Asia-Pacific
Economic Cooperation

APEC Global Supply Chains Resiliency Survey

Summary report: key highlights and policy recommendations

Committee on Trade and Investment

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KEY TRENDS REPORT

Disclaimer

The information and data used in the report were gathered from a public survey. The opinions and conclusions are the views of the authors of this report. The analysis and recommendations in this report do not necessarily represent the views of APEC member economies.

Introduction

This report summarizes the key trends from the **APEC Global Supply Chains Resiliency Survey**, which surveyed large businesses[1], SMEs[2] and industry & government organisations. It also offers a series of policy recommendations. The survey was conducted between 25th July 2020 and November 30, 2020. A total of 1511 responses[3] were received, divided into 911 for the SMEs survey, 188 for the Large Businesses survey, and 312 for the Industry & Government organisations survey. As well, 106 respondents replied that they do not participate in global trade.

Of the responses, 31% were from Australia, 18% from Japan, 11% from the Russian Federation, 6% from Indonesia and 4% from the United States.[1] The rest were divided amongst other economies. The enterprises surveyed reported operations in a total of 82 economies worldwide.

The survey was supported by the Department of Foreign Affairs and Trade (DFAT) of the Australian Government and implemented online by GTPA and North Carolina State University (NCSU) Supply Chain Resource Cooperative.

Executive Summary

The magnitude of the disruptions caused by the COVID-19 pandemic on global supply chains has no comparison in modern history. What started as disruptions in some supply chains of specific manufacturing sectors, quickly extended to supply chains all around the world across multiple industries and sectors. The restrictions imposed to avoid the spread of COVID-19 also had a direct impact on other international and domestic economic activities, greatly hindering global economic growth and trade flows. The International Monetary Fund (IMF) projects global growth at -4.4 percent in 2020, with a more gradual recovery in 2021 than previously forecast (IMF 2020)[4].

While governments, large and small businesses, and industry organisations could not possibly foresee the scale of the disruptions experienced in the past months, global supply chains were already under great strained due to other factors such as natural disasters, geopolitical tensions, and slow economic growth. The permanent negotiation and renegotiation of preferential trade agreements is also continuously transforming the supply chains landscape, with direct effects on their size, localization, complexity, specialisation and diversification.

In both ordinary and extraordinary circumstances, it is crucial from a policy and commercial perspective to understand the operation and transformation of global supply chains, as well as the challenges and opportunities they present to large and small businesses. The Asia Pacific Economic Cooperation forum (APEC), a leading international organisation promoting free trade, connectivity, and economic growth in the Asia-Pacific region, has been a pioneer in this subject. Understanding the importance of maintaining the operation of global supply chains and working on their resilience, APEC Trade Ministers stated in May 2020 with regards to the COVID-19 experienced disruptions:

> *"We acknowledge the importance of strengthening regional connectivity by intensifying our efforts to make global supply chains more resilient and less vulnerable to shocks, to advance sustainable economic growth."*

As a response to that declaration, the Australian Department of Foreign Affairs and Trade self-funded a project in APEC to survey the extent of the COVID-19 pandemic on global supply chains and its impact on small to-medium-sized enterprises (SMEs) and large businesses. The survey also examined industry and government organisations in their response to support businesses.

Key findings

They key findings are therefore grouped together under SMEs, Large Enterprises, and Industry and Government Organisations.

SMEs:

- **SMEs surveyed play an important and varied role in cross-border supply chains.** The majority of the respondent SMEs are connected with at least one large business - with most SMEs selling to, and receiving goods and services from, large enterprises — as well as selling to other SMEs.
- **Before COVID-19, most SMEs indicated that the primary challenges they faced when selling into global supply chains were payment issues** followed by local regulations, culture, business culture, delivery delays and standards.
- **As a result of COVID-19, the main challenges that SMEs have experienced include reduced customer demand and delivery delays/failures,** followed by customer insolvency/cash flow issues, cost of logistics, and lack of air freight capacity.
- **Most SMEs are not planning to change their supply chains as a result of COVID-19.** While a third are looking to either diversify sources of supply including through offshore manufacturing.
- **The biggest challenge by far in preventing SMEs from diversifying their supply chains is the cost involved,** followed by logistical issues then the regulatory barriers.
- **SMEs rely on governments to help to reduce complex trade regulations and barriers where possible.** Respondents indicated their main demand is for governments to create a business environment that reduces regulatory requirements, logistics, compliance and financial risks.
- **To grow their business within supply chains, SMEs require government support in specific areas.** SMEs indicated they need governments to focus on removing obstacles and creating a conducive environment for trade and global business.

Large Enterprises:

- **Large enterprises surveyed have complex global supply chains.** A majority of large businesses have either offshore branches, manufacturing operations or services operations.
- **Several issues control the extent to which large businesses source from SMEs.** With key attributes of supplier performance include the ability of SMEs to meet quality requirements and conform to due diligence risk requirements. A number of responding businesses report that their risk and due diligence requirements for SME sourcing have increased as a result of COVID-19.
- **As a result of COVID-19, a quarter of large businesses experienced delivery delays/failures** with others reporting reduced customer demand and production facility closures because of COVID-19.
- **Only a very small number of large businesses have a woman as the head of their business operations.** This is similar to the findings from the SME survey. A majority (two thirds) of large businesses have fewer than 50% representation of women at the executive level. Almost a quarter have no women executives at all.

Industry and Government Organisations:

- **The top three areas of support of most importance to businesses during the COVID-19 pandemic included expert advice, policy advocacy and technical assistance.** With the most sought-after requests for advice from businesses responding to the survey during the COVID-19 pandemic were on supply chains disruptions, strategic planning and risk management.
- **Industry associations and Government Organisations indicate they should prioritise global supply chain relocation and transformation, macroeconomic concerns, and the future of work** as the most important policy areas responding to businesses need.
- **The main area of consideration to support businesses as a result of the COVID-19 pandemic was training and learning,** followed by ensuring higher participation in global supply chains, preventing supply chains disruption, and increasing business competitiveness and innovation.
- **The main policy consideration to support digital readiness was the need to support business moving forward will be cybersecurity,** followed by virtual work capacity, digital application to customs procedures, and the use of digital services for optimising distribution networks.
- **e-Commerce is the area in which more organisations will look to support businesses to strengthen their digital transformation** for future resilience, followed by cybersecurity, and data management and digital payments equally.

Recommendations

Based on these findings, we have drawn on key recommendations by each group of respondents:

From SMEs:

1. Support SMEs to participate in eCommerce and global supply chains through direct engagement that leads to embracing new opportunities created by the digital economy.
2. Support SMEs to become integrated into global supply chains and promoting access to information regarding trade opportunities and regulatory requirements through help desks, intensive workshops, direct peer to peer introductions, and access to resources.
3. Develop common data standards to for trade facilitation, particularly to support single window interoperability and Authorised Economic Operator (AEO) programs across APEC members, is needed to harmonize regulations and procedures.
4. Develop an APEC plan to develop the structural policies and targeted projects to support SMEs' access to finance, technology, and training to facilitate export.
5. Provide capability and capacity building programmes, specifically geared towards women and the unique challenges they face in global business.

From Large Enterprise:

6. Create incentives to gather more data on large business/SME linkages to help better understand the differing impacts and relationships between them.
7. Seize the opportunity to turn change in global supply chains into value, which is the main source of economic growth and innovation in these complex ecosystems.
8. Harness large enterprises' appetite to continue growing and innovating in order to benefit the overall economy and SMEs.
9. Use harmonised global data standards to drive policies in global supply chains and build trust between large enterprises and SMEs.

From Government and Industry Organisation:

10. Strengthen the expertise of industry and government organisations on supply chains disruptions and risks management using APEC to lead this process regionally.
11. Focus on providing support for business to access opportunities in supply chains as well as lowering barriers to supply chains.
12. Continuing and renewing efforts to facilitate trade, connect business with potential international business opportunities and reduce barriers to trade. Including through the participation in the respective work at the WTO[5].

References

[1] Revenue higher than $250M in the last financial year (USD).

[2] Revenue lower than $250M in the last financial year (USD).

[3] We applied standard research methodologies for reporting of the survey. The total sample of respondents to the survey is stated here. However, due to the fact that not all respondents completed the entire survey, we have reported the number of responses on a question by question basis as well, to document the number of respondents in our analysis.

[4] 'World Economic Outlook, October 2020: A Long and Difficult Ascent. Executive Summary' (International Monetary Fund, October 2020),<https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020>, accessed 10 November 2020

[5] This report acknowledges the December 2020 announcement from the WTO Informal Working Group on MSMEs that acknowledges that promoting the participation of MSMEs in international trade is an important issue in the WTO agenda, all the more considering the significant negative impact of the COVID-19 pandemic; Reaffirming the pledge, as contained in the Joint Ministerial Statement at Buenos Aires, to address obstacles related to foreign trade operations that represent a significant burden for MSMEs interested in participating in international trade.

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