

1/ The consensus view of the Workshop’s speakers, moderators and participants agreed that the project achieved its intended objectives. They considered the Workshop be good for APEC to continue to share and discuss in-depth and various knowledge on public policies to promote the participation of SMEs in the textile and apparel GVCs from various APEC member economies. Participants also said that the Workshop had provided a great opportunity for networking with experts from within and outside APEC region.

2/ The Workshop’s participants suggested that future activities/ topics should be:

- GVC in machinery industry;
- Green environmental realization for SMEs;
- Social enterprises in textile and apparel GVCs;
- Experience sharing from non-APEC members such as India;
- To hold similar events among ASEAN members (this activity is fixed and will be held in November 2016).

3/ In the wrap-up, Ms Pham Quynh Mai, Senior Official of Viet Nam to APEC and Deputy Director General of Multilateral Trade Policy Department, Ministry of Industry and Trade of Viet Nam highlighted that the role of SMEs is acknowledged worldwide for their unique contribution to the economic development. Both developed and developing economies realise that apart from contributing to job creation, SMEs play a vital role in the industrial development of an economy. She observed that SMEs are making up the majority of the textile and apparel sector in some APEC developing economies and more and more SMEs are participating in the textile and apparel manufacturing industry in APEC developing members. Though some of them have gained initial success, SMEs are still facing with lot of impediments, which include, among others: the lack of capital, dependence on imported fabrics and accessories, labour skill shortage, lack of horizontal and vertical linkages in the value chains, lack of innovation capacity, limited awareness and understanding of global and regional value chains etc. This fact has been highlighted in details in the 4 case studies in China, Indonesia, Mexico and Viet Nam and in other presentations by representatives of other APEC economies at the Workshop. Researchers and speakers have also produced some recommendations on what APEC itself and each and every APEC government should do in order to promote the participation of SMEs in textile and apparel global value chains. That include actions by governments and textile and apparel associations in APEC member economies and also by SMEs themselves in order to move up the value chains against the context of fierce competition in the global textile and apparel markets. Besides, there is also strong need for close collaboration among governments, associations and SMEs to identify impediments and work out practical solutions for supporting SMEs.