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**Phase Three of Supply-Chain Connectivity
Framework Action Plan 2022-2026 (Endorsed, 23
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Phase Three of Supply Chain Connectivity Framework Action Plan (SCFAP III) 2022-2026

Introduction

APEC has been taking the lead in addressing supply chain chokepoints with the objective of facilitating a regulatory business environment that supports efficiency, connectivity and certainty. APEC's Supply Chain Connectivity Framework Action Plan (SCFAP) began with the conclusion of two consecutive Trade Facilitation Action Plans (TFAPs) in 2002 and 2006. In 2009, APEC Ministers endorsed the SCFAP with eight chokepoints and a target of 10 percent reduction in time, cost and uncertainty by 2015. Arising from the review of SCFAP I, the SCFAP II was launched from 2017 to 2020 with five chokepoints and a goal to reduce trade costs across supply chains, improve supply chain reliability, and support competitiveness. APEC initiatives such as A2C2 and APMEN have contributed to the work on this front. A review of its results was issued in 2021.

At the 2021 APEC Ministerial Meeting (AMM), Ministers reaffirmed their commitment “*to address supply chain disruptions*” and agreed to “*continue to support our businesses to build and maintain open, secure, and resilient supply chains to facilitate seamless connectivity in the region*”. In that regard, they “*welcome[d] the Final Review of the APEC Supply-Chain Connectivity Framework Action Plan 2017-2020*”. In addition, “*to improve the resilience of supply chains to shocks and reduce costs for businesses and governments*”, Ministers “*commit[ted] to continue this work towards the digitalization of our border processes and single window interoperability, increase port cooperation, and accelerate the full implementation of the WTO Trade Facilitation Agreement*”.

In 2021, APEC Leaders endorsed the Aotearoa Plan of Action to implement the Putrajaya Vision 2040, which highlights the importance of promoting resilient supply chains and responsible business conduct, strengthening digital infrastructure, accelerating digital transformation and narrowing the digital divide. The Plan of Action also includes collective actions for economies to address key infrastructure gaps, improve digital connectivity, and promote the use of digital technologies.

Against this backdrop, this note proposes the overarching goal and key objectives for establishing the framework for the third phase of the SCFAP from 2022 to 2026.

Overarching Goal

The proposed overarching goal for SCFAP III is:

“To support our businesses in building secure, resilient, sustainable and open supply chains that create a predictable, competitive and digitally interconnected Asia-Pacific region for all.”

As we look towards driving global economic and trade recovery in the post pandemic era, more resilient and efficient supply chains will be required. First, resilience has emerged as a common theme across all sectors. Costly disruptions to supply chains have highlighted the need to build robust supply chains that can withstand shocks, be flexible to leverage on alternatives and be able to build surplus capacity. Second, efficiency will be just as key, as recovery needs to take into account rising trade costs arising from congestion and delayed shipments that will continue to challenge supply chains in the post pandemic era. In that regard, supply chains need to be

upgraded in order to adapt to disruptions, which requires greater border agency cooperation and digitalization of trade facilitation measures to keep costs low. Third, to harness the benefits of digitalization to drive resiliency and efficiency, there needs to be greater investment in digital technologies not only to improve competitiveness but also to close the digital divide. Last, but not least, sustainability and inclusiveness in supply chain trade are important aspects of recovery, where efficient and green supply chains could help achieve the delicate balance between economic growth and environmental sustainability.

With the above considerations, the targeted chokepoints for SCFAP III are:

- 1) Inefficient digitalization of end-to-end supply chains, including border procedures and trade documentation exchanges
- 2) Inadequate infrastructure development to support robust multi-modal connectivity and logistics networks
- 3) Insufficient cooperation on data flows and cross-border payments to support increasingly digitalized supply chains
- 4) Lack of understanding on green supply chain management practices and increasing pressure for supply chains to be sustainable
- 5) Lack of targeted support to facilitate MSMEs' access and integration into global supply chains

1. Inefficient digitalization of end-to-end supply chains, including border procedures and trade documentation exchanges

The frequency and costs of supply chain disruptions have increased tremendously since the onset of the pandemic. According to UNCTAD, the transportation of a container for a standard door-to-door transaction has increased by 20% as ships, trailers and containers are stuck in congestion. In March 2021, only 40% of container ships globally were on time when arriving at ports, with average delays stretching to more than six days. This is far behind the reliability levels when more than 70% of ships arrived on time in pre-pandemic times.¹ The cost of moving a sea container from China to US West Coast ports in May 2021 had increased by 228% since the same period in 2020, with an increase by 34.5% since the start of 2021.² These disruptions underscore the need for more resilient supply chains, which require strong collaboration and reliable networks between stakeholders such as the buyers, sellers, logistics operators and governments.

Supply chain resilience can be strengthened by building capabilities in agility and visibility. Supply chain agility and visibility allow firms and governments to respond more quickly to prevent, mitigate and recover from disruptions. Better visibility of end-to-end supply chains can enable businesses to optimize productivity and costs in normal times and the necessary business process recovery and operations planning during a crisis.

¹ Sea-Intelligence ApS.

² Freightos Baltic Index.

Industry leaders and firms need to work closely together to accelerate the adoption of technologies and promote interoperability to have better agility and visibility of supply chains. Governments have a significant role to play in synchronizing cross-border regulatory requirements, supported by more digital exchanges of regulatory information about approvals for certain shipments, to facilitate more efficient and reliable trade. In that regard, building on ongoing efforts to accelerate the full implementation of the WTO Trade Facilitation Agreement (TFA), APEC would benefit with a steady shift towards digitalizing its trade facilitation measures.

APEC member economies can focus on capacity building and providing technical assistance to support policy making and regulatory reforms that can drive more efficient cargo handling and, support the private sector in facilitating more trusted data exchanges. APEC member economies can align their National Single Window (NSW) systems across APEC members. Industries can be encouraged to adapt their enterprise systems with the NSWs to allow for more efficient submission and exchange of supply chain documentation such as electronic bills of lading and invoices. To overcome the inefficiencies in processes and information flows, industries should aim to utilize secured, interconnected and interoperable digital solutions to exchange trade documentation and information between shippers, traders, logistics operators and financial institutions in a trustworthy manner. Industry and governments can also work together to develop, adopt and use international standards around such digital solutions to enable a more seamless and efficient flow of goods and services between trading partners. This would enhance coordination between APEC economies and their industries to resolve bottlenecks faced in supply chain networks.

2. Inadequate infrastructure development to support robust multi-modal connectivity and logistics networks

The efficiency of global value chains relies on the robustness of the supporting supply chain and logistics infrastructure.³ The pandemic has exposed the vulnerabilities of global and interconnected supply chains when the world's shipping capacity, ports logistics and transportation ecosystem came under strain, as a result of restrictions on movement, border controls and significant volatility in demand patterns. To better overcome the logistics bottlenecks in global transportation of goods, it is important that the transportation, port and logistics infrastructure across APEC member economies can be further enhanced to improve the efficiency of cargo handling and connectivity solutions (including multi-modal) at each port of entry. For example, early warning systems that predict potential bottlenecks in the supply chain systems would allow the public and private sector to mitigate the impacts of supply chain disruptions.

The pandemic has also brought to light that beyond the varying levels of infrastructure development and preparedness across the APEC member economies, digital transformation is of paramount importance. The increasing divide in digital infrastructure will be a fundamental challenge in enabling more cross border supply chain visibility and collaborations. Similarly, the APEC Connectivity Blueprint Review 2020 calls for improved digital connectivity to build supply chain resilience. This will allow firms to be more agile and recover more quickly from shocks in a shorter time.

³ AIIB Asian Infrastructure Finance Report 2021.

Close collaboration between governments and industry will be important to improve the quality of physical and digital infrastructure. First, building comprehensive physical and digital infrastructure requires substantial investments which can be supported by co-investment opportunities and public-private partnership models. This may alleviate the rising costs in logistics-related issues. Second, quality infrastructure should be inclusive and be governed by regulations that ensure accountability, cost-effectiveness and transparency when implemented. In that regard, strong partnership between industry and governments in establishing the necessary infrastructure can help to establish good governance, regulatory coherence and build trust amongst citizens.

3. Insufficient cooperation on data flows and cross-border payments to support an increasingly digitalized supply chains ecosystem

Insufficient cooperation in the digital space presents manifold challenges in establishing an effective global supply chains ecosystem. This encompasses areas such as cross-border payments and data localization rules.⁴ Given the complexity of supply chains, incompatible regulations on the transfer of data across borders can impede global trade, especially when transactions often require the transfer of data from one economy to the other.

Governments must recognize that cross-border data flows are increasingly important to support the growth of the digital economy, e-commerce and the supply chain ecosystems. APEC member cooperation efforts can focus on enabling trusted data flows for businesses through the development and governance of data standards that allow for maximum interoperability among business platforms and the creation and recognition of interoperability mechanisms for regulatory requirements such as personal data protection. Recognizing how industry standards are constantly evolving to meet the needs of technological innovation, economies can also promote greater coordination and input from the private sector on their digitalization projects.

To this end, APEC member economies can strengthen supply chain connectivity in the digital space through increased capacity building exercises, information sharing mechanisms, peer reviews and establishing regulatory sandboxes to develop innovative approaches that securely enable cross-border data flows and the use of new technologies. Given the proliferation of bilateral digital trade agreements between APEC economies, APEC members could use these agreements as a reference point for their regulatory frameworks and undertake policy review around issues of data standards, interoperability, emerging technologies and security in the use of ICT – all of which are critical to support supply chain players as they become increasingly digitalized. In addition, consultation with supply chain players from the industry would also be key in understanding their digital needs and pressing challenges which could guide member economies' prioritization efforts on the changes needed to support businesses. Partnerships between governments and the private sector could be further enhanced to resolve prevailing supply chain issues.

4. Lack of understanding on green supply chain management practices and increasing pressure for supply chains to be environmentally sustainable

⁴ Enhancing Implementation of APEC Connectivity Blueprint in the Digital Era: Digital Connectivity for Stronger Recovery, February 2022.

While emissions come primarily from production, transport and logistics are contributors to the issue.⁵ Greenhouse gas (GHG) emissions associated with international freight transport represent about 30% of all transport emissions and more than 7% of global GHG emissions.⁶ The GHG produced by global trade have become a difficult and complex issue, where corporates are under increasing pressure to reduce their own and their suppliers' carbon footprints. In that regard, we encourage transport and logistics players to move towards net zero or carbon neutrality by increasing the energy efficiency of their operations, efficient route choices, as well as the use of renewable energy, greener fuel sources with lower carbon intensity and other sustainable practices.

Public policy alignment and close collaboration between governments and firms are key in order for supply chains to be managed in a climate friendly and environmentally sustainable manner. Public infrastructure investments and international coordination will be necessary in order to effectively support the net zero transition. Industry can play a critical role in decarbonizing production along supply chains, taking into account international cooperation on carbon emissions, trade and regulation (including in financial markets). This could include large scale investments to overhaul existing infrastructure from energy generation and transmission to transport systems, such as aviation and ship decarbonization initiatives. In addition to infrastructure investments, approaches and principles for sustainability-related definitions and standards such as green shipping fuels (e.g. hydrogen and ammonia) could be developed. Other initiatives covering carbon reporting, monitoring and management can be promoted across supply chain players. This will help to build up private sector capabilities and initiatives to promote best practices.

It is also important that emission intensive production lines and stages are greened across verticals and not simply shifted to developing economies. Given that developing economies will face a greater challenge from the introduction of low emission policies and carbon pricing mechanisms, including for trade logistics, efforts must be made to ensure that less equipped economies also have access to the financial resources to make the transition and provide capacity building for transport and logistics players through green supply chain management training. Initiatives such as workshops could be facilitated through APEC's working groups and member economies to share expertise on sustainability efforts and maximise economies' potential towards a reduction in carbon output. Governments could also consider looking into extending resources such as financial support and training to assist firms in adopting environmentally-sustainable practices.

5. Lack of targeted support to facilitate MSMEs' access and integration into global supply chains

To support MSMEs, governments are encouraged to remove obstacles and create a conducive environment for trade and global business, including for MSMEs owned by women and groups with untapped economic potential. Primary challenges faced by MSMEs when participating in global supply chains prior to the pandemic included payment issues, differing regulations, languages, cultural and business practices, delivery delays, and standards and conformance requirements. The main disruptions that businesses have experienced as a result of the pandemic included reduced customer demand, delivery delays/failures, customer insolvency/cash flow issues, cost of logistics, manpower crunch and lack of air freight capacity.

⁵ AIIB Asian Infrastructure Finance Report 2021.

⁶ International Transport Forum 2016 Summit, The Carbon Footprint of Global Trade, p3.

⁷ These challenges are a reflection of transactional costs that can have a significant impact on MSMEs' operating cashflows and revenue, which eventually impede upon MSMEs' longer-term viability to participate in global trade.

Navigating the complexity of doing business globally and maintaining a competitive edge require the development of new skills and knowledge, as well as the ability to draw on a trusted network of skilled professionals with the required competencies to support their businesses to grow through global trade. To expand their global footprint, MSMEs need to specifically upskill their digital capabilities, which could include software platforms such as Customer Relationship Management (CRM) systems, e-commerce, security in the use of ICT, data management, e-payments, and automation of production.⁸ Governments can provide more information on market access created by e-commerce and support regulatory efficiencies to encourage e-commerce entrepreneurs. To promote cross-border trade, Governments should support MSMEs' development of improved e-commerce capabilities.⁹ Coming out of the COVID pandemic, MSMEs are very well placed to leverage and benefit from commercial opportunities introduced by e-commerce and APEC member economies should work together to develop trade facilitation policies to bolster e-commerce.¹⁰

To enhance MSME's access to international markets and supply chains, governments and larger businesses, including State-Owned Enterprises (SOEs), can play a key role in providing support in the following areas: (i) economic and technical cooperation and capacity building to reduce or simplify administrative barriers; (ii) education, training and future skills development in supply chains and business management; (iii) access to technology, e.g. assistance in utilising e-commerce platforms and cross-border payment mechanisms; (iv) direct financial grants; (v) efficient, reliable, trustworthy and low-cost delivery and distribution services and; (vi) access to market and regulatory information.

Cooperation with other APEC fora and the private sector

SCFAP III should promote greater collaboration across APEC fora where trade facilitation-related work is being pursued, such as SCCP, SCSC, SMEWG, MAG and EC. This will engender a more holistic approach. In addition, the third phase should continue to engage the private sector actively through existing APEC cooperation networks and initiatives such as ABAC and in particular, MSMEs, to ensure that the SCFAP remains relevant to industry needs.

Next Steps

- Consult relevant APEC fora and private sector to populate specific activities/actions under each chokepoint that APEC can collectively pursue in SCFAP III.
- Engage PSU, in consultation with relevant APEC fora, to identify suitable indicators/data sources and conduct research to recommend policy practices for supply chain connectivity that can be used to measure and contribute to the progress of SCFAP III.

⁷ Key Trends Report: APEC Global Supply Chains Resiliency Survey – Small and Medium Enterprises, May 2021

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

- Ministers/Leaders to endorse the finalised SCFAP III framework at AMM/AELM.
- Between 2022-23, seek champion economies or APEC fora to lead on certain chokepoints.
- Engage PSU to undertake the mid-term evaluation and final review of SCFAP III in 2024 and 2027 respectively.