2014 APEC Workshop on Advancing REI in the GVC Era

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GVC CHALLENGES & OPPORTUNITIES FACING PHL BUSINESSES

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1 ABOUT SCMAP

2 Phil. Global Competitiveness Scorecard

3 Understanding PHL GVC Challenges

4 Solutions and Opportunities

APEC

SCMAP

SUPPLY CHAIN MANAGEMENT ASSOCIATION OF THE PHILIPPINES

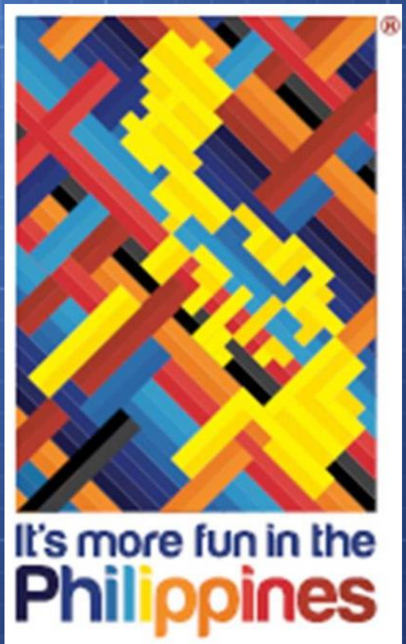
The Premiere Supply Chain Professional Organization in the Philippines…

- A Philippine association of companies committed to improve supply chain management processes and professionalize supply chain practitioners.
- Established in 1989 as DMAP (Distribution Management Association of the Philippines)
- With 112 corporate members at present
- Most members are cargo owners/shippers (80%) – from ranks of manufacturers and distributors, and the balance, service providers (20%)

SCMAP: Mission & Advocacies

- **ADVOCATE** - To partner with government in creating sound policies, rules and legislation that benefit the industry
- **COMMUNICATE** - To continually work for a well-informed and educated supply chain industry.
- **EDUCATE** - To professionalize supply chain practitioners
- For 2014, added **‘F’**

F **un**
A dvocate
C ommunicate
E ducate



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WEF-Global Competitiveness Report
Philippines vs ASEAN (2010-2014)

Country/Economy	2014 (out of 144)	Change 2013-2014	2013 (out of 148)	2012 (out of 144)	2011 (out of 142)	2010 (Out of 139)	Change in 3 Years 2010-2014
Singapore	2	0	2	2	2	3	1
Malaysia	20	4	24	25	21	26	6
Thailand	31	6	37	38	39	38	7
Indonesia	34	4	38	50	46	44	10
Philippines	**52**	**7**	**59**	**65**	**75**	**85**	**33**
Vietnam	68	2	70	75	65	59	-9
Lao PDR	93	-12	81	n/a	n/a	n/a	n/a
Cambodia	95	-7	88	85	97	109	14
Myanmar	134	5	139	n/a	n/a	n/a	n/a
Brunei Darussalam	n/a	n/a	26	28	28	28	n/a

*Brunei Darussalam is not included in the 2014 Ranking

Source: NCC Report

WEF-Global Competitiveness Report Philippines (2010-2014)

PILLARS	(2014) OF 144	CHANGE 2013-2014	(2013) OF 148	(2012) OF 144	(2011) OF 142	(2010) OF 139	CHANGE 2010-2014
OVER-ALL RANKING	52	7	59	65	75	85	33
1st pillar: Institutions	67	12	79	94	117	125	58
2nd pillar: Infrastructure	91	5	96	98	105	104	13
3rd pillar: Macroeconomic environment	26	14	40	36	54	68	42
4th pillar: Health and primary education	92	4	96	98	92	90	-2
5th pillar: Higher education and training	64	3	67	64	71	73	9
6th pillar: Goods market efficiency	70	12	82	86	88	97	27
7th pillar: Labor market efficiency	91	9	100	103	113	111	20
8th pillar: Financial market development	49	-1	48	58	71	75	26
9th pillar: Technological readiness	69	8	77	79	83	95	26
10th pillar: Market size	35	-2	33	35	36	37	2
11th pillar: Business sophistication	46	3	49	49	57	60	14
12th pillar: Innovation	52	17	69	94	108	111	59

RED – bottom 20% PURPLE – bottom 40-21% GREEN– bottom 50 – 41% BLACK – 49% or higher

Source: NCC Report

WEF-Global Competitiveness Report Philippines (2010-2014)

INDICATORS	(2014) OF 144	CHANGE 2013-2014	(2013) OF 148	(2012) OF 144	(2011) OF 142	(2010) OF 139	CHANGE 2010-2014
2nd pillar: Infrastructure	91	5	96	98	105	104	13
2.01 Quality of overall infrastructure	95	3	98	98	113	113	18
2.02 Quality of roads	87	0	87	87	100	114	27
2.03 Quality of railroad infrastructure	80	9	89	94	101	97	17
2.04 Quality of port infrastructure	101	15	116	120	123	131	30
2.05 Quality of air transport infrastructure	108	5	113	112	115	112	4
2.06 Available airline seat kilometers/week, millions*	25	1	26	26	28	28	3
2.07 Quality of electricity supply	87	6	93	98	104	101	14
2.08 Mobile telephone subscriptions/100 pop*	86	-5	81	95	92	88	2
2.09 Fixed telephone lines/100 pop*	113	-4	109	103	103	106	-7

RED – bottom 20%   PURPLE – bottom 40-21%   GREEN– bottom 50 – 41%   BLACK – 49% or higher

Source: NCC Report

WEF- Global Enabling Trade Report 2014 Highlights

Assesses "the extent to which economies have in place institutions, policies, infrastructures and services facilitating the free flow of goods over and to their destination".

The report highlights the relation of trade facilitation to export competitiveness, private sector development, foreign direct investment, market integration, economic growth, and employment.

- Improved on all four sub-indexes, climbing three spots on **market access** **(from 14th to 11th),** one spot on **border administration** **(from 72nd to 71st)**, two spots on **infrastructure** **(from 91st to 89th),** and 25 spots on **operating environment** **(from 107th to 82nd)**.

Source: NCC Report

WEF-Global Enabling Trade Report: Pillars (2010-2014)

COUNTRIES	2014 Out of 138	CHANGE	2012 Out of 132	2010 Out of 125	CHANGE
1.SINGAPORE	1	0	1	1	0
2. MALAYSIA	25	-1	24	30	6
3. THAILAND	57	0	57	60	3
4. INDONESIA	58	0	58	68	10
5. PHILIPPINES	**64**	**+8**	**72**	**92**	**20**
6. VIETNAM	72	-4	68	71	3
7. CAMBODIA	93	+9	102	102	0
8. LAOS *	98	-	-	-	-
9. MYANMAR*	121	-	-	-	-

Source: NCC Report

WEF-Global Enabling Trade Report: Pillars (2014)

PILLARS	PHILIPPINES		CAMBODIA	INDONESIA	LAO PDR	MALAYSIA	MYANMAR	SINGAPORE	THAILAND	VIETNAM
MARKET ACCESS	**2 of 9**	**11**	36	20	39	40	25	2	51	34
Domestic Market Access	**2 of 9**	**19**	133	26	121	75	97	3	113	76
Foreign Market Access	**6 of 9**	**26**	1	37	4	42	6	13	12	28
BORDER ADMINISTRATION	**5 of 9**	**71**	108	69	114	33	117	1	56	86
Efficiency and Transparency of Border Administration	**5 of 9**	**71**	108	69	114	33	117	1	56	86
INFRASTRUCTURE	**6 of 9**	**89**	101	64	115	23	136	1	46	60
Availability and Quality of Transport Infrastructure	**7 of 9**	**96**	113	60	91	14	138	2	28	74
Availability and Quality of Transport Services	**6 of 9**	**84**	97	58	107	26	133	1	39	50
Availability and use of ICTs	**6 of 9**	**85**	95	81	122	38	135	8	71	64
OPERATING ENVIRONMENT	**8 of 9**	**82**	74	61	68	27	134	2	75	81
Operating Environment	**8 of 9**	**82**	74	61	68	27	134	2	75	81

Source: NCC Report

WORLD BANK- Logistics Performance Index 2014 Highlights

LPI measures "the on-the-ground efficiency of trade supply chains, or logistics performance" as the backbone of international trade and commerce.

Based on a survey of logistics professionals who rate selected countries on six components on a scale ranging from 1 (worst) to 5 (best).

- Efficiency of customs and border clearance **(up 0.37, from 2.63 to 3)**
- Ease of arranging competitively priced shipments **(up 0.36, from 2.97 to 3.33).**
- Quality of trade and transport infrastructure **(down 0.2, from 2.8 to 2.6).**
- Competence and quality of logistics services **(down 0.21, from 3.14 to 2.93).**
- Ability to track and trace consignments **(down 0.3, from 3.3 to 3).**
- Frequency with which shipments reach consignees within scheduled or expected delivery times **(down 0.23, from 3.3 to 3.07).**

Source: NCC Report

WORLD BANK- LOGISTICS PERFORMANCE INDEX Philippines vs ASEAN (2010-2014)

Country	2014 (out of 160)	2012 (out of 155)	2010 (out of 155)	CHANGE 2012-2014	CHANGE 2010-2014
Singapore	5	1	2	-4	-3
Malaysia	25	29	29	4	4
Thailand	35	38	35	3	0
Philippines	**57**	**52**	**44**	**-5**	**-13**
Vietnam	48	53	53	5	5
Indonesia	53	59	75	6	22
Lao PDR	131	109	118	-22	-13
Cambodia	83	101	129	18	46
Myanmar	145	129	133	-16	-12

Source: NCC Report

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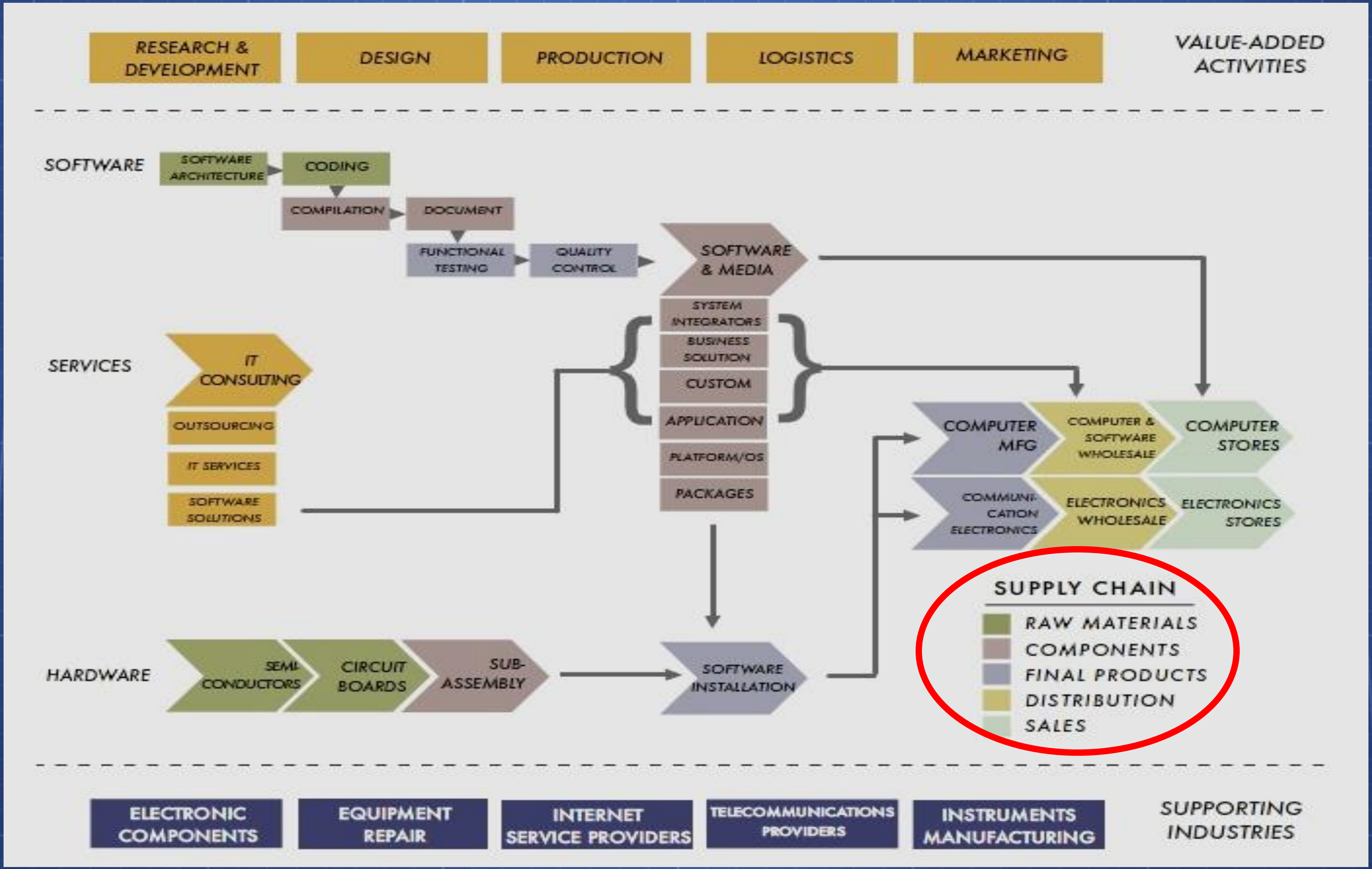
3. **UNDERSTANDING PHL GVC CHALLENGES**
4. Solutions and Opportunities

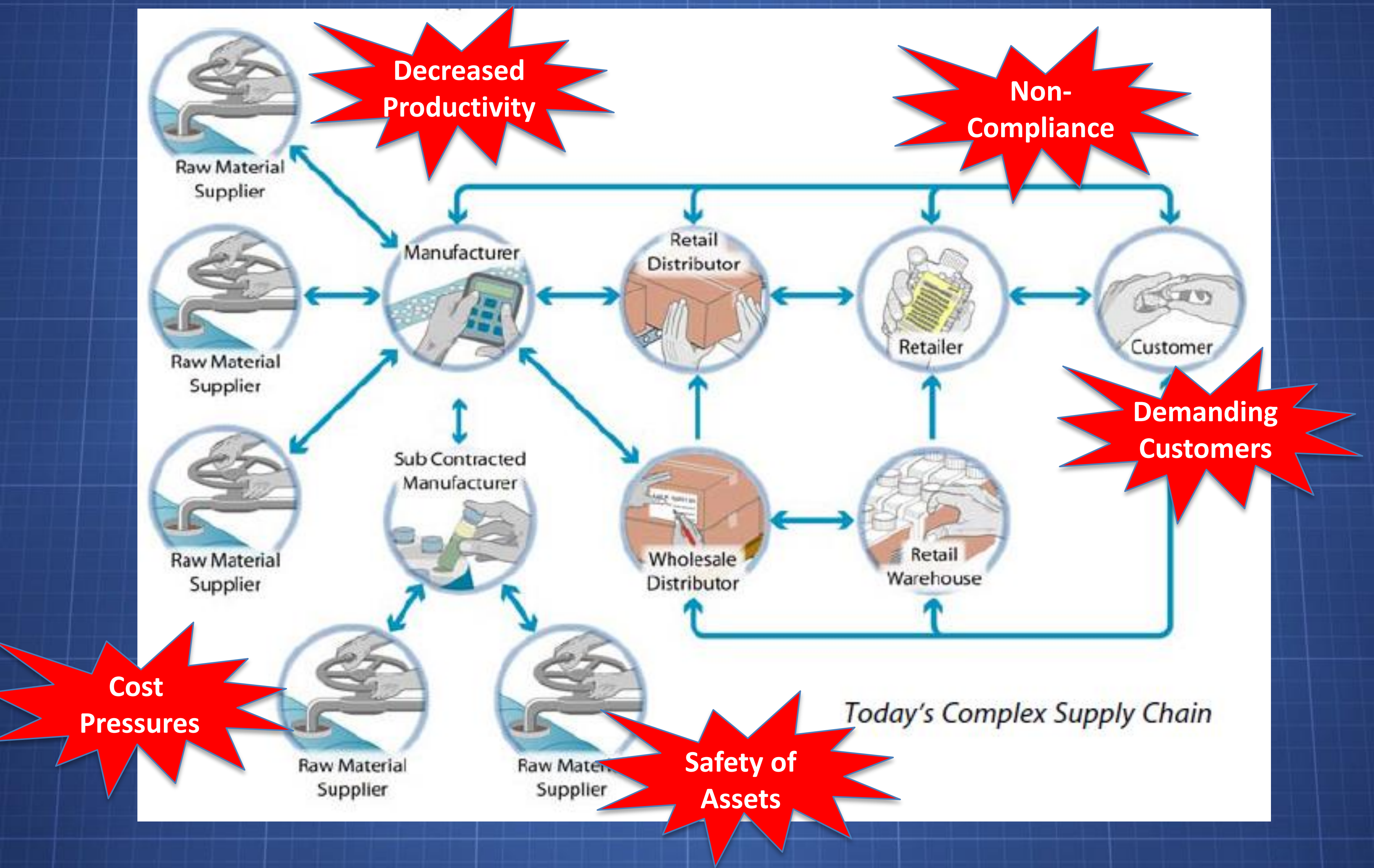
Global Value Chain Defined

A value chain describes the full range of activities that firms and workers carry out to bring a product from its conception to its end use and beyond.

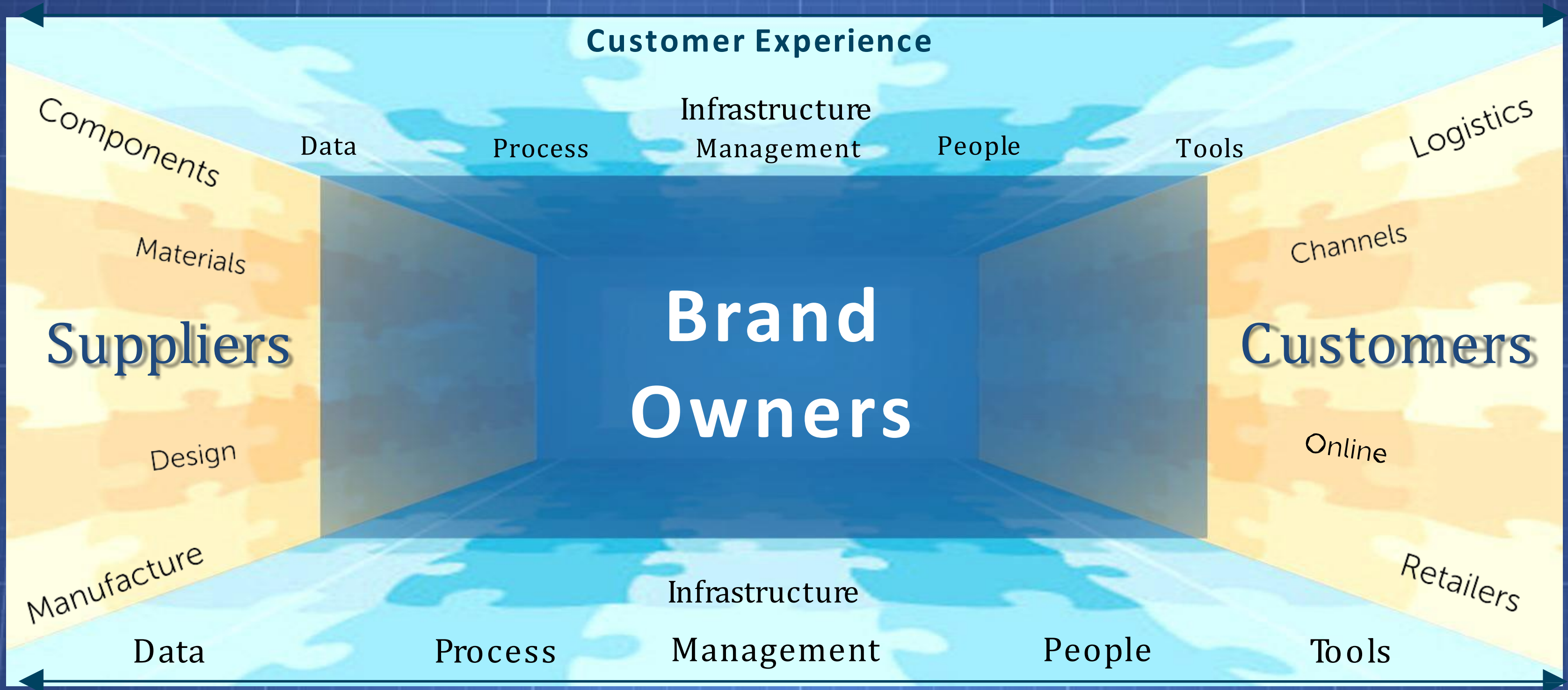


Source: CGGC (http://www.cggc.duke.edu), More Information: Global Value Chains (www.globalvaluechains.org)

Key Supply Chain Challenges



Supply Chains have become a web of partnerships to be coordinated



At times of disruptive change supply chains must:

- <u>Have access to a flexible supply chain ecosystem</u> to handle external disruptions & complexity
- <u>Accelerate internal complexity reduction</u> for both products and processes
- <u>Build framework</u> for virtual operations coordination in staffing and tools

PHL GVC Challenges in relation to SCM

I. The Climate Change Challenge

The massive weather disturbance among them- Yolanda (2013), Glenda (2014), the Habagat (southwest monsoon) in 2012, which was not even a typhoon that resulted to Manila's worst flooding since 1970's submerging 80% of Metro Manila.




Glenda (2014)
Yolanda (2013)
Habagat (2012)

Pablo (2012)
Sendong (2011)
Ondoy (2009)




The Need for Supply Chain Resilience

APEC Economies:

- 40% of Population
- 49% of World Trade
- 55% of World GDP

70% of world's natural disasters

Excellent Supply Chain Now	Excellent Supply Chain in the Future
Visible	Visible
Flexible	Flexible
Agile	Agile
Cost Efficient	Cost Efficient
Customer Service Driven/Responsive	Customer-Centric/ Pro-active
Secured	Resilient

- ➢ **Government still lacks a strategic effort tying environmental sustainability and disaster resilience.**
- ➢ **Strengthen governance and leadership**

II. THE GOVERNMENT CHALLENGE

- PH Government Bureaucracy though improved but still need further improvement on the following areas:

  - Policy consistencies
  - Permanent platform and not culture of provisional and arbitrariness
  - Effective collaboration and cooperation among government regulatory agencies including LGU's
  - Harmonization and Synergy on Rules Enforcement

Recent Logistics Gridlock: Extended Truck Ban Resulting to Port Congestion

- **LGU Manila where major ports are located imposed extended truck ban**
- **Ill-Timed transport and Customs Regulations**
  - 7 months ago Manila City issued extended Truck ban without effective consultation and coordination
  - Major ports are located in Manila

Effects:

- Triggered port congestion causing delivery delays, additional costs, disruption in operations.
- High economic loss.

Good news:

- Truck ban lifted September 13, 2014 slowly easing port congestion.
- Multiple 24-hours trade lanes, free-up road space and impediments.

III. THE INFRASTRUCTURE CHALLENGE:

- Poor and backlog in infrastructure
  - 91 out of 144, improved by 13 since 2010
  - 101 out of 144 , quality of ports

- Poor infra can offset economic gains.
  - Good news: PH is catching up w/ nearly $16B public investment. Expect rating improvement in 2 years.

- High and Insufficient t power
  - high power cost
  - 87 out of 144 quality of electricity supply
  - 2015 looming power
    - ☛ PH President seeks emergency powers from Congress
    - ☛ Push renewable and solar energy

IV. LABOR MARKET EFFICIENCY CHALLENGE

- TALENT MANAGEMENT AND SKILLED LABOR GAP.
- SHORTAGE OF SKILLED MANAGEMENT PROFESSIONALS.
- EFFORTS ALREADY BEING DONE ON THE BPO SERVICE SECTOR PARTNERING WITH GOVERNMENT TESDA TECHNICAL SHOOL.
- STRATEGIC SERVICES:
  - Craft service industry roadmaps.
    - Move-up to high value added services in GVC’s
    - Increase use of services in manufacturing.

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4. **Solutions & Opportunities**

Solution & Opportunities to GVC Challenges

- **Manila Port Congestion:**
  - **Long Term:**
    1. Shift Container Traffic to Batangas & Subic
    2. Volume cap maybe handled by Manila Port.
    3. Railways for the cargo transfers
    4. Single, executive body – to plan, manage & operate Metro Manila Transport System
    5. Master plan to staged expansion of major ports in tandem with supporting road system to accommodate long term growth in trade.

Long Term Solution to Decongest Manila Ports

Clark and Subic as logistics center

Urban industrial beltway: Central Luzon-CALABARZON Growth Corridor

Existing Infrastructure but highly under-utilized

BATANGAS – SUBIC – CLARK CORRIDOR

- **VISION:**
  - To develop Subic-Clark-Batangas Corridor as a Major Transshipment and Logistics Hub, as well as to decongest Metro Manila
- **CHALLENGES:**
  - To complete the supporting infrastructures that will create a seamless infrastructure network along the corridor,
  - To address major transport policy issues, critical to the development of SCB corridor

Solution to High Shipping Cost

- **Amendment to cabotage rule – pending bill in Senate already approved in principle.**
  - Allowing foreign ships to make multiple local port calls for foreign trade cargoes; allows co-loading.

- **Lowering domestic liners shipping costs.**
  - Leveling of playing field as to taxes, fuel and other input costs.

Other Solutions to lower Transport Cost…

- **CARGO RAIL SYSTEM**
  - Luzon GMA had one in 2000/2001
- **DEVELOP LOGISTICS HUB**
- **CONNECTING HUB BY RAIL**
- **CONTAINER BARGING**

The Alternative to Conventional Shipping

RO-RO SHIPPING System

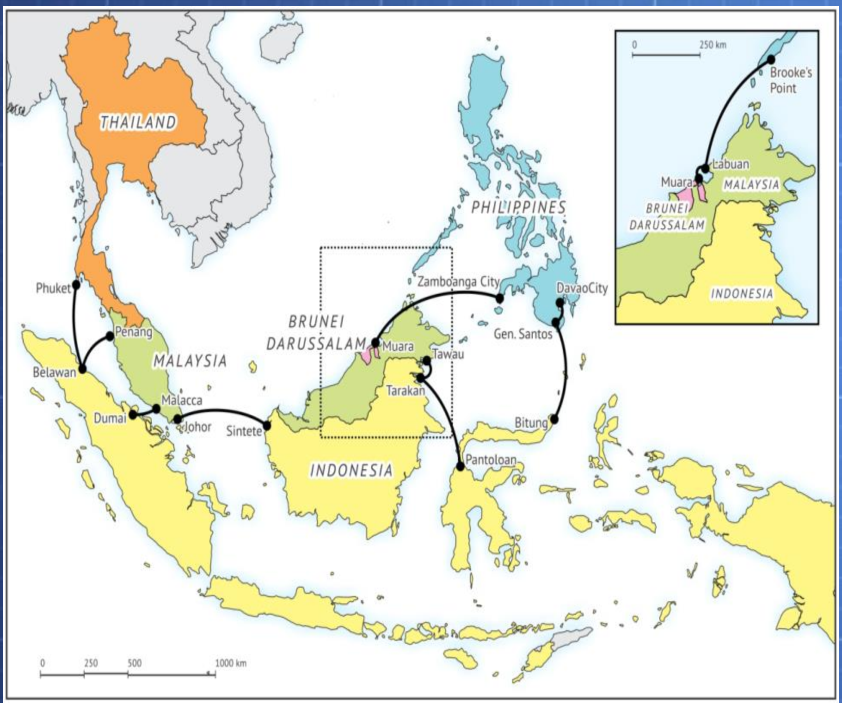
Phil. Domestic RORO Network

- RO-RO Shipping is ***not*** a new transport technology;
- Widely used in Europe;
- There are 21 RO-RO links in East Asia;
- In the Philippines, we have an extensive domestic RO-RO network;
- RO-RO eliminates cargo handling labor and equipment, and reduces the amount of time required to be in a port which can lead to considerable reductions in sea transport costs and improvement in service quality.

Source: REID Foundation

RO-RO shipping is a transport mode that can hasten ASEAN connectivity.

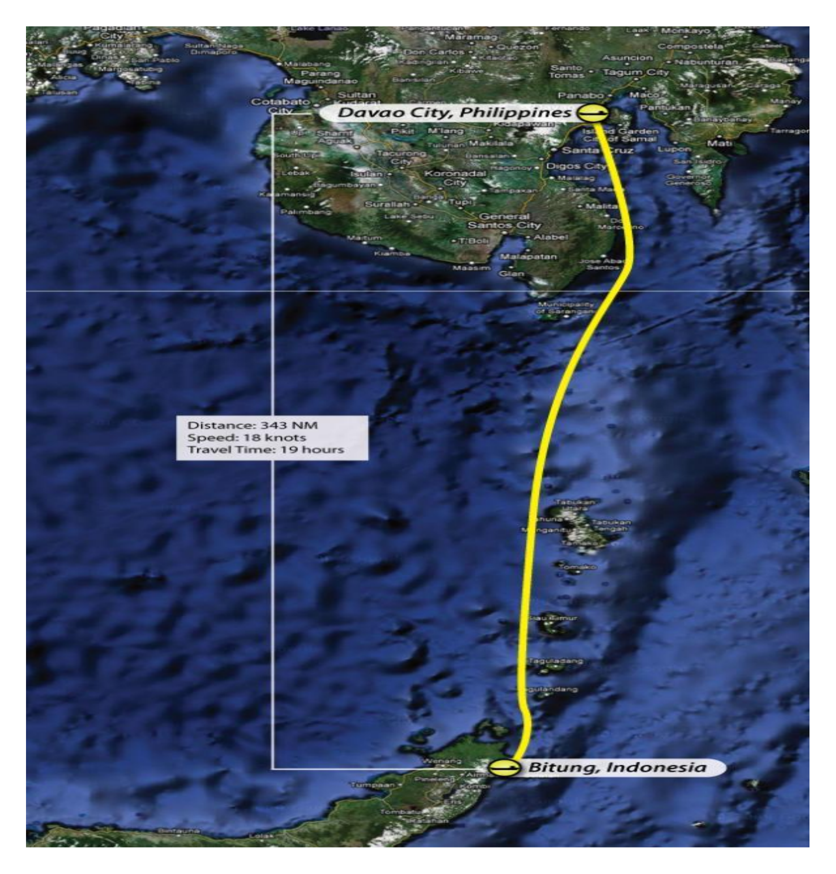
RO-RO ROUTES SELECTED BY ASEAN



① Davao City – General Santos – Bitung
② Tawau – Tarakan – Pantoloan
③ Brooke's Point (Palawan) – Labuan – Muara
④ Muara – Zamboanga City
⑤ Sintete – Johor
⑥ Dumai – Malacca
⑦ Belawan – Penang
⑧ Belawan – Phuket

SOURCE: JICA

Connecting Philippines to Indonesia thru Davao – Bitung Route



- 343 nautical miles
- 19 hours travel time (18 knots speed)
- Connects two (2) key cities in Mindanao and Sulawesi
- Improves connectivity between Philippines and Indonesia
- Can also call on General Santos and Tahuna
- Support from the BIMP-EAGA sub-regional group

Connecting Challenges

- Many islands poorly connected to market.
- Maritime travel unsafe, unreliable, costly
- Ports and roads inefficient

Way forward for Connectivity

- Most efforts need to be made at national levels.
  - infra investment
  - policy reforms
  - capacity building
- National rules need to meet international standard.

Need PH Government Fast & Effective Action to advance GVC's

- Organizational alignment and harmony among agencies.
- Consistency in the rules and policies.
- Coordination and integration of govt. initiatives including infrastructure.

Creation of PH National Supply Chain

- **Single executive body as Supply Chain secretary**
- **Coordinate and orchestrate policies and activities for effective and efficient value chain.**
- **Take the lead in getting right and adequate infrastructure.**
- **Develop, promulgate and implement programs, projects and measures to promote all aspects of domestic trade and attain global competitiveness.**

SME'S IN THE VALUE CHAIN

SME need to be competitive to participate

- Product or service quality
- Standards and certifications
- Productivity and economies of scale
- Innovation etc.

SME Major Constraints

- Access to Markets
- Access to Finance
- Access to Training

SME’s must embrace change…

Agile Supply Chain drives Competitive Advantage & GVC’s

1

2

3

4

In Closing

- PH is on a growth path for next 5 years but the question is "Are we growing as much as we could?"
- Need efficient, fast, resilient and tailored value chain to expand and conquer APEC market.
- PH Government to speed up infrastructure development and must have a long term, pro-active plan to address GVC challenges and without true collaboration among other countries, value chain cost has and will continue to be a concern.

- Global is the new local
  Take hold of the future, it pays to prepare

Thank you

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