Study of SMEs' Integration into Global Value Chains in Services Industries – Fashion Design

By APEC Study Center,
The Chinese University of Hong Kong

Prepared by

Prof. Michael FUNG, Dr Bruce Erik BERGSTROM, Prof. Stephen CHIU, Dr Fred KU, Dr CK LAW, Prof. Bernard SUEN, Dr Andrew YUEN

APEC Study Centre, The Chinese University of Hong Kong

The authors can be contacted at: andrewyuen@baf.cuhk.edu.hk

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Executive Summary

Integrating into global value chains (GVCs) provides business opportunities for small and medium enterprises (SMEs) in the fashion industry. At the economic level, SMEs' integration into GVCs has many benefits to society, including boosting exports, creating job opportunities, encouraging creativity and promoting further economic development. Governments may be in a position to provide policies to facilitate the integration process. Thus, from the viewpoints of fashion SMEs and governments, it is important to better understand how the industry interacts with GVC business models to achieve desirable outcomes and how governments can effectively support SMEs' integration into GVCs.

This study analyses GVCs in the fashion industry. Six value-adding activities are identified: research and new product development; design; production; logistics and distribution; marketing and branding; and services. They belong to higher value-adding activities located either upstream or downstream of the GVC. Manufacturing and assembly are considered lower value-adding activities. The economic upgrading process requires a move from low to high value-adding activities.

According to some successful case studies of the industry and a literature review, participation in GVCs is a major channel for fashion SMEs in the economic upgrading process. For example, an SME can participate in a GVC as an original equipment manufacturer (OEM) that receives orders from other firms and takes responsibility for all production activities, including cut, make and trim (CMT) activities and finishing and distribution. After gaining expertise and a better understanding of overseas markets, the firm can develop and upgrade to the original brand management (OBM) stage in which it can produce and market under its own brand name. Other benefits of fashion SMEs' participation in GVCs include market expansion, acquisition of updated knowledge and innovation encouragement.

The e-commerce boom has facilitated fashion SMEs' integration into GVCs. The B2B model makes communication within the supply chain more convenient, while the B2C model makes SMEs easier to access overseas. Recent trends in production fragmentation also provide ample opportunities for fashion SMEs to participate in GVCs and experience core competitiveness. Although fashion SMEs' integration into GVCs has many benefits, there are also many challenges involved, especially in terms of competition with large enterprises. Without economies of scale, SMEs may be at a disadvantage in knowledge and skills development, business model innovation and creativity, information and communications technology (ICT) and sustainability and environmental concerns. This study provides policy recommendations for governments to support fashion SMEs' participation in GVCs in design, manufacturing, marketing and branding, financing and other areas.

1. Overview

1.1 Background and Purpose

This study aims to provide a better understanding of global value chains (GVCs) in the fashion industry. It also proposes strategies and policy recommendations to help small and medium enterprises (SMEs) in the fashion industry in APEC economies integrate into GVCs.

Fashion is one of the past decade's rare economic success stories. In this period, the industry has grown at 5.5% annually according to the McKinsey Global Fashion Index and is now worth an estimated US$2.4 trillion. The industry is far-reaching and can be viewed as the world's seventh largest economy if ranked alongside individual countries (McKinsey, 2016). The fashion and apparel industries have also created many job opportunities in the global economy.[1]

Many consider Paris, London, Milan, New York and Tokyo as the global fashion capitals of the world. These cities are seen as important centres for fashion and design if production can be globally outsourced or if relatively small volumes of total product are consumed or sold in these places. Fashion design originates in cities, where 80-85% of designers work. Each city has its own 'design identity' or characteristics. Cities are sources of inspiration, and buyers and salespeople prefer them for their convenience and distribution. Companies have showrooms in major cities, and within each city are one or two specific fashion and garment districts (Jones, 2011).

Fashion is a structurally diverse industry, ranging from major international retailers to wholesalers to large design houses to one-person design shops. It employs people across occupations, including fashion designers, computer programmers, lawyers, accountants, copywriters, social media directors and project managers. According to a recent fashion industry association report, manufacturing comprises only a fraction of the modern apparel industry, as it is a highly sophisticated industry involving fashion and market research, brand licensing/intellectual property rights, design, materials engineering, product manufacturing, marketing and finally, distribution.

[1] Formal employment in the sector totals over 25 million people in low- to mid-income economies (ILO, 2005). In the US, the fashion and apparel industries employ 1.9 million people (US JEC, 2015).

Today, the global fashion industry is dominated by large multinational fast fashion retailers such as H&M, Forever 21 and Zara. There is also a great variety of small to medium-sized players that compete in the fashion industry and bring a much fresher feeling into the industry, including PR fashion agencies, consulting firms, special apparel service providers and small fashion design companies. Regardless of size and structure, every company in the textile and apparel industry is in business to generate value by providing consumers with products and services (Burns and Bryant, 2007).

1.2 Scope of Study

This study focuses on analysing the structural aspect of GVCs in the fashion industry (mainly clothing and apparel) and looks into the opportunities and challenges of fashion SMEs integrating into GVCs. In particular, this study aims to 1) identify opportunities and difficulties for fashion SMEs, 2) help fashion SMEs to build capacity and develop strategies for their effective integration into GVCs and 3) develop policies and measures to help fashion SMEs 'go global' or reach out to foreign markets. This study analyses successful fashion SMEs in Hong Kong, China and other APEC economies. Moreover, interviews and surveys were conducted with government officials and industry practitioners to collect their views on fashion SMEs integrating into GVCs.

1.3 Overview of the Fashion Industry

The fashion industry is one of the major industries in the global economy. It creates significant economic value and has cultural and social impacts. In the past decade, the fashion industry has grown at 5.5% annually and is worth an estimated US$2.4 trillion (about 3.7% of the global GDP) (McKinsey, 2016). This study focuses on the clothing category of the fashion industry. In 2016, the business value of the clothing industry reached US$1.3 trillion, contributing about 2% of the global GDP (see Table 1.3a). The industry shares of each region's GDP were similar. In terms of market share, Asia Pacific was the largest market, contributing 37.1% of the global share. Western Europe and North America ranked second and third, respectively.

The global economic downturn beginning in 2008 had a negative impact on industry growth: the business value of the industry decreased by 0.1% on average per annum in the period between 2011 and 2016. However, Asia Pacific and Latin America still performed well. The industry also benefited from the recent recovery in the global economy, with estimated growth rates in the clothing industry of 1-1.5% and 1.5-2.5% in 2015-16 and 2016-17, respectively (McKinsey, 2016). According to a survey conducted by

McKinsey (2016), 40% of business executives (compared with only 19% in 2016) in the industry believe that conditions for the fashion industry will improve in 2017. They believe the performance improvement will come from both sales growth and cost improvement.

Table 1.3a Clothing Industry Value in Different Regions

Regions	Fashion Industry Value in million US$	Global share (%)	Share of regional GDP (%)	Compound Annual Growth Rate (CARG) in 2011-16
World	1,323,074	100%	2%	-0.1%
Asia Pacific	491,324	37.1%	2%	3.5%
Australasia	16,605	1.3%	1%	-4.0%
Eastern Europe	52,590	4.0%	2%	1.7%
Latin America	72,359	5.5%	1%	3.7%
Middle East and Africa	92,408	7.0%	2%	-6.1%
North America	298,272	22.5%	1%	-7.2%
Western Europe	299,517	22.6%	2%	-4.4%

Source: Euromonitor.

Feature Case: The Value of the UK Fashion Industry (British Fashion Council, 2010)

The British Fashion Council (2010) estimates the economic contribution and social impact of the UK fashion industry. Economically, the fashion industry adds value to the UK through three channels: gross value added (GVA), employment and tax revenue to the government. It also has a positive spill-over effect in promoting the UK's tourism and trendsetting image.

In 2009, it was estimated that the UK fashion industry directly contributed £20.9 billion of the UK's total GDP, around 1.7%. Of this £20.9 billion, £6.6 billion was contributed purely from fashion design and £14.3 billion was contributed from the retail sector, including marketing, fashion education and fashion media. This contribution was only slightly smaller than that of the telecommunication and real estate industries, proving the significance of the fashion industry to the UK economy. Overall, £13.2 billion was contributed to the Exchequer through three major pathways: 1) value-added tax collected from fashion product consumers, 2) company tax from manufacturers and retailers and 3) income tax from their employees. In addition, the UK fashion industry generated 816,000 jobs, equivalent to 2.8% of total employment.

However, the economic impact of the industry was far larger than its direct impact. Indirect impacts on non-fashion industries and induced impacts from employee spending should not be neglected. Factoring in the indirect contribution, the fashion industry created 1.309 million jobs and contributed £37.2 billion to the GVA and £17.5 billion to the Exchequer. In addition to these contributions, the industry contributed in a less tangible way. As well-known brands are highly valued by consumers, domestic brand equity was worth £202 million. The industry also enhanced the country's international brand equity as a global leader in fashion trendsetting, hence boosting tourism by promoting activities such as visits to Fashion Week and shopping. The tourism industry contributed a conservatively estimated £98 million in 2009.

According to Euromonitor data, per-capita spending on fashion products in 2016 varied across the APEC economies. As seen in Table 1.3b, Hong Kong, China had the highest spending per capita, US$921.8, followed by the US and Canada. Malaysia, Philippines and Mexico were forecasted to have the highest growth rates in spending from 2016 to 2021.

Table 1.3b Per-capita Retail Spending in APEC Economies (in US$, current prices) *

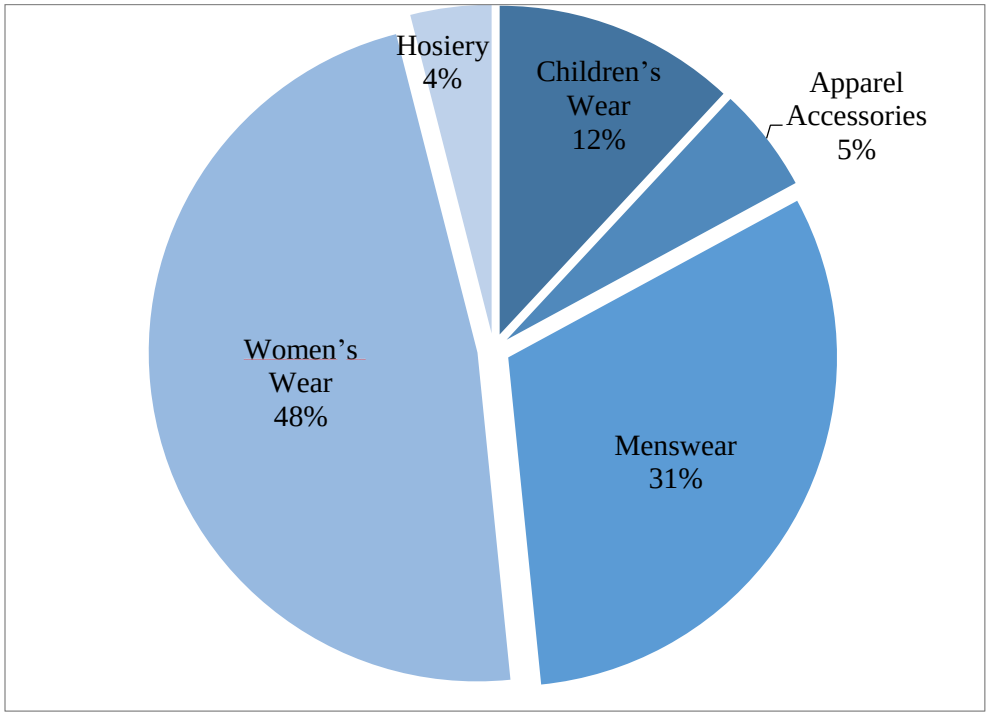
Rank	APEC Economy	2016	2021 (Forecasted)
1	Hong Kong, China	921.8	1,166.8
2	USA	844.1	948.7
3	Canada	678.5	761.6
4	Australia	568.0	589.1
5	Japan	546.9	548.5
6	Korea	461.6	467.7
7	Singapore	461.6	467.7
8	Chile	311.5	338.3
9	Chinese Taipei	303.9	329.8
10	Russia	204.0	288.7
11	China	198.9	263.6
12	Malaysia	161.2	246.1
13	Mexico	111.7	159.6
14	Thailand	89.3	114.9
15	Philippines	74.7	109.0
16	Indonesia	31.9	39.7
17	Viet Nam	23.7	31.2

Source: Euromonitor.

*Brunei, New Zealand, Peru and Papua New Guinea are not included due to data availability.

Looking at different market segments of fashion products (see Figure 1.3.1), women's wear was the largest market, with a 48% market share. Menswear ranked second, accounting for 31% of the total market. Different age groups had different amounts of purchasing power and spent different amounts on fashion products. Using the US as an example (see Table 1.3.2), the 45-54 age group had the highest income and spent the most on fashion products. However, individuals under 25 spent the largest share of income on fashion products.

Figure 1.3.1 Market Shares of Different Segments in Fashion Industry



Source: Euromonitor.

Table 1.3.3 US Spending on Fashion Products in 2016

	Income (Pre-tax) (US$)	**Average annual expenditures (US$)**	**Apparel and services (US$)**	**Apparel/Annual expenditures (%)**
<25	31,606	32,797	1,271	4.02
25-34	64,472	52,062	1,864	2.89
35-44	84,938	65,334	2,584	3.04
45-54	95,248	69,753	2,605	2.73
55-64	75,262	58,781	1,596	2.12
>65	46,627	44,664	1,060	2.27
All consumer units	69,627	55,978	1,846	2.65

Source: U.S. Bureau of Labor Statistics.

2. Global Value Chains (GVCs) in Fashion Design

2.1 General Framework

This section outlines the general framework of GVCs and their implications for SMEs participating in GVCs. A GVC refers to the full range of cross-border value-added business activities required to bring a product or service from the stages of conception, design, raw material sourcing and intermediate input to production, marketing, distribution and supplying to the final consumer (Abonyi, 2007). To emphasise the question of who adds value and where this takes place along the production chain, the term 'value' is used rather than 'product' or 'commodity' (ILO, 2003). GVCs play an important role in the global economy and account for rising shares of international trade, global GDP and employment (Gereffi & Fernandez, 2011). According to the United Nations Conference on Trade and Development, value chains administered in various ways by transnational corporations now account for 80% of global trade (or US$20 trillion) (UNCTAD, 2013). A number of firms, including SMEs, participate in GVCs and provide services based on their expertise as suppliers, distributors and business service providers, such as third-party logistic providers, financial institutions and market research firms.

The GVC framework has evolved from its academic origins to become a major model used by a wide range of national governments and international organisations, including the World Bank and the International Labour Organization. GVCs have four dimensions (Gereffi & Fernandez, 2011): (1) an input-output structure, which describes the process of transforming raw materials into final products; (2) a geographical consideration; (3) a governance structure, which explains how the value chain is controlled; and (4) an institutional context in which the industry value chain is embedded. GVC analysis highlights how new patterns of international trade, production and employment shape development and competitiveness prospects, using core concepts like 'governance' and 'upgrading' (Gereffi & Fernandez-Stark, 2016).

Leading value chain firms have considerable control over the stages along the value chain. This determines how basic value-adding activities are distributed and how much profit accrues at each stage. To understand how this division of work occurs, six distinct value-adding activities have been identified using the Smiley Cure:

1. Research and new product development (R&D);
2. Design;
3. Production;

4. Logistics (distribution);
5. Marketing and branding; and
6. Services.

Table 2.1 Six Distinct Value-adding Activities

Value-adding activity	Description
1. Research and new product development	This value-adding function includes companies that engage in R&D in addition to activities related to improving the physical product or process and market and consumer research. R&D is the first step in the value chain and includes activities related to product and process innovation in addition to research on consumer markets.
2. Design	Design is at the heart of the industry's creative process. This stage determines the product's distinctiveness, symbolic form and success. It includes people and companies that offer aesthetic design services for products and components throughout the value chain. This stage can provide the product with a strong competitive advantage. Design and style activities are used to attract attention, improve product performance, cut production costs and give the product a strong competitive advantage in the target market.
3. Production	This activity includes purchasing/sourcing and actual manufacturing. Purchasing/sourcing refers to the inbound processes involved in purchasing and transporting raw materials. Managing the supply chain and logistics are important activities in this step. They include physically transporting products in addition to managing or providing technology and equipment for supply chain coordination. Logistics can involve domestic or overseas coordination.
4. Logistics and distribution	In this step, the final product is distributed and sold via wholesalers. After the product is manufactured, it is distributed and sold via a network of wholesalers, agents, logistics firms and other companies responsible for value-adding activities outside of production.

5. Marketing and branding	This function includes all of the activities and companies associated with pricing, selling and distributing a product, including activities such as branding or advertising. These companies frequently do not make any physical alterations to the product. The product is marketed and sold to consumers (via retail channels), institutions or the government.
6. Services	This includes any type of activity a firm or industry provides to its suppliers, buyers or employees, typically as a way to distinguish itself from competitors in the market (e.g., offering consultation on international businesses or trends).

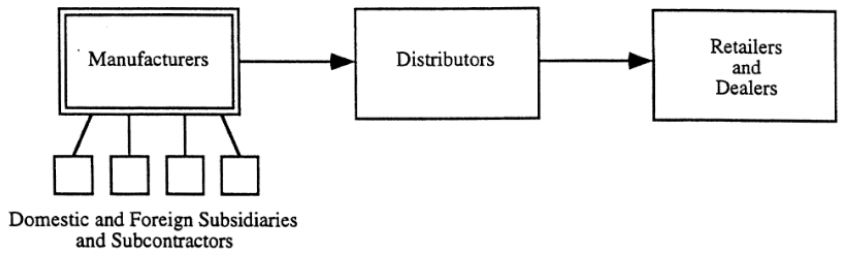
Source: Gereffi & Fernandez (2011).

2.1.1 Value Chain Governance

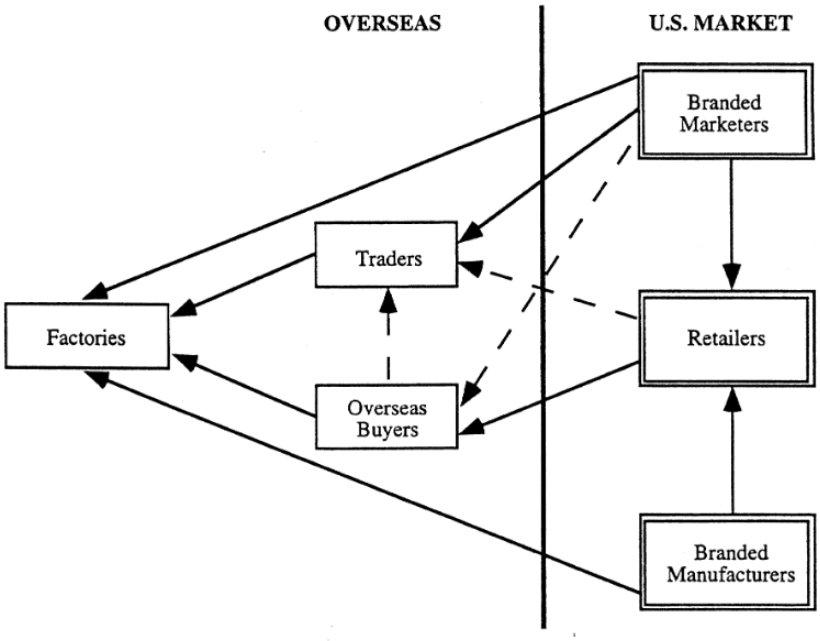
Value chain governance refers to the relationships between buyers, sellers, service providers and regulatory institutions that operate within or influence the range of activities required to bring a product or service from inception to its end use. Governance is about power and the ability to exert control along the chain: at any point in the chain, some firm (or organisation or institution) sets and/or enforces parameters under which others in the chain operate. There are two major types of GVC governance structures: producer-driven and buyer-driven value chains (as shown in Figure 2.1.1a). Producer-driven value chains are those in which large, usually transnational, manufacturers play central roles in coordinating production networks (including their backward and forward linkages). Buyer-driven commodity chains refer to those industries in which large retailers, branded marketers and branded manufacturers play pivotal roles in setting up decentralised production networks in a variety of exporting countries (Gereffi, 1999).

Figure 2.1.1a Organisation of Producer- and Buyer-driven Global Value Chains

Producer-driven value chains



Buyer-driven value chains

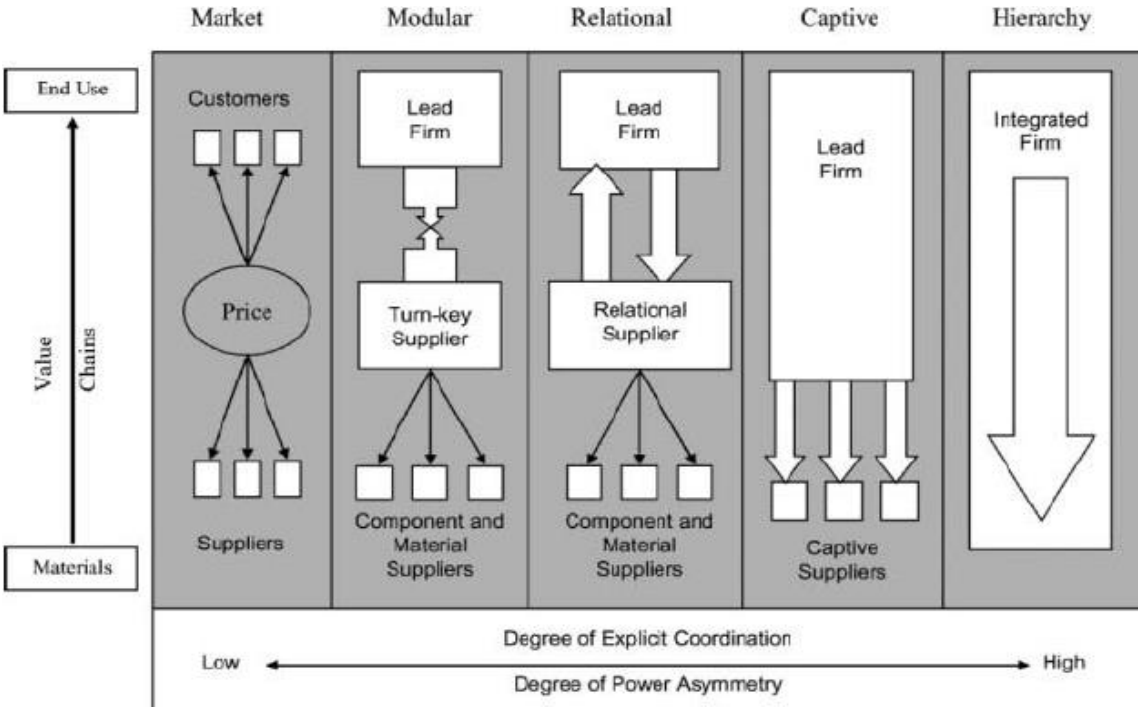


Notes: Solid arrows are primary relationships; dashed arrows are secondary relationships.

Source: Gereffi (1999).

To understand the connection between chain governance and upgrading, Gereffi, Humphrey and Sturgeon (2005) further identify five types of relationships and GVC governance patterns as noted in the following diagram.

Figure 2.1.1b Value Chain Governance



Source: Gereffi, Humphrey & Sturgeon (2005).

A major hypothesis of the GVC approach is that national development requires linking up with the most significant lead firms in an industry. These lead firms are not necessarily the traditional vertically integrated manufacturers, nor are they necessarily involved in making finished products. Lead firms, such as fashion designers or private label retailers, can be located upstream or downstream from manufacturing, or they can be involved in the supply of critical components (e.g., accessories and trims companies like YKK Zippers in the apparel industry). What distinguishes lead firms from non-lead firms is that they control access to the major resources (such as product design, new technologies, brand names or consumer demand) that generate the most profitable returns (Gereffi & Memodovic, 2003).

Among the five types of relationships and GVC governance patterns, both inter-firm coordination and power asymmetry within the networks are lowest in the supply markets and highest in the integrated firms. The basic characteristics of GVCs are presented in Table 2.1.1.

Table 2.1.1 Types of Governance Patterns and Characteristics

Patterns	Characteristics
Market	Enterprises deal with each other in arm's-length transactions. Market governance involves transactions that are relatively simple. Information on product specifications is easily transmitted, and producers can make products with minimal input from buyers.
Modular	Modular governance occurs when a product requires the firms in the chain to undertake complex transactions that are relatively easy to organise in a systematic way.
Relational	Enterprises cooperate and have complementary competences but no control over each other. In this network-style governance pattern, interactions between buyers and sellers are characterised by the transfer of information and embedded services based on mutual reliance regulated through reputation and social and spatial proximity.
Captive	A lead firm sets the parameters under which others in the chain operate; the relationship is quasi-hierarchical. In these chains, small suppliers depend on a few buyers that often wield a great deal of power and control. Such networks are frequently characterised by a high degree of monitoring and control by the lead firm.
Hierarchy	Enterprises are vertically integrated: the parent company controls its subsidiaries. Hierarchical governance describes chains that are characterised by vertical integration and managerial control within a set of lead firms that develops and manufactures products in-house. This usually occurs when product specifications cannot be codified, products are complex or highly competent suppliers cannot be easily found.

The coordination of GVCs is generally the province of large multinational enterprises (MNEs), whether they are brand-name designers of products (e.g., H&M), retailers (e.g., Walmart) or middlemen and facilitators (e.g., Li and Fung in apparel). These lead firms largely determine the location of high value-added activities and the conditions under which other firms participate in GVCs. The characteristics of lead firms, including their economic strategies and management styles, affect the upgrading opportunities offered by GVC participation.

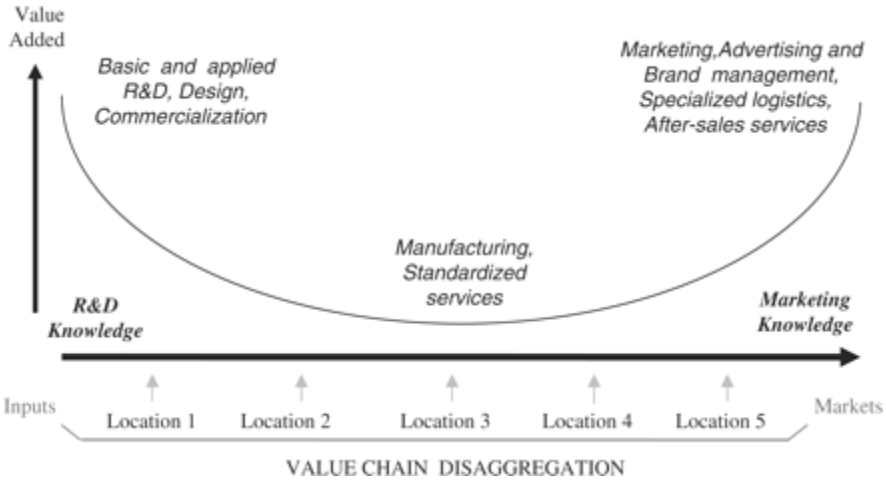
Lead firms continue to influence the geographic scope of GVCs. Rapidly growing lead firms and global suppliers from the developing world are becoming powerful actors in shaping GVC strategies and requirements for access, integration and upgrading. As a result, the governance patterns of an industry can change over time. A case in point is Hong Kong, China's apparel industry. The success of apparel firms in Hong Kong, China and China occurred when they moved from captive relationships with lead firms in the US and Europe to modular and/or relational forms of governance involving complex coordination, knowledge exchange and supplier autonomy. Asian manufacturers began by assembling pre-cut inputs supplied by the lead firms. Over time, Asian suppliers acquired more capabilities and transitioned to making complex products (product upgrading) for more sophisticated buyers, resulting in higher returns (Gereffi, 1999).

According to UNCTAD (2013), the GDP contribution of GVCs can be limited if countries capture only a small share of the added value created in the chain. Therefore, the challenge facing countries and firms is how they should participate in GVCs. Countries must carefully weigh the pros and cons of GVC participation and the costs and benefits of proactive policies to promote GVCs or GVC-led development strategies in line with their specific situations and factor endowments. Policies matter for making GVCs work for development. Governments should set policy objectives for GVC development pathways that enable not only large firms but also SMEs to participate. Firms must also consider the role they will play along the value chain. This is determined by the firms' capabilities, resources, knowledge and experience.

2.1.2 Moving Up the Value Chain

A major challenge often attributed to participation in GVCs is that of moving progressively to higher value-added activities of a chain through upgrading. This challenge is often illustrated by the well-known 'smiling' curve developed by the founder of Chinese Taipei's Acer Corporation, Stan Shi. Figure 2.1.2 illustrates the curve. Higher value-added activities of the chain tend to be either upstream or downstream, while manufacturing and assembly – the stages at which most developing countries enter the value chain – often result in comparatively lower value addition. The challenge lies in moving up the value chain to assume higher value-added activities and capture a greater share of the profits.

Figure 2.1.2 Smiling Curve



Source: Mudambi (2008).

2.2 The Global Value Chains of Fashion Design

The six identified activities can be further matched to six steps in the fashion design GVCs as follows.

Figure 2.2 Six Steps in Fashion Design GVCs (Black & Edwards, 2015)

Step 1: Research and New Product Development (R&D)

Development and planning of the entire collection involves several skilled activities including conducting research to understand market trends, consumer behaviour and fabric determination. This research is used to predict and understand the next fashions, fabric trends, colours, styles, price points, retail requirements, competitive forces and other sources of innovation. These elements are then integrated into the development of product lines and the costing of the planned collection. Design research, inspiration and concept development are iterative processes that entail a visual exploration of ideas taken from books, on-line, exhibitions, film, media, materials and technology. Themes can be historical, thematic, conceptual or

personal or an external brief. The research informs the concept and mood of a collection in addition to details such as its colour palette, silhouette and textiles.

Feature Case: Meiyi Cheung – Understanding Material and Trends in R&D

Meiyi Cheung is a local-born fashion designer in Hong Kong, China who ran Paragon Design Limited for about 9 years, providing design solutions to fashion retailers and brands. She is an experienced fashion designer who had recently worked in Europe, South East Asia and mainland China. She had had exhibitions around the globe and held professional talks to future designers in Hong Kong, China. Meiyi doubtlessly has a deep understanding of the world fashion industry.

When Meiyi entered the fashion industry, she took on the role of merchandiser. She was required to select qualified fabrics for the company, which helped her to gain a deeper understanding of the material aspect. When Meiyi was working in Kamberly, she further explored the great variety of functional fabrics in the company's fabric library. She also collaborated with several renowned sportswear brands such as Reebok, Arena and Speedo. Through the collaborations, she was able to explore advanced performance textiles around the world in depth.

Meiyi understands the importance of technological advancement in the fashion industry. After she set up her fashion brand, she made many attempts to use new fabrics. Meiyi is highly experienced in product R&D. She led a strong product development team in Kamberly and provided exclusive design services and trend forecasts to buyers. She also made the trend forecasts mainly based on consumer behaviour and technological advancements in society. The buyers relied heavily on the services, which enabled her customers' design teams to follow their design concepts and reduce the extra costs of product production.

Designer website: http://www.pmq.org.hk/shop/whosthatshop/

Step 2: Design

The design and prototyping of new models require both creativity and technical aptitude in addition to an understanding of market demand and cost structures. Design involves the use of hand sketches, off-the-rack garments, technical drawings, three-dimensional draping on dress forms or computer-aided design (CAD) to create new concepts and samples. It also involves sourcing materials, making and experimenting with prototypes (textile swatches), silhouettes and colours. The development of a final sample collection has several iterations. Designers explore, play with, sketch and test prototypes and constantly switch between working 2D and 3D to refine a design, fit and quality. Samples are then produced, and a portion of these designs is accepted into the line. These accepted samples are shown to potential buyers. Based on market acceptance, only those styles deemed successful are entered into the line/collection. A collection can include garments, accessories, shoes and textiles. Decisions on initial manufacturing location are also considered at this stage.

Feature Case: EK Thongprasert – Creation with originality and innovation

Innovation and creativity may sometimes originate from the mix of different cultures and backgrounds. Different from other fashion designers, EK Thongprasert, an international reputable Thai fashion designer, obtained his first degree in Architecture from Chulalongkorn University in Thailand in 2004. Following his passion in art and design since his high school, Thongprasert then pursued further studies at the Fashion Department of Royal Academy of Fine Arts in Antwerp, Belgium. The school was one of the most prestigious fine arts institutions in the world, and Thongprasert is so far the only Thai national to be its alumni.

Many fashion design graduates may consider to join large fashion companies after their graduation to gain experience in design as well as business operations. Thongprasert chose a different career path. Since graduated from Royal Academy of Fine Arts in 2007, Thongprasert started to develop his own design products and sell them through renowned French showroom Florence Deschamps. One of the reasons for the career choice was that Thongprasert won the International Talent Support (ITS) Award in Italy. ITS is a platform created to give support and visibility to young talents in the field of fashion design, and design of accessories and jewellery, and its award is well-received by the industry. Given the reputation gained from the award and also those from other competitions in 2007, Thongprasert believed it would be a good opportunity for him to start his own business.

In 2008 and 2009, Thongprasert founded two companies, Ek Thongprasert (a jewellery line) and Curated by Ek Thongprasert (a conceptual fashion brand for both men and women), respectively. The philosophy of Ek Thongprasert, as quoted from its website, is "a strong approach towards the conceptual aspect; each collection is a complex combination of thoughts, design elements, which come from deep analysis into a concept." Thongprasert's originality and innovative ideas can also be demonstrated by his jewellery design. His jewels are made of silicone, which are usually used for industrial purpose. He was the first designer who uses the material for making luxury jewellery.

Designer website: http://ekthongprasert.be/

Step 3: Production

Designers prepare their collections for bulk production and delivery to retail. This involves pattern digitising and grading, material supplies, textile printing, knitting, weaving and embellishments. Liaison and descriptive spec sheets are ordered for garment manufacturers/factories and specialist makers. Merchandising is required to estimate the number of products to produce by product category, style and size and to help estimate required production delivery dates. Costing of the product accounts for potential sales volumes and sizing requirements. Decisions must be made on whether to manufacture the item at in-house domestic facilities or through domestic contractors. The decisions must account for factors such as volume, quality, price, reliability, delivery requirements and international trade laws. In certain instances, merchandising may simply refer to putting together a collection for a specific retailer based on imports from a variety of suppliers (e.g., an outsourced buyer). Orders are aggregated and garment production begins.

Step 4: Logistics and Distribution

In this step, the final product is distributed and sold via wholesalers. After the apparel is manufactured, it is distributed and sold via a network of wholesalers, agents, logistics firms and other companies responsible for value-adding activities outside of production.

Step 5: Marketing and Branding

This function includes all of the activities and companies associated with pricing, selling and distributing a product, including activities such as branding or advertising. These companies frequently do not make any physical alterations to the product. The fashion product is marketed and sold to consumers (via retail channels), institutions or the government.

Designers launch their collections with a fashion show or presentation, and invitations are sent out to the press, buyers and journalists for brand promotion and wholesale retail orders. Live streaming with ‘buy now, wear now’ apps have recently been integrated into fashion catwalks. Ready-to-wear fashion shows occur throughout the year, and pre-collections are shown in between. Orders from a collection are taken at shows, followed by a significant showroom selling period. Wholesale B2B trade can occur on retail, on-line and physical platforms such as e-business/e-commerce/e-tail, social shopping, retail apps, Web and mobile apps and, more recently, virtual dressing rooms.

Marketing seeks to match retail outlets to the quality and character of the product. Consumer-facing brand marketing and promotion are set up to drive sales. This involves media production of photo shoots and videos for on-line channels, in-store promotions and printed media. Some brands put on an invitation-only press open day with a special buying experience to generate advertising coverage. New digital sales tools, apps and virtual dressing rooms are starting to be used as services that nudge interest towards on-line purchasing.

Distribution entails the physical logistics of moving inventory along a distribution channel. Entities determine how much to move and when and where to move it. Distribution is an increasingly sophisticated logistics operation often based on computerised order tracking and inventory control systems.

Step 6: Services

Services include any type of activity a firm or an industry provides to its suppliers, buyers or employees, typically as a way to distinguish itself from competitors in the market (e.g., offering consultations about international businesses or trends). Experienced fashion designers may provide fashion design-related consultation services to buyers or brands.

2.3 Economic Upgrading in the Fashion Industry

Economic upgrading is defined as firms, countries or regions moving to higher value-added activities in GVCs to increase benefits (e.g., security, profits, added value, capabilities) (Gereffi, 2005). Upgrading is important for driving growth in the industry. There are three major types of economic upgrading. First, process upgrading refers to an increase in efficiency of the production process, such as through reorganisation or investing in more advanced technology. Inputs can be transformed into outputs more efficiently by reorganising the production system or introducing superior technology.

Second, product upgrading involves shifting to more sophisticated product lines with increased unit value, which are normally more difficult to produce due to differences in technical specification and input materials (OECD/WTO/IDE-JETRP, 2013). For instance, a supplier may upgrade its products by shifting from the production of casual woven shirts to expensive suits. The suppliers' ability to produce products with higher added value is highly correlated with the extent of upgrading in the production process.

Finally, functional upgrading is the process by which firms acquire new, more strategic functions in the chain such as design or marketing or switch buyers by moving to those chains catering to more sophisticated markets (Humphrey & Schmitz, 2000). According to Gereffi and Memedovic (2003) and Gereffi and Fredrick (2010), functional upgrading in the apparel value chain has the following four main stages.

Stage 1 Assembly/(Cut, Make and Trim) CMT

In this stage, the company is responsible only for assembling the imported inputs provided by other manufacturers. To perform CMT, a manufacturer produces garments for a customer by cutting fabric provided by the customer and sewing the cut fabric into garments in accordance with the customer's specifications. In general, companies operating on a CMT basis do not become involved in the design of the garment, but are merely concerned with its manufacture. Suppliers in the CMT production modality assume no responsibility for the more knowledge-intensive functions, such as product design, the sourcing decisions of input materials, distribution arrangements and marketing (OECD/WTO/IDE-JETRP, 2013).

Stage 2 Original Equipment Manufacturer (OEM)/Full Package/Freight on Board (FOB)

The apparel manufacturer takes responsibility for all production activities, including CMT activities, finishing and distribution. The firm must have upstream logistics capabilities, including the ability to procure and finance the necessary raw materials, piece goods and trim needed for production. In some cases, the buyer specifies a set of textile firms from which the garment manufacturer must purchase materials, and in other cases the firm is responsible for establishing its own network of suppliers. The firm is also often responsible for downstream logistics, including packaging for delivery to the retail outlet and shipping the final product to the buyer at an agreed-upon selling price (also referred to as freight on board, FOB). The buyer typically provides the FOB contractor with the product specifications and designs, but the buyer is not involved with the details of the manufacturing process, such as pattern making. Full-package firms can range from single production operations to global suppliers, which have multiple production centres and work on multiple product ranges. Full-package firms have two sourcing possibilities: (1) imported textiles and (2) domestic sourcing of textiles from the local industry. The latter option can create important backward linkages to the textile industry. Many countries begin textile production by manufacturing textiles for use in their apparel exports.

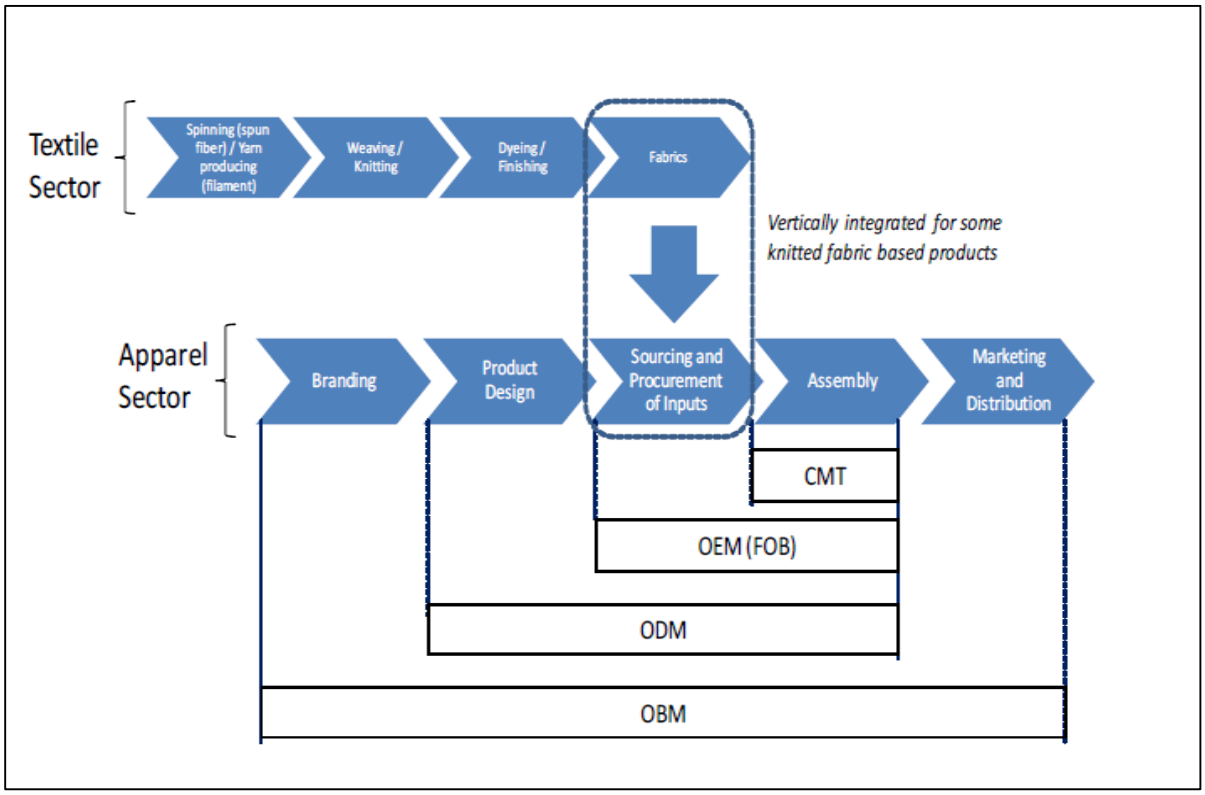
Stage 3 Original Design Manufacturer (ODM)/Full Package with Design

This business model includes design and manufacturing. A garment supplier with a full package with design carries out all of the steps involved in the production of a finished garment, including design, fabric purchasing, cutting, sewing, trimming, packaging and distribution. Typically, the supplier organises and coordinates the design of the product; approves the samples; selects, purchases and produces the materials; completes production; and in some cases delivers the finished product to the final customer. A full package with design arrangement is common for private-label retail.

Stage 4 Original Brand Manufacturer (OBM)

This business model incorporates the branding of products in addition to or in lieu of design and manufacturing. Upgrading involves a move into the sale of own brand products. Many firms in developing countries become OBMs and develop brands for products sold in their domestic or neighbouring country markets.

Figure 2.3 Activities Involved in Various Stages of Functional Upgrading



Source: OECD/WTO/IDE-JETRP (2013), modified from Goto (2011).

According to Gereffi (1999), a number of research studies support the notion that higher-order value-adding design and creative skills are essential in the process of an export-oriented apparel industry progressing

from CMT production to advanced levels such as OEM and OBM. Cattaneo, Gereffi and Staritz (2010) highlight that direct access to buyers, strong managerial and technical skills, quality and delivery standards, new product development skills and creativity have helped manufacturing countries to upgrade their business.

Irrespective of market segmentation, SMEs can attract new customers and gain access to new markets from brand positioning. Trademark specialist Georges Lewi determined that an unbranded product sold for €100 could be sold for €115-130 with a normal brand and €1,000 with a luxury brand. The brand effect is also closely linked to origin, which can be a powerful source of value creation. Origin, just like the brand itself, can often be linked to a historical legacy that allows great storytelling. In France, the segments of tableware and more recently furnishing have understood the value of this intangible capital value without entering into a logic of labels. Origin can even convey a stronger value than the slightly more industrial concept of 'made in'.

Furthermore, Bamber, Fernandez-Stark and Gereffi (2014) identify three additional types of upgrading.

1. Entry in the value chain, where firms participate for the first time in national, regional or global value chains. This is the first and one of the most challenging upgrading trajectories.

2. Backward linkage upgrading, where local firms (domestic or foreign) in one industry begin to supply tradable inputs and/or services to companies – usually MNCs – that are located in the country and are already inserted into a separate GVC.

3. End-market upgrading, which can include moving into more sophisticated markets that require compliance with new, more rigorous standards or into larger markets that call for production on a larger scale and price accessibility.

3. Integration of Fashion SMEs into GVCs

3.1 Benefits of Fashion SMEs' Participation in GVCs

Participating in GVCs provides a window of opportunity for SMEs, especially those in developing countries (ILO, 2003). It opens up new markets, introduces an impetus for modernisation and makes available access to information on international quality standards, market trends, new fields of knowledge, technology and human resource development (Altenburg, 2000). Through linkages with enterprises from industrialised countries, SMEs obtain information on quality standards and technology, learn about consumer preferences and become accustomed to thinking in terms of price, quality and timely delivery processes. Furthermore, they enjoy regular orders, which enable them to accumulate capital and possibly expand (Gereffi, 1999; Tewari, 1999; Altenburg, 2000). Baldwin and Yan (2014) examine whether the integration of Canadian manufacturing firms into a GVC improves their productivity and find that becoming part of a GVC can enhance firms' productivity, both immediately and over time. An OECD (2009) literature review summarises the major drivers and motivations for SMEs to participate in GVCs (see Table 3.1).

Table 3.1 Research Findings on SME Internationalisation Drivers

Country	Motive/stimulus	Author
Australia	Grow market, control supply chain, reduce cost	EFIC, 2008
Belgium, France, Germany, Greece, Italy, the Netherlands, Poland, Spain, Sweden and the UK	Market position, knowledge and relationship search	Kocker & Buhl, 2007
Canada	Growth, management capacity factors, social capital, immigrant links, R&D investment, firm size/age/experience, limited domestic market	Orser et al., 2008
Ireland and India	Knowledge resources	Garvey & Brennan, 2006
Portugal (Azores Islands)	Social networks/ties	Câmara & Simões, 2008
Spain	Managers' previous international experience, firm size/age, regional location, country/regional image	Lopez, 2007
Spain (Catalan region)	Managers' previous international experience, growth and profit expectations, social and business networks, domestic market saturation/stagnation	Stoian, 2006
Sweden	Growth, managers' previous international experience, unique product or technology, limited domestic market	Rundh, 2007
UK	Growth, profits, market size	Barnes et al., 2006
UK	Growth, profits, reduce dependence on a single or smaller number of markets	Reynolds, 2007
USA	Profits	UPS, 2007
USA	Weak dollar, immigrant links, Internet global reach	Iwata, 2008
USA	Global trade infrastructure	USA Today, 2008
Chile	Firm-specific factors (technology content and size) and sector	Milesi et al., 2007
Indonesia	Firm size/resource base, sector-level export intensity, presence of foreign buyers, firm export orientation	Wengel & Rodriguez, 2006

Source: OECD (2009).
Fashion SMEs also enjoy various benefits of participating in GVCs.

3.1.1 Opportunities for Economic Upgrading

The major incentive for fashion SMEs to participate in GVCs is the opportunity to move to higher value-added activities in the value chain (i.e., economic upgrading). Gereffi (1999) argues that participation in GVCs is a necessary step for economic upgrading because it puts firms on potentially dynamic learning curves. Those SMEs in developing countries in particular may lock in the role of resource-based and low-wage cost-based competition (ILO, 2003). Participation in GVCs enables SMEs to access learning processes and upgrading opportunities. Gereffi (1999) reviews successful upgrading in the garment chain in East Asia and identifies four stages: (1) building locally integrated manufacturing and marketing networks, (2) including new tiers of low-cost suppliers in the region, (3) coordinating buyer-driven chains through different types of networks and (4) completing the apparel commodity chain within Asia.

Successful upgrading in the apparel industry in East Asia demonstrates how participation in GVCs leads to the three types of upgrading mentioned in Section 2.3.

a. Process and Product Upgrading

Fashion retailers (like Walmart and Sears) and branded marketers (like Nike and Reebok) in advanced economies (especially US and Western European countries) relocated their manufacturing sites to and sourced from Japan in the 1950s and 1960s, to East Asian newly industrialising economies (Korea, Chinese Taipei, Hong Kong, China and Singapore) in the 1970s and 1980s and to China in the 1990s. Several empirical studies indicate that the transfer of advanced technologies through linkages with production and distribution networks coordinated by international buyers has become important to the process and product (Goto, Natsuda & Thoburn, 2011; Knorringa & Schmitz, 2000).

Foreign capital investment and export-generated revenue enable the production upgrading process for local manufacturers. Innovations in production technology have occurred mostly in the pre-assembly stages, such as pattern making and fabric cutting. The production upgrading process also leads to product upgrading. With more advanced technology and a better understanding of global markets through participation in GVCs, Asian suppliers have shifted from producing low-price apparel to high-end and branded fashion products.

However, backward linkages (importing intermediate goods to be used in exports) give fashion companies access to strategic inputs (UN ESCAP, 2015). For example, cotton is an imported raw material in the apparel industry. Due to economic restructuring and other reasons, both the production and agricultural land for cotton in China have decreased over time, by 38.4% and 21.9% between 2010 and 2016, respectively (USDA, 2017). Domestic production cannot meet the demand from apparel firms. Thus, they are required to import cotton from other countries, including India, the US and Australia.

b. Functional Upgrading

One of the key successes in the Asian buyer-driven apparel production industry was upgrading from CMT to locally integrated and higher value-added full-package supply systems, or OEM production. Gereffi (1999) reviews the functional upgrading in the Asian garment value chain. By moving up from the mere assembly of parts to the production of original equipment for buyers, the local entrepreneurs in these countries became familiar with the preferences of global buyers, and substantial backward linkages were generated. The firms in this region (e.g., Hong Kong, China and Japan) subsequently transitioned from OEM to OBM by integrating design as added value, providing production expertise and relocating labour-intensive activities to other countries in the region (Gereffi, 1999). In Hong Kong, China, clothing companies have most successfully made the shift from OEM to OBM. Well-known local retailers include the women's clothing chain Episode, which is controlled by Hong Kong, China's Fang Brothers Group, one of the foremost OEM suppliers for Liz Claiborne since the 1970s, and Giordano, Hong Kong, China's most famous clothing brand.

Feature Case: Hidy Ng – From Garment to Brand

Hidy Ng was born and raised in Hong Kong, China with the childhood dream of becoming a fashion designer. She graduated with a diploma in fashion design from Hong Kong Institute of Vocational Education. In 1992, she became the chief designer of local apparel company Co-Wear International Ltd, specialising in knitwear. In 1994, Hidy was awarded the International Fashion Editors Best Collection Award and thus became internationally recognised. In 2002, she won the Creativity Award and the Overall Winner Award at the New Fashion Award Show, expanding her client base globally.

In 2003, Hidy launched her own label, Hidy N.G., in New York, specialising in ladies' ready-to-wear designs. The label was soon favoured by celebrities such as Sarah Michelle Gellar and expanded quickly in the US and Europe. Hidy then launched her Spring Summer 2010 accessories collection in Paris Fashion, represented Hong Kong, China at the Stage the Style Hong Kong Fashion Mega Show and received the Asia Chic Star Award at the Shanghai World Expo.

For the first 10 years after Co-Wear International Ltd was established in 1992, Hidy's company focused on ODM business. This provided a good base for the company to understand the international market. At first, the company sold relatively low-end clothes, just as the majority of ODM businesses were doing in Hong Kong, China. Hidy gradually introduced better designs through the company. This eventually changed the mind-set of the owner, who started to think about manufacturing higher-end clothes.

Designer website: http://www.hidyng.com/

3.1.2 Market Expansion and Diversification

Participation in GVCs also provides opportunities for fashion SMEs to explore new markets. Forward linkages exist when a firm exports its products to other countries (UN ESCAP, 2015). The efficiency of forward linkages requires access to downstream producers who will further process the exports (if those exports are intermediate goods) or consumers (if those exports are final products). The participation in GVCs brings new business opportunities for fashion SMEs, which may lead to scale economies that improve operational efficiency. Fashion SMEs may involve huge investments and resources in R&D and

research at the early stage. Increased production from the market expansion lowers the average and marginal costs.

The exploration of new markets through participation in GVCs can also lower business risks via market diversification. As mentioned in Section 1, personal spending on fashion products is heavily reliant on income. Thus, economic fluctuations across countries bring uncertainty to fashion companies. For example, the global financial crisis in 2009 caused economic downturns in the US and Japan, traditional major markets for high-end fashion products. Despite the slowdown in business activity in the US and Japan, business performance for Christian Dior Couture, a French luxury fashion brand, was resilient thanks to the strong growth in China.[2]

3.1.3 Knowledge Acquisition and Innovation

Fashion SMEs can also acquire advance and updated knowledge about the industry and market through participation in GVCs. Fletcher and Harris (2012) suggest that SMEs acquire different forms of knowledge during internationalisation, including technological, market, relationship-specific, expert and internationalisation knowledge. The dynamic global economic environment and the trend in fast fashion make updated knowledge of the industry crucial to the business development and operation of fashion SMEs.

Acquired knowledge also facilitates the generation of new ideas and innovation in SMEs. This is particularly important for the fashion industry, where success is dependent on innovation. Innovation is considered one of the most important ways to participate in the new competitive environment. Participation in GVCs allows more innovative ideas in different parts of the GVCs, from design to production. With a better understanding of consumers around the world, the business model could be changed from a traditional supply chain perspective that flows from upstream to downstream to a marketing perspective where goods are pulled directly from customer demand. However, more communication with parties in GVCs from different countries and cultural backgrounds may also lead to new ideas in fashion design.

[2] Press release, 'Good Resilience at Christian Dior Group in the First Half of 2009', published by Christina Dior on 31 July 2009.

Feature Case: Mountain Yam – Manufacturing in China

Mountain Yam is a fashion designer born and based in Hong Kong, China. He earned both bachelor's and master's degrees in Fashion Design from Hong Kong Polytechnic University. During his time there, Yam went to the Fashion Institute of Technology (FIT) in New York for exchange studies. After graduating, he worked as a designer at COCOMOJO for two and a half years and ANTEPRIMA for two years. After working in these companies, he launched his fashion design label 112 mountainyam in October 2011, focusing on women's wear, menswear and handbags.

Mountain used a production model that involved partnering with factories in China that produced the clothing under his label. He first started with a tailor from China who helped him with his collection during his master's degree programme. Mountain found ways to collaborate with those mainland producers through trial and error.

Mountain's main production line was in China, although the couture dresses were made in Hong Kong, China by Hong Kong, China-based tailors. Mountain did not rely solely on tailors in Hong Kong, China because it would have required more time for them to produce the clothing; furthermore, their time arrangements were inconvenient, as his orders were relatively smaller than others. Hong Kong, China-based tailors had many orders from other companies and might not have been able to deal with tight deadlines. Furthermore, as some of the tailors in China were trained by tailors in Hong Kong, China, the quality could be guaranteed. These trained tailors formed a sample room model, where samples and a small amount of clothing would be produced. For large amounts of production, the work was outsourced to other big factories.

These factories were not owned by Mountain, and he did not intend to build one because he did not consider it worthwhile. By partnering with different factories, he enjoyed more flexibility. Different factories could have different kinds of expertise: one might focus on evening dress and another on menswear. As such, Mountain could decide which factory was the most suitable to partner with rather than sticking with one factory. The production amount could also vary from a few items to over a few thousand items. As Mountain did not own the whole factory, he did not need to maintain a minimum production capacity, and he paid no investment cost.

Designer website: http://www.112mountainyam.com/

3.2 Opportunities for Fashion SMEs' Participation in GVCs

3.2.1 The Boom of E-Commerce

The growth of e-commerce and mobile commerce (m-commerce) has created tremendous opportunities for SMEs to grow and facilitate their participation in GVCs. According to the U.S. Department of Commerce, for instance, e-commerce sales were around US$72 billion in 2014 Q1, contributing 6.2% of the total retail sales of the country. The figure went up to more than US$101 billion in 2016 Q3, contributing about 8.4% of the total retail sales. M-commerce, which involves 'the delivery of electronic commerce capabilities directly into the consumer's hand, anywhere, via wireless technology',[3] is also on the rise globally. By monitoring the on-line activities of 500 million shoppers from more than 700 e-commerce sites in 37 countries, Salesforce Commerce Cloud, a US-based technology and e-commerce corporation, reported that 53% of on-line traffic in 2017 Q1 was generated by mobile devices, while those generated by computers and tablets comprised only 39% and 8%, respectively. Although the order share of mobile devices was still lower than that of computers (56% in 2017 Q1), it has experienced steady growth in the past several years, reaching 32% in 2017 Q1.

These figures suggest that on-line shopping has grown in both size and importance, creating opportunities for SMEs to access the global market without a physical presence. This access to the global market is particularly important for SMEs with limited domestic opportunities, as it helps them to not only enter new markets but also to diversify their products and operations for new segments (Czinkota & Ronkainen, 2010; Kotler & Keller, 2011). The ability of SMEs to reach global audiences also supports economic growth, especially for developing economies.

A good example is the fashion and accessory firm Pedder Red. The firm launched a plan focusing on product customisation and e-commerce to cope with the downturn in Hong Kong, China retail sales. The brand also collaborated with KYE, a Seoul-based Korean designer that produced women's wear, menswear and accessories, to create an exclusive line to entice mainland tourists with a platform for selling and a tool to communicate and engage with customers.

The increasing popularity of major on-line shopping sites such as Amazon, eBay, Taobao and Tmall helps to alleviate the aforementioned problems and creates tremendous opportunities for SMEs. On-line shoppers

[3] Global Mobile Commerce Forum 1997.

have tended to rely more on these digital giants. According to a survey conducted by Internet marketing firm BloomReach,[4] in 2015, 55% of on-line shoppers went to Amazon first when searching for products, an increase over the figure of 44% in 2014. In contrast, only 16% and 28% of shoppers went to the websites of specific retailers and search engines such as Google and Yahoo, respectively. These on-line shopping malls, also known as e-malls or virtual malls, enable multiple retailers to sell through a single portal, with different e-shops listed in a directory or an index. On-line shoppers can examine multiple items from different on-line retailers with a single credit card transaction via the e-payment system provided by the e-mall. For example, Amazon now hosts some 2 million third-party sellers. In countries around the world, the share of SMEs that export is sharply higher on eBay than among offline businesses of comparable size. Tmall Global, a cross-border on-line platform, allows international brands and retailers to sell directly to Chinese consumers without having a physical presence on the mainland. Through Tmall Global, orders can be shipped directly from abroad, and payments can be settled in the preferred currency. However, the on-line payment systems PayPal, Alipay and WeChat Pay are well developed. For example, PayPal, a US-based company operating an on-line payment system, enables local and cross-border transactions by acting as an intermediary for SMEs and their customers. Participants from emerging economies are senders or receivers in 68% of cross-border PayPal transactions.

Leveraging this 'plug-and-play' Internet infrastructure, including website building and checkout, payment and delivery systems, SMEs can easily start conducting cross-border e-business. A recent example of a firm joining the on-line shopping mall is Nexus, a Hong Kong, China-based company that markets its own designed consumer electronic products. Nexus decided to explore the China market by establishing an on-line presence on Amazon China and Tmall. The company says it is also fascinated by the sophisticated marketing programmes that Tmall offers.

SMEs can also promote their products via popular social networking sites. For instance, Facebook estimates that there are 50 million SMEs on its platform, up from 25 million in 2013; on average, 30% of its users are from other countries. To put this number in perspective, consider that the World Bank estimated that there were 125 million SMEs worldwide in 2010.

The growing e-commerce also enables SMEs that are in need of capital to gain access to alternative finance. On-line platforms such as Kickstarter provide global platforms for crowdfunding, including funding for projects, individuals, commercial and non-commercial entities, large groups of individuals and institutions

[4] State of Amazon 2016: http://go.bloomreach.com/rs/243-XLW-551/images/state-of-amazon-2016-report.pdf

(Garvey et al., 2017). In 2000, Artist Share launched the first crowdfunding platform for creative industries. In 2014, nearly 3.3 million people representing nearly every country made pledges on Kickstarter. According to a 2017 report, a team of researchers from Cambridge University estimated that the total global market volume of crowdfunding exceeded $145 billion in 2015, with China (over $100 billion), the US (over $36 billion) and the UK (almost $5 billion) as the dominant countries (Garvey et al., 2017). Crowdfunding may overcome systemic biases in financial service, provide low costs and rapid deployment of capital and widen the pool of available capital for SMEs (Garvey et al., 2017).

Feature Case: E-Commerce and Fashion – ZALORA

ZALORA, Southeast Asia's leading on-line fashion and beauty retailer, was founded in 2012 and became one of the most premier on-line shopping platforms in Asia. It offers more than 130,000 products and over 500 international brands covering Hong Kong, China, Australia, Chinese Taipei, Malaysia, Brunei, Singapore, the Philippines and Indonesia. Its monthly volume of website visitors has increased to 30 million people.

ZALORA's business model is to collect fashion and bring convenience to customers. It keeps customers close to the trends and offers them a unique and comprehensive product selection. Women can find their favourite skirts, blouses and high-heeled and flat shoes on this website to wear or match the most popular styles. Men can view the latest business and casual shoes, T-shirts, polo shirts and short pants to stay fashionable. The ZALORA brands include Mango, River Island, Dorothy Perkins, New Look, Nine West Steve Madden, Aldo, Onitsuka Tiger and New Balance. The process of buying fashion products from ZALORA was very simple and convenient, with goods delivered directly to the user's home.

The purchasing leader of ZALORA, Giovanni Maria Musillo, shared the success of the platform and the whole channel of retail opportunities at a fashion festival seminar. He said that localisation was the key to the success of ZALORA. The company provides different languages and interfaces to meet the needs of different markets and ensure that consumers in different countries and regions can use the most convenient way to make payments and shop. Success enabled ZALORA to expand rapidly. Musillo predicted that smartphone penetration in Southeast Asia would exceed 100% in 2019, facilitating the development of e-commerce. He observed that the penetration rate of fashion in e-commerce would double from 4% in 2015 to 8% in 2019, highlighting the huge business opportunities. He also mentioned the 'Korean wave' craze that had swept across Asia and Europe in recent years. ZALORA was actively seeking brands from different Korean companies and looking to seize additional market opportunities.

Source: Zalora website (www.zalora.com); "Hong Kong Fashion Week for Fall/Winter Closes" 19 January, 2917, Business News Asia.

3.2.2 Production Fragmentation

The phenomenon of production fragmentation is another important factor providing SMEs with great opportunities to participate in GVCs. Production fragmentation refers to the situation in which production is divided into several sequential production processes located within a country and/or across countries (Hiratsuka & Uchida, 2008). Products traded between firms across borders are parts and components or intermediate goods rather than final goods. The trade of intermediate goods has been increasing rapidly. For example, the merchandise exports of intermediate goods increased from US$4,031,777 in 2004 to US$7,005,717 in 2014, representing an increase of about 57% in 10 years' time (WTO, 2016). In 1995-2007, however, more than half of the total trade for OECD countries comprised trade of intermediate products (Miroudot, Lanz & Ragoussis, 2009). Many empirical studies suggest that various countries in East Asia, including China, Chinese Taipei, Japan and Korea, have taken on leading roles in such development in the past decades, as trade in the area is increasingly made up of part and component trade (Ng & Yeats, 2003; Athukorala & Yamashita, 2006; Athukorala, 2011; Obuko, Kimura & Teshima, 2014). For instance, China's exports of intermediate goods increased from US$293.784 million in 2005 to US$963.168 million in 2014; these figures represent 38.6% and 41.1% of its total merchandise exports, respectively (WTO, 2016). It is evident that international production fragmentation is gaining importance. The WTO also estimates that in 2011, 49% of the world trade in goods and services took place within GVCs (WTO, 2015).

International production fragmentation and SMEs' participation in GVCs are closely related. Many studies have explored the benefits created by production fragmentation. We outline three important benefits as follows. The first benefit is comparative advantages in production. The differences in factor prices and availability of new markets due to changes in the political economy create incentives for specialisation in different segments of the supply chain. Splitting up the vertical production process allows different parts of production to be reallocated to different countries to exploit factor price differences (Feenstra, 1998). Thus, trade flows can originate in an absolute cost advantage (De Simone, 2004). Local SMEs can join GVCs by entering a particular stage of production in which they have competitive advantages.

The second benefit is the lower coordination and transportation costs. Although splitting up the vertical production process brings benefits, producing in different locations and even across borders requires effective coordination. ICT innovations in the last decades have allowed for more effective coordination of production processes that take place in different locations, creating a sophisticated and effective production

network and supply chain. Jones and Kierzkowski (1990, 2001) suggest that ICT enables the coordination of production tasks at a relatively low cost. The improvement in transport and logistics lowers the cost and time needed for transportation (see Gotz, 2007; Balistreri, Hillberry & Rutherford, 2011). Golub et al. (2007) find that lower transportation costs between countries lead to higher levels of international production fragmentation. The reduction in coordination and transportation costs encourage production fragmentation, which in turn facilitates SMEs' participation in GVCs.

The third benefit is the recent wave of trade liberalisation. Trade liberalisation reduces tariff and non-tariff trade barriers, enabling multi-stage vertical production, in which components and parts must cross borders multiple times. The more sequential stages of production take place in different countries, the more borders are crossed, and thus the more production becomes subject to tariff and non-tariff trade barriers. Kawai and Wignaraja (2013) conduct an empirical analysis and conclude that free trade agreements can support production fragmentation.

Production fragmentation provides great opportunities for SMEs to participate in GVCs. First, by outsourcing non-core activities, SMEs can gain competitiveness in their core specialised products and designs and explore economies of scale in production and design. Second, SMEs can make use of local advantages, enter partnerships with lead firms and obtain positions on the production chain that add value to the final product. Although SMEs usually join the chain on the lower end, such as by acting as OEMs that only produce specific parts and components for lead firms, they can move up the GVC during the process. In doing so, they may gain a global reach to diversify their markets, gain access to higher technology and financing opportunities and finally capture more value in the chain. For example, many firms in Korea have moved up the value chain in high-tech industries, and many in China, Chinese Taipei and India are also moving up.

3.2.3 Advancement in Production Technology

The advancement of production technologies also allows SMEs to enhance their participation in GVCs. One important recent development is the use of virtual manufacturing (VM), which refers to the use of CAD models and manufacturing simulations for the production of manufactured products (Bharath & Rajashekar, 2015). This provides SMEs with the capability to 'manufacture in the computer' and can assist with both the design and production of products. The main technologies used in VM include CAD, 3D modelling and simulation software, product lifecycle management, virtual reality, high-speed networking and rapid prototyping.

There are three different types of VM, and each focuses on different stages of the production process. Design-oriented VM provides information about the manufacturing process to designers so that they can optimise product and process designs through manufacturing simulations. The firm can also save money by testing 3D product models through simulations instead of producing physical prototypes – some complex designs may require tens or hundreds of edits, and 3D digital prototypes can save the costs of both raw materials and time. Production-oriented VM uses simulations in production planning and new process models to evaluate product producibility and optimise manufacturing processes. This often makes production faster and reduces errors given the precision of virtual programmes. Control-oriented VM simulates the production management activities of production lines to realise optimal control based on models. The reduction in production and delivery time is particularly important for the fashion industry, in which market demand changes rapidly.

FashionLab provides an example of how VM is used to facilitate fashion design production. Established in 2010 via a technology incubation project by Dassault Systemes, a French multinational software company, FashionLab creates tools and services to assist fashion designers using 3D virtual technology. The company produces virtual prototypes of fashion products in the computer so that fashion designers can 'check from every angle how [the product] could look around the body'.[5] The design process is greatly enhanced. Apart from leading fashion designers, the clients of FashionLab include large fashion and luxury brands, design schools and technology companies.

VM not only enhances the productivity and effectiveness of SMEs but also facilitates more effective collaboration across firms in different stages of production in a production chain. The VM can be extended to multiple manufacturers and suppliers, and it thus creates a VM network for more effective collaboration on production and model information sharing and specification. This can reduce the communication cost for SMEs to participate in GVCs and thus strengthen their participation.

3.3 Challenges Faced by Fashion SMEs' Participation in GVCs

Although fashion SMEs' participation in GVCs gives them many opportunities, they also face different challenges in the process. Firms may face substantial barriers to entering or moving up and improving their positions on these chains (ILO, 2003). SMEs are mostly found at the low end of these global production chains because they do not have the enormous amounts of investment capital necessary to establish a new

[5] 3D technology: the future of high fashion?: https://www.enterpriseinnovation.net/article/3d-technology-future-high-fashion-125828709

brand name in the increasingly demanding markets of rich countries or to pursue technological or knowhow-intensive activities such as R&D and marketing (ILO, 2003).

The OECD (2009) analyses the top barriers to SME internationalisation and concludes that limited firm resources and international contacts, in addition to a lack of requisite managerial knowledge of internationalisation, have remained critical constraints for SME internationalisation. These resource limitations, especially financial limitations, seem particularly prevalent among smaller, newly internationalised firms. Table 3.3a presents a ranking of the barriers faced by SMEs.

Table 3.3a Barriers Faced by SMEs in Internationalisation

Rank-Weighted Factor	Barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities
3	Limited information to locate/analyse markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalisation
7	Inadequate quantity of and/or untrained personnel for internationalisation
8	Difficulty in matching competitors' prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

Source: OECD and APEC (2008).

OECD/WTO/World Bank (2014) conducted a survey of the public and private sectors concerning the barriers firms faced in entering GVCs. From the perspective of the public sector, the three major barriers were inadequate infrastructure, access to finance and standards compliance (see Figure 3.3a). From the viewpoint of the private sector (see Figure 3.3b), the major barriers were access to finance, transportation and shipping costs, inadequate infrastructure and regulatory uncertainty (often tied to a complex business environment).

Figure 3.3a Barriers Firm Face in Entering GVCs: Public Sector Views

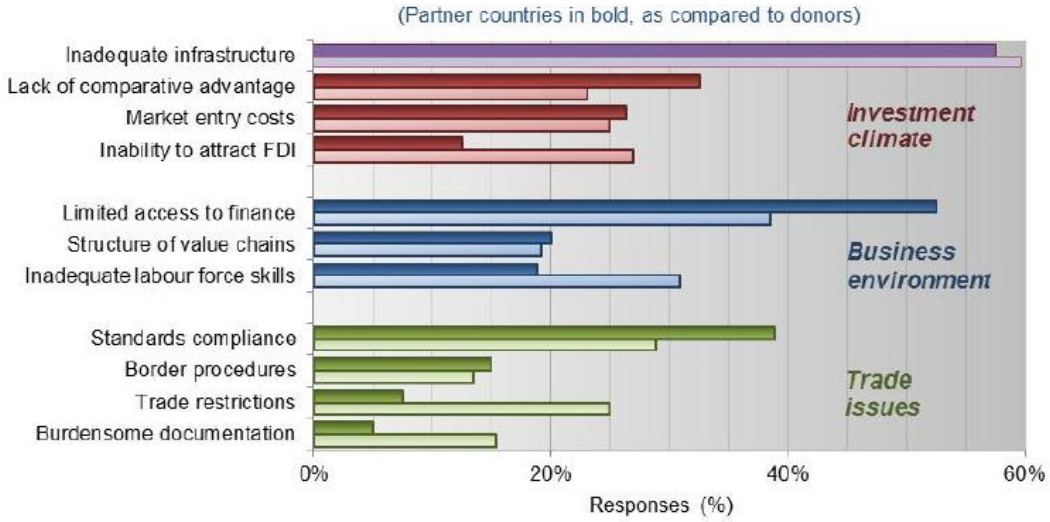
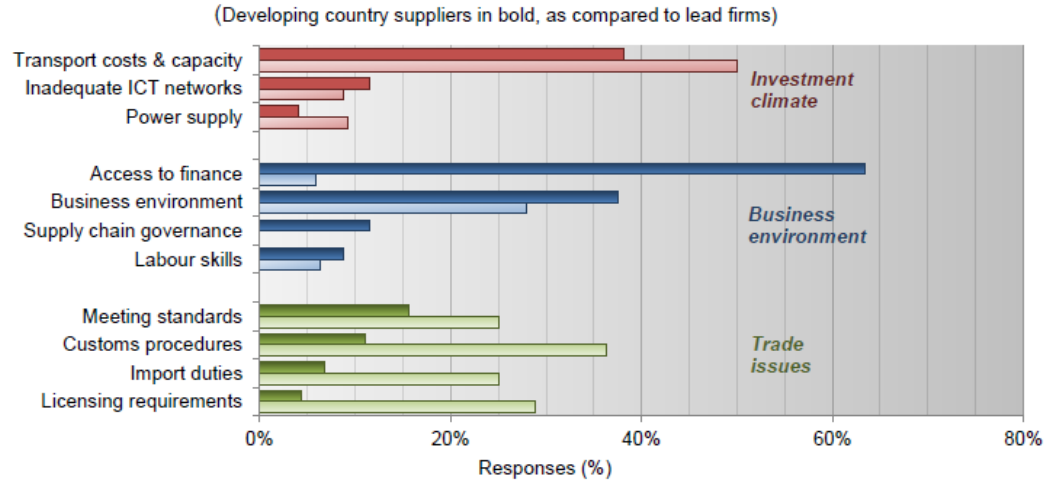


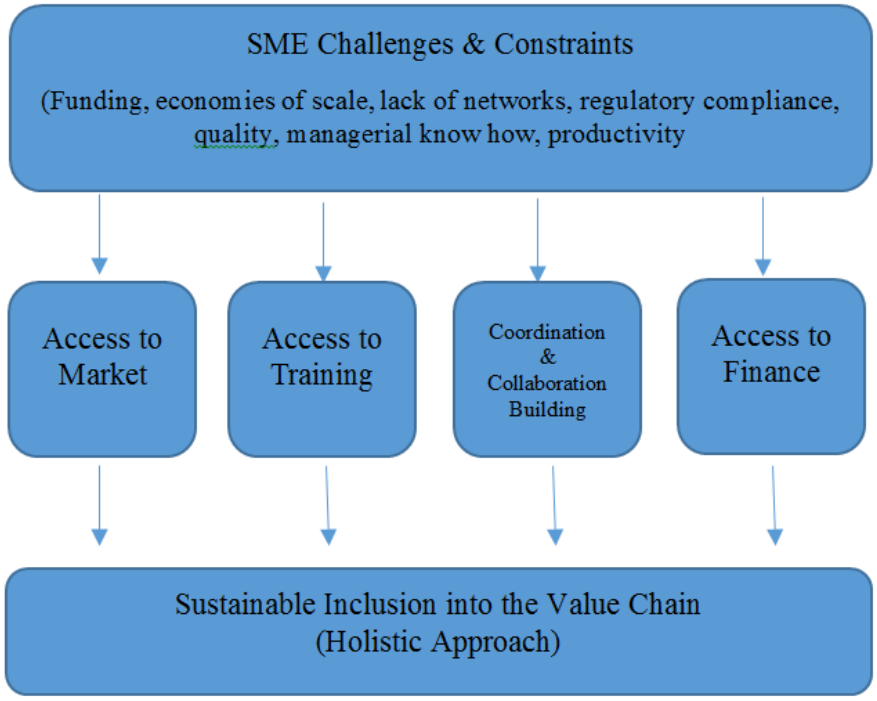
Figure 3.3b Barriers Firm Face in Entering GVCs: Private Sector Views



Source: OECD/WTO/World Bank (2014).

Figure 3.3c presents a conceptual framework for the barriers faced by fashion SMEs in participating in GVCs.

Figure 3.3c Barriers Faced by Fashion SMEs in Participating in GVCs



We conducted a survey of fashion companies in APEC economies to understand the barriers they faced in participating in GVCs and their views on how government policy supported the industry. Twenty-six companies responded to the survey. Table 3.3b shows the survey results. In terms of internal barriers, distribution, logistics and promotion barriers were the most significant barriers hindering fashion companies participating in GVCs. These barriers include the complexity of foreign distribution channels, accessing export distribution channels, obtaining reliable foreign representation, maintaining control over foreign middlemen, difficulty in supplying inventory abroad, unavailability of warehousing facilities abroad, excessive transportation/insurance costs and adjusting export promotional activities to the target market.

Table 3.3b Significance of the Barriers Hindering Fashion Companies Participating in GVCs.

		Average significance rating (0 = least significant; 10 = highly significant)
Internal Barriers	Information barriers	4.96
	Functional barriers	5.58
	Product and price barriers	4.92
	Distribution, logistics and promotion barriers	6.33
External	Procedural barriers	5.52
	Governmental barriers	5.35
	Customers and foreign competition barriers	5.39
	Business environment barriers	5.74
	Tariff and non-tariff barriers	5.41

For the external barriers, business environment barriers were most significant. These barriers include poor/deteriorating economic conditions abroad, foreign currency exchange risks, unfamiliar foreign business practices, different sociocultural traits, verbal/nonverbal language differences, inadequacy of infrastructure for e-commerce and political instability in foreign markets.

Feature Case: Harrison Wong – Opportunities and Challenges in Production and Marketing

Hong Kong, China designer Harrison Wong has performed exceptionally well in the 10 years since his debut in the fashion industry. He embarked on his career journey with two awards from the Hong Kong Young Designers' Contest and Asian Fashion Grand Prix Contest. Through deliberate improvements, he managed to offer high-quality yet affordable clothing. He was also presented with the Asahi Kasei Chinese Fashion Designer Creativity Award in 2015. Harrison obtained an arts degree in Hong Kong, China and then attended the London College of Fashion to further polish his skills. He displayed his first women's and men's collections in 2002 and 2004, respectively. He successfully launched his first menswear retail shop in PMQ.

Harrison established two distinct lines in targeting fashion-forward customers and demonstrating his design philosophy of 'conceptual but wearable'. The first line is an eponymous brand featuring unique high-quality menswear; the other line, 'Son of a King', focuses on simple but contemporary pieces for urban males. His designs are edgy and aggressive and displayed a sense of understated elegance. Wong claimed he would like to differentiate his brand from commercial fashion brands to target a niche market.

Despite his popularity, he continued to face various problems in management, production, expansion and competition. The demand for his clothing limited the shop in enjoying economies of scale, and Harrison faced intense competition from fast fashion brands. Moreover, mainland business culture and regulations became a hindrance to expanding his business. Harrison longs for further improvements and the expansion of his business in the coming years with the help of technological advancements and more comprehensive assistance. He aims to achieve mass production and develop an on-line shopping platform by taking advantage of the emerging fashion market in China, which could accommodate a large variety of designs.

Designer website: http://www.harrisonwong.com/

Since the late 1990s and early 2000s, the fashion industry around the globe has faced structural and disruptive changes. These changes have stemmed from different areas, including knowledge and skills development, business model innovation, ICT (e-commerce, digitisation), and sustainability (social and

environmental concerns), which are in many ways interconnected. They are also barriers for fashion SMEs to participate in GVCs.

3.3.1 Knowledge and Skills Development

Given the dynamic environment in GVCs, the development of entrepreneurial and managerial skills, including leadership, creativity, innovation and an understanding of technologies, are necessary to understand changing consumer needs and new opportunities to operate profitable business models. These skills must be developed, maintained and transferred to the upcoming generation of fashion designers. SMEs must pursue skills innovation to develop new production methods, work with new materials and incorporate new technologies. However, due to the lack of scale economies, it is costly for SMEs to develop the necessary knowledge and skills to participate in GVCs.

3.3.2 Business Model Innovation and Creativity

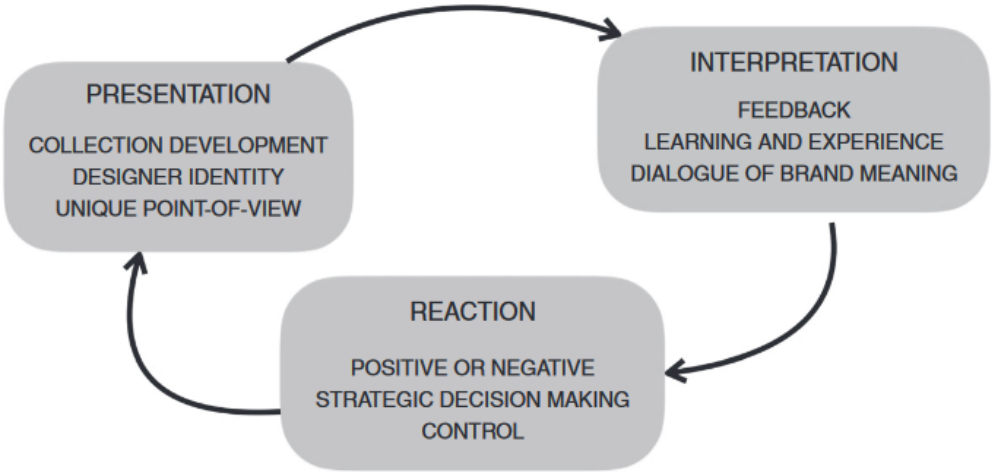
The fashion industry makes considerable investments in intangible capital (design, marketing, branding, etc.) and non-technological innovations, which are important factors in adding value to fashion materials, products and processes. Moreover, in contrast to other industries, the fashion industry is strongly affected by trend sensitivity and seasonality; the recent move from two seasons to numerous collections per year has required further creative efforts to be deployed at all stages of the value chain and prompted a revolution in the organisational and logistic efforts of all business activities.

The GVCs of the fashion industry are characterised by a high degree of complexity resulting from a large number of necessary steps and operations from raw materials to the retail product and by a high degree of distribution of activities across the value chain. This distribution of activities affects both the actual and virtual supply chains and is a major obstacle to the further development of the fashion industry.

However, user-driven innovation has become a driving force in the fashion industry. Fashion companies rely systematically on consumers as sources and co-creators of innovative ideas (see Figure 3.3d). This trend is facilitated by ICT and other technological developments that enable consumers to participate in the design and creation of their own fashion items with the help of 3D visualisation and virtual try-on. Government and industry should encourage the adoption of such new technologies and business models, which would lead to more advanced and personalised goods meeting growing consumer expectations. Moreover, integrated research and innovation projects oriented towards consumers should be supported to

capture new markets and customers by offering them innovative, customised and personalised materials, products and services with high added value. These projects should aim to achieve better research, development and innovation uptake and/or encourage the commercialisation of new products and services in the fashion industry and design-led consumer or personal goods.

Figure 3.3d Designer Fashion Enterprise Co-creation



Source: Millspaugh & Kent (2016).

In this context, ICT makes it possible to effectively organise and manage supply chains and helps to boost productivity and efficiency. It facilitates product and process innovation and offers new ways of gaining visibility and interacting with and reaching new customers. ICT also enables new products and practices to be developed, such as tailor-made and personalised goods, and makes them available for larger-scale production (mass customisation). Without scale economies, SMEs are at competitive disadvantages compared with their large counterparts.

Finally, it has been argued that marketing is one of the biggest problems SMEs face (Laukkanen & Reijonen, 2010). Compared with big business enterprises, limited financial and human resources usually restrict the scope and scale of the marketing practices and customer relationship management (CRM) of SMEs (O'Dwyer, Gilmore & Carson, 2009; Alshawi, Farouk & Irani, 2011). For instance, Donnell, Hutchinson and Reid (2012) confirm the need of SMEs for relationship marketing and CRM by presenting a case of an SME fashion retailer that failed to exploit customer lifetime value in the apparel market, which is characterised by ever-changing consumer demand. The recent development of e-commerce, social networking platforms and on-line shopping malls has not only helped SMEs to carry out more effective

marketing work but has enabled them to make use of the traffic and purchasing data of customers to formulate more effective marketing and CRM strategies.

3.3.3 Information and Communications Technology (ICT)

The spread of the Internet in the 1990s and the growing number of Internet users opened up new opportunities for everyone. Suddenly, the Internet offered the ability to display products and services, and products could be increasingly ordered on-line. As a result of continuous and significant technological progress made in the past 15 years (e.g., mobile phones, touch screens, apps, 3D animations, e-payment systems), people can buy all sorts of products and services via the Internet, including fashion items such as textiles and apparel.

With a view towards creating a favourable environment for the fashion industries that stimulates and enables the uptake of ICT and e-business technologies, the use of e-commerce should be increased. ICT uptake in the fashion industry is still limited, in particular amongst SMEs, which often lack the funding and skills to implement and use new technologies. This presents a problem for SMEs' investment in intangible assets. Digitisation offers new possibilities for creating interactive content-rich websites to attract and engage with consumers and connect them to a global community.

In addition, many SMEs encounter other obstacles to engaging in e-business. First, the development of an SME is heavily associated with the firm's entrepreneurial culture (Kyaw, 2008), while many entrepreneurs are unfamiliar with e-business and/or do not possess the necessary knowledge to establish an on-line business. In particular, e-business usually involves cross-border trade. Local requirements in different markets may create obstacles to SMEs. Second, compared with large multinational corporations, SMEs have limited financial capital to invest in e-business. Although many SMEs are labour-intensive and niche market-focused and have low investment requirements (Abe, Troilo, Juneja & Narain, 2012), they must invest significantly to establish and maintain their own websites for their on-line business. An e-commerce website is more than just an attractive design layout and an effective presentation of product items. It must also maintain a complete customer database and provide a user-friendly checkout system, an electronic payment gateway with strong cyber security and perhaps a comprehensive logistic system to handle local and global product delivery. Given the scale of SMEs, such an investment in e-business may not be cost-efficient. It is also suggested that enabling cross-border data flow would facilitate SMEs' operations in e-business.

3.3.4 Sustainability and Environmental Concerns

Sustainability has become a front-and-centre issue for government, business and society. Sustainability is based on the notion that economic and technological development cannot be separated from social and environmental progress. In the 1990s, therefore, a number of fashion brands and retailers began to develop products that considered social and/or environmental issues. Issues of climate change, water scarcity, biodiversity and supply chain human rights have become mainstream concerns. Hence, the fashion industry must take these into account and capitalise on the growing opportunities presented across global markets and society.

4. Policy Recommendations

In the previous section, we discussed the benefits, opportunities and challenges faced by fashion SMEs integrating into GVCs. Although integration provides many opportunities, there are many barriers to SMEs' participation in GVCs. Given this, it is important for governments to provide support through the whole process. We conducted a survey of governments in APEC economies to understand their current policy support for fashion SMEs integrating into GVCs. The respondents indicated that their major policy objectives for promoting the fashion industry were:

- Promoting economic growth;
- Boosting exports;
- Creating jobs;
- Elevating the economy's international image;
- Encouraging innovation; and
- Promoting and encouraging entrepreneurship in the economy.

In this section, we offer a brief review of APEC's general policy support for the integration of SMEs into GVCs. We then look at different APEC economies' policy support for the industry.

4.1 APEC General Policy Support for the Integration of SMEs into GVCs

SMEs play important roles in different economies, as they account for over 97% of all enterprises and employ over half of the workforce across APEC economies. Although SMEs contribute 20-50% of the GDP, they account for no more than 35% of direct exports. Therefore, there is a need to facilitate their development and capacity growth to engage them in international trade. In 2014, the *APEC Strategic Blueprint for Promoting Global Value Chain Development and Cooperation* was endorsed at the 22nd APEC Economic Leaders' meeting. The Blueprint states the following:

> *We shall develop and implement initiatives to assist our SMEs in the areas that matter most to GVCs: infrastructure, supply chain connectivity, innovation, skills, and adoption of international standards. We will take steps to enhance capacity building activities and raise their understanding of how to participate in GVCs. APEC shall achieve this by facilitating SME access to trade and investment related information via increased utilization of information and communication*

technologies (ICTs), enhancing intellectual property protection, and providing further information on tools and processes that would help them enter and move up GVCs. APEC should also foster linkages between SMEs and MNEs by helping our economies build an open, transparent, regulatory and investment climates.

In 2016, a focal issue identified by the APEC SME Working Group (SMEWG) to modernise micro, small and medium enterprises (MSMEs) was the internationalisation of MSMEs and their integration into GVCs.[6] The current policies adopted by APEC to facilitate the integration of SMEs into GVCs are presented as follows.

4.1.1 Providing Consulting Services and Information Sharing

a. Establishment of Expert Information Analysis Centre

In 2013, APEC leaders developed a strategic blueprint to promote GVC development within the member economies. To effectively correlate the data, APEC used its status as the most prominent intergovernmental cooperation mechanism within the Asia-Pacific region to establish an expert group on valued-added trade to help its member economies undertake trade policy capacity research, exchange information, develop approaches to statistics collection and make focused capacity-building efforts.[7]

b. Strategic Analysis and Case Studies in Different Sectors of GVCs

In 2016, APEC published the 2016 APEC Economic Policy Report, which includes individual economy reports submitted by 20 APEC economies and 5 case studies that provide in-depth analyses of the economic impacts of specific service sector reforms. The report highlighted service sector reform and the provision of good practices, focused on productivity and was designed to be a flexible and dynamic reference.[8]

[6] "SMEs as Engines of Quality Growth and Prosperity" 2016 APEC SME Ministerial Statement: http://ec2-54-169-153-24.ap-southeast-1.compute.amazonaws.com/Meeting-Papers/Sectoral-Ministerial-Meetings/Small-and-Medium-Enterprise/2016_sme.aspx

[7] APEC Strategic Blueprint for Promoting Global Value Chains Development and Cooperation: http://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexb.aspx

[8] Fact Sheet: 2016 APEC Economic Policy Report: http://publications.apec.org/publication-detail.php?pub_id=1780

c. Information Sharing

SMEWG members implement the Digital Economy Action Plan and Work Agenda, which was proposed by the US and actively cosponsored by many economies with specific projects and activities. The Workshop on Enhancing MSMEs' Access to the Internet Economy provided an excellent platform for exchanging information on the challenges faced by MSMEs, highlighting best practices for supporting MSME access and increasing awareness of private-sector efforts to integrate MSMEs into global and regional markets.[9]

d. Funding for Research

In addition to compiling domestic accounts and foreign trade statistics from officials, APEC provides funding for scholars to conduct policy research on how APEC member economies and SMEs can better integrate into GVCs and gain an advantage from doing so.[10]

4.1.2 Facilitating Marketing and Promotion

a. Greening MSMEs

As the green economy is being discussed more frequently in the global economy, APEC also adopts the approach of greening MSMEs to enhance their competitiveness and improve their market access. As most MSMEs in the region are unaware of the issue, they are reluctant to accept the idea of the green economy, as they carry the bias that green innovation and technology incur higher costs. With that in mind, Thailand organised the forum Greening MSMEs: A Pathway towards Sustainable Economic Growth in the APEC Region in July 2016 in Bangkok to educate and promote an environmentally friendly approach to the manufacturing and distribution of goods. The participating MSMEs were identified as an indispensable component of GVCs.[11]

[9] Small and Medium Enterprises Working Group: http://www.apec.org/Home/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises
[10] Applying for Funds: http://www.apec.org/Projects/Applying-for-Funds.aspx
[11] Greening Micro, Small and Medium Enterprises (MSMEs): A Pathway Towards Sustainable Economic Growth in the APEC Region: https://aimp2.apec.org/sites/PDB/Lists/Proposals/DispForm.aspx?ID=1785

b. Mainstreaming MSMEs into the Global Economy

To support this APEC-wide priority, the SME Working Group has conducted a series of activities that practically help MSMEs to join the global market. These efforts provide capacity-building, technical assistance and cooperation, business-matching and networking services for both SMEs and policymakers in the APEC region. With support from member economies, the Philippines is working on implementing the Iloilo Initiative, with a focus on establishing the MSME Marketplace, a virtual tool expected to promote MSME participation in GVCs and international trade.[12]

c. Enable Developing Economies to Enter the Market

As developing economies are playing an increasingly significant role in the global economy, it will be necessary for APEC to integrate the economic and technical cooperation of developing economies into the paths identified for future development and further leverage cooperation activities, including targeted capacity-building programmes that help developing economies to enter into and move up GVCs, public-private GVC collaboration partnerships, programmes on human resource development and further work in APEC on technology dissemination and creative content commercialisation.[13]

4.1.3 Providing Financial Support

a. SME Finance Forum

The Philippines, which is a member of APEC and a close collaborator with ABAC and the Asia-Pacific Financial Forum (APFF), organised the SME Finance Forum. The forum recommended:

- developing credit information-sharing systems;
- expanding access to finance for MSMEs in the supply chain;
- developing alternative funding mechanisms for MSMEs and start-ups;
- developing best practices for strengthening SMEs' resilience (e.g., micro-insurance and disaster risk finance); and

[12] The APEC Iloilo Initiative: Growing Global MSMEs for Inclusive Development: http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/~/link.aspx?_id=8E888CF683D6443E9DB6D45983884E19&_z=z

[13] Annex B – APEC Strategic Blueprint for Promoting Global Value Chains Development and Cooperation: http://apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexb

- strengthening public- and private-sector dialogue on MSMEs' access to finance.[14]

4.1.4 Talent Development and Technological Adaptation

APEC set up a Human Resources Development Work Group (HRDWG) to implement initiatives on education, labour and capacity building to develop human resources. The HRDWG has been coordinating with several APEC working groups, including the Committee on Trade and Investment, the Economic Committee and the SMEWG, to build human capital for the business sector. Recently, the HRDWG endorsed the APEC Framework for Youth Education, Employment and Entrepreneurship to nurture young entrepreneurs in the region.[15]

4.1.5 Trade Facilitation – Trade Barriers, Non-Tariff Barriers

APEC has made a significant effort to facilitate trade and achieved satisfactory results. In 1994, APEC leaders gathered in Bogor, Indonesia and committed to achieving free and open trade and investment in 2010. All of them agreed to reduce the trade barriers between member economies. According to the APEC Bogor Goal's Report published in 2014, the conditions for foreign ownership were relaxed. Member economies actively participated in the internationalisation and standardisation of products, and a marginal reduction in the APEC MFN tariff was seen after 2010. These achievements also increased the attraction of APEC economies to foreign investment, especially for product standardisation, which enabled more SMEs in the member economies to become involved in the international division of labour and play the role of manufacturers of intermediate goods.[16]

4.1.6 Improving the Investment Climate for GVC Development

APEC devoted continued efforts to improving the investment climate in its region, including by taking concrete steps to facilitate investment as per investment documents such as the APEC Non-Binding Investment Principles, APEC Investment Strategy and APEC Investment Facilitation Action Plan. APEC

[14] Small and Medium Enterprises Working Group: http://www.apec.org/Home/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Small-and-Medium-Enterprises
[15] Human Resources Development Working Group: http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/Human-Resources-Development.aspx
[16] APEC's Bogor Goals Progress Report (as at 8 August 2014)* Highlights of Achievements and Areas for Improvement
http://www.apec.org/~/media/Files/AboutUs/AchievementsBenefits/2014_BG_Reports/APEC_BogorGoalsProgressReport%20Oct2014.pdf

seeks to help economies to 1) implement sound investment strategies that deal with investment applications expeditiously, fairly and equitably and 2) facilitate investment by creating and maintaining job opportunities at the local level.

a. Infrastructure

Infrastructure financing is enhanced through public-private partnerships and other means in APEC economies, adopting comprehensive assessment methods that consider key quality elements in the evaluation of infrastructure project proposals and applying good practices and people-centred investments when planning and implementing infrastructure projects.[17]

b. Laws and Regulations

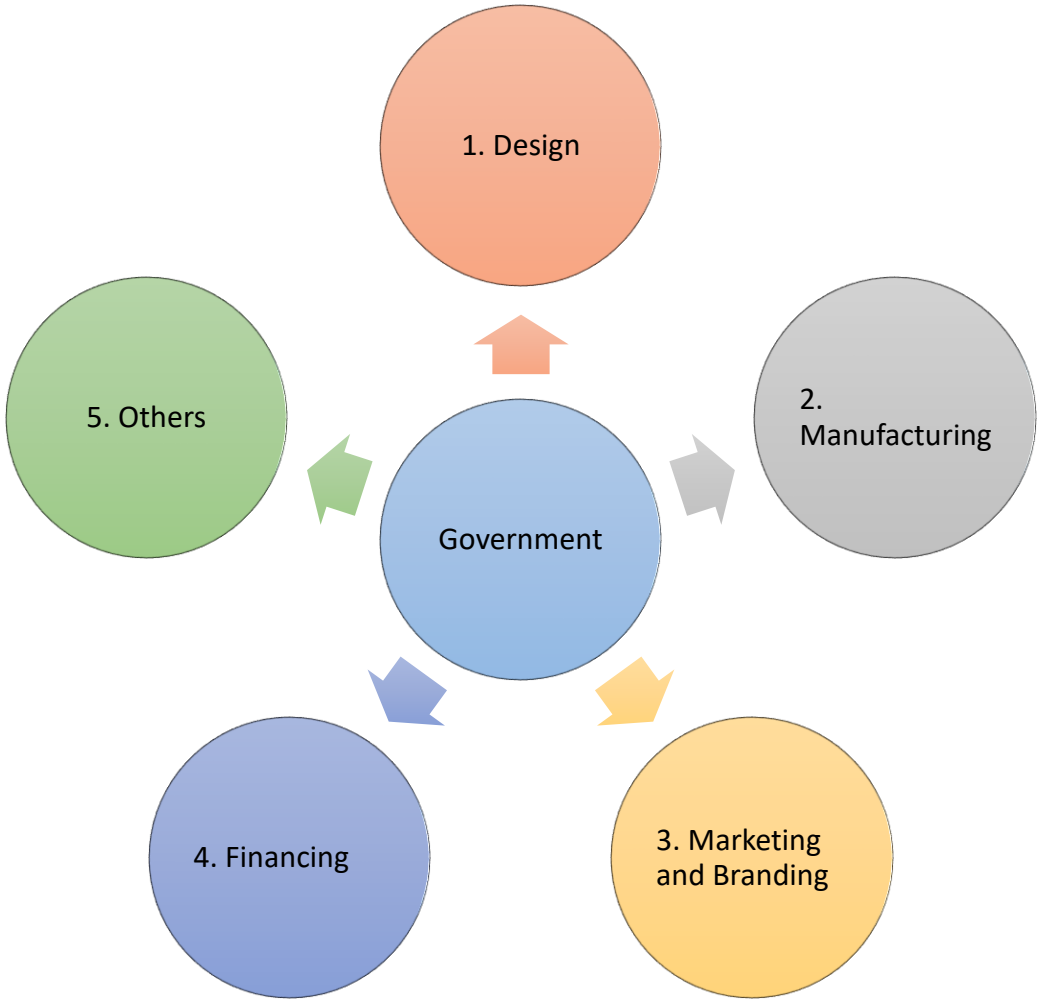
APEC helps developing economies to undergo policy reforms and maintain laws, regulations and practices that facilitate foreign investment. The SMEWG also gives workshops on SME business ethics, which helps codes of ethics and multi-stakeholder ethical collaborations to develop into/align with high standards, both within and beyond member economies where SMEs seek to conduct business. Through the rapid elaboration of multi-stakeholder ethical collaborations formalised on an economy-by-economy basis, the project seeks to reduce the substantial resources that are lost or diverted by enterprises, especially SMEs, to unethical business practices.

4.2 Government Policies Supporting the Integration of Fashion SMEs into GVCs

Governments around the world have launched a number of initiatives to strengthen the competiveness of their local fashion industries. These include programmes to help fashion design SMEs access financing and stimulate innovation and creativity. Design, creativity and innovation should be at the core of a country's fashion design business models. With the offshoring of manufacturing to regional and developing economies, many high-cost production countries cannot compete solely on the basis of cost. Instead, they must compete on the basis of differentiation. Only knowledge- and innovation-based industries with higher value-added products, processes and services can reinforce a country's national brand positioning as a regional or global leader in fashion.

[17] Annex D - APEC Connectivity Blueprint for 2015-2025: http://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexd.aspx

Figure 4.2 Government's Support to Facilitate Fashion SMEs' Participation in GVCs



In many industries today, including the fashion industry, research, development and innovation are key to the development of competitive firms, particularly in GVCs. Honkala, Larsson, Mattila and Pal (2016) assert that consumer-driven, digitally enabled fashion value chains are enabled by the strategy of differentiation through (1) the advanced digitalisation of design and manufacturing operations, (2) flexible, integrated and agile operations and (3) enhanced customer experience/interaction with the extended product-service system. Hauge and Power (2008) argue that in the fashion industry, a focus on consumer-producer brand-building and brand loyalty is central to the value chains built on products. Wenting (2008) considers the fashion industry in Paris to understand the differential performance of fashion design firms and the spatial evolution of the industry from an evolutionary emerging economic perspective. In his work, there is a strong focus on organisational routines and the mechanisms used to pass them on in the cluster, namely through spinoffs, labour market mobility and inter-firm networks. He mainly concludes that although organisational routines are important for the performance of fashion design firms, localisation

economies and urban amenities are not (although the latter plays a role in attracting talent). In general, his work strongly focuses on spinoff dynamics and the passing on of successful routines from fit mother companies to their spinoff companies (Wenting, 2008). However, firms in these locations could probably develop successful internal routines thanks to the favourable institutional environment (specialised labour market, training institutions, innovative or creative milieu); in other locations, they would not be able to develop these internal routines.

4.2.1 Design

a. Education and Training

To cultivate future fashion designers, the government can establish design schools and institutes to provide professional training. Design schools and institutes prepare their students to become professionals in the industry (Faerm, 2012). Fashion design education and training currently emphasise design thinking and the conceptual process that allows designers to understand a broader context, enabling them to create innovative products and survive in the current business system. Many institutions, particularly in the Americas, encourage the learning of design principles from 'doing and making'. Various art and design fundamentals must be learned, upon which students should choose their specialisations. To adapt to the current market shaped by technology, the media, the economy and environmental awareness, students must cross-fertilise with different areas including science, education and business.

In the US, fashion design schools are arming graduates with advertising, design, Web and other skills needed to compete in the rapidly changing global fashion industry. The American fashion system focuses on the commercial side of the industry, making apprenticeships and internships at studios that operate on the level of the European ateliers few and far between. To learn couture practices, students often go abroad.[18] Among the top three fashion schools in the US – Parsons, FIT and Pratt – only FIT is a public institution. Most of the fashion institutions are in New York and Los Angeles, the two largest fashion hubs in the US; more than two thirds of all fashion designers are employed in these cities. [19]

[18] Top Fashion Schools in the USA: A State of Oversupply: https://www.businessoffashion.com/articles/education/top-fashion-schools-in-the-usa-2
[19] The Economic Impact of the Fashion Industry: https://maloney.house.gov/sites/maloney.house.gov/files/documents/The%20Economic%20Impact%20of%20the%20Fashion%20Industry%20--%20JEC%20report%20FINAL.pdf

In Hong Kong, China, several tertiary institutions offer programmes in fashion design and business: Hong Kong Polytechnic University offers higher diploma programmes and bachelor degrees in fashion and textiles studies, Hong Kong Design Institute offers bachelor degrees in fashion and textiles studies and the Hong Kong Vocational Training Council offers higher diploma programmes and bachelor degrees in fashion design.[20]

Other than formal training in design schools, the government could help to align co-curricular activities to strengthen the relationship between schools and industry. In particular, it could provide incentives for design schools and the industry to offer internship programmes for students in the design schools. This would provide students with hands-on experience in the fashion industry and also networking opportunities. The Design Incubation Programme is a two-year non-profit programme organised by Hong Kong Design Centre (HKDC), and it has received funding support from the Hong Kong, China Government. Throughout the two-year incubation period, successful applicants (incubatees) enjoy assistance in many areas including office premises, business development support and a series of tailor-made training programmes and networking sessions with industrial organisations, academic institutes, professional bodies and potential business partners.[21]A Fashion Incubation Programme has also been launched since 2017.

b. Technological Adaption

Technological adaption has shaped the fashion industry. Fashion blogs, live-stream fashion shows, digital fitting rooms and on-line fashion shows have helped to promote the fashion industry. Designers embrace the present technological landscape to ensure innovative designs and improve their functionality.[22] Smart textiles and modern technology are incorporated into fashion design and production. [23] More wearable technology will be developed, and technological improvements in textile manufacturing and production are expected as a result of government investment.

[20] Design Industry – Fashion Designer: https://www.youth.gov.hk/en/career-and-study/design/fashion-designer.htm
[21] HKDC's Design Incubation Programme: 20 Graduates Ready to Venture into Design-preneurship: http://www.hkdesigncentre.org/en/news/press-releases/entry/hkdc-s-design-incubation-programme-20-graduates-ready-to-velere-into-design-preneurship/
[22] The Combination of Fashion and Technology: Past, Present and Future: http://www.thesnugg.com/The-Combination-of-Fashion-and-Technology-Past-Present-and-Future.aspx#overview3
[23] Evolution of Fashion Design in the Era of High-Tech Culture: http://waset.org/publications/10005050/evolution-of-fashion-design-in-the-era-of-high-tech-culture

Different APEC economies have also made efforts to promote technological adaptation and research. The US is investing nearly US$500 million to strengthen its advanced manufacturing. It is investing more than US$150 million in public-private investment through the New Manufacturing Innovation Institute Competition. Furthermore, the Department of Defense launched a competition for leading manufacturers, universities and non-profits to form a new manufacturing hub focused on revolutionary fibre and textile technologies. The US$75 million federal investment will be matched by more than US$75 million in private-sector resources. Over US$150 million has been invested in the new Revolutionary Fibers and Textiles Manufacturing Innovation Institute (RFT-MII) competition. As part of the National Network for Manufacturing Innovation, each manufacturing institute serves as a regional hub for leadership in emerging manufacturing technologies, bridging the gap between early research and product development by bringing together companies, universities and other academic and training institutions along with federal agencies to co-invest in key technology areas to encourage investment and production in the US.

The RFT-MII will help to ensure that America remains at the leading edge of fibre science through a US$75 million public investment matched by more than US$75 million in private investments in researching, prototyping and commercialising fibres with extraordinary properties. Known as technical textiles, these modern-day fabrics and fibres boast novel properties, ranging from being incredibly lightweight and flame-resistant to having exceptional strength and electronic sensors. With their wide-ranging applications, technical textiles can serve as the foundation of protective gear for firefighters to make them impervious to the hottest flames, replicate the sensing capabilities of a smart watch into a lightweight fabric or detect when a wounded soldier needs to be treated with an antimicrobial compression bandage.

In 2015, the U.S. Department of Defense committed US$75 million to an RFT-MII competition. In March 2016, it was announced that a consortium of over 50 companies and universities would be awarded grants to form a new manufacturing hub focused on revolutionary fibres and textiles technologies: the Advanced Functional Fabrics of America Institute (AFFOA), headquartered at MIT in Cambridge, Massachusetts. The AFFOA will bring over US$300 million in public-private investment from leading universities and manufacturers to develop futuristic fabrics and textiles, which should accelerate the revival of textile manufacturing in the US. The AFFOA will ensure that America leads in the manufacturing of new products from leading-edge innovations in fibre science, commercialising fibres and textiles with extraordinary properties.[24]

[24] Textiles Spotlight: https://www.selectusa.gov/textiles-industry-united-states

In Chinese Taipei, the government created the Taiwan Textile Research Institute (TTRI) to facilitate talent development and technological advancements in textiles. The institute focuses on several key areas of development:[25]

- Research and development for textile-related technology and information;
- Design, planning, evaluation and certification of textile fibre;
- Training of textile-related technology and knowledge;
- Comprehensive service in the textile industry, including relevant technology and knowledge; and
- Business relevant to the aforementioned items and government commissions.

In terms of talent development, the TTRI provides training in:

- Apparel and home textile development technology;
- Technical textiles development technology;
- Key manufacturing technology;
- Textile evaluation and testing technology; and
- High textile technology.

Regarding technological adaptation, the TTRI conducts innovative R&D in garment and textiles and regularly publishes the results of its research. Examples of past achievements include the development of bio-material technology, advanced dying and coating technology, seamless weaving technology and Eversmile smart clothing.[26]

In Korea, the Korea Research Institute for Fashion Industry (KRIFI),[27] a government-affiliated non-profit institute, was established recently to specialise in professional research and company support. The KRIFI provides apparel design skills and education training for fashion designers.

Under the Cool Japan initiative, the Japanese government established a pioneering global design hub to promote joint projects between universities and private corporations and develop technology and

[25] Scope of Business: https://www.ttri.org.tw/econtent/about/about05.aspx
[26] Taiwan Looks to Set World's First Smart Clothing Standards: http://economists-pick-research.hktdc.com/business-news/article/International-Market-News/Taiwan-Looks-to-Set-World-s-First-Smart-Clothing-Standards/imn/en/1/1X000000/1X0A5VSN.htm
[27] Korea Research Institute for Fashion Industry (KRIFI): http://krifi.re.kr/eng/index.asp

innovation.[28] The JFC SME unit signed a Memorandum of Understanding on Cooperation among APEC Financial Institutions Dealing with SMEs with 13 other institutions, including China Development Bank and the Small and Medium Enterprise Development Bank of Thailand. This will allow partnering corporations to hold annual meetings on technological and information exchange.[29]

4.2.2 Manufacturing

a. Sourcing

Fashion designers and SMEs involved in manufacturing may face difficulties in sourcing, including the high costs of equipment and storage and obtaining good and reliable raw source materials. Fashion designers and SMEs demand a reliable fabric sourcing strategy to meet product demand and attain success in the market. Issues including minimum and maximum quantities, lead times, pricing and fabric width can be complicated, and it is not always easy for fashion designers to find reliable suppliers, whether local or overseas. The government can help SMEs to address these issues in several ways.

From the government's perspective, organising fabric trade shows should enable communication between fashion designers and fabric suppliers, both local and overseas. For example, in Hong Kong, China, APLF Leather & Materials has been organised since 1984 to bring leather, materials and fashion businesses from around the world together to facilitate communication and cooperation for industry development. APLF Leather & Materials is a trade show that includes not only leather products and fabrics, but also other parts of the supply chain such as manufacturing.

In London, a non-profit organisation known as The Sustainable Angle, which supports eco-friendly products, organised the Future Fabrics Expo. This popular expo has been held in London every year since 2011 to showcase select eco-friendly fabrics. In fashion capitals New York and Paris, the Premiere Vision show is held twice a year, presenting raw material supplies and services to global fashion industry practitioners. The show provides an opportunity for global suppliers of yarn, fabrics and leather to showcase their products.

[28] Cool Japan Strategy Public-Private Collaboration Initiative: http://www.cao.go.jp/cool_japan/english/pdf/published_document2.pdf
[29] Guide to the Operations of the Small and Medium Enterprise (SME) Unit: https://www.jfc.go.jp/n/english/sme/pdf/JFC2012e-SME_201210230_web.pdf

b. Cooperation between Fashion Designers and Manufacturers

When production is outsourced to another manufacturer, fashion SMEs face a number of challenges. For instance, minimum order quantity presents a problem, as manufacturers usually have a minimum order requirement. If the SME is not a firm with an established brand and market, it is often quite difficult to predict the demand and sell 100 pieces of the same design. The problem is even worse for young designers. Effective and efficient communication between designers and manufacturers is needed to make sure the details of the design are accurately produced and the products maintain good quality.

To facilitate good communication and cooperation between fashion designers and manufacturers, governments can take active roles by introducing local and overseas quality manufacturers to fashion SMEs. This can be done by maintaining a database of manufacturers that provides a comprehensive list of manufacturers with specific strengths and expertise. The government can also set up a co-workspace for fashion designers and manufacturers. This would not only enhance communication and cooperation between the two parties but also help fashion SMEs to find an affordable workspace.

Different APEC economies, including the US, Korea and Japan have also made great efforts to facilitate cooperation between manufacturers and fashion designers and SMEs. In New York, Manufacture NY, founded by Brooklyn-based fashion designer and entrepreneur Bob Bland, aims to provide designers and manufacturers with a co-workspace. Resident fashion designers who co-locate in studios and creative co-workspaces around other fashion designers, small manufacturers and fashion technology start-ups find it much easier and more practical to communicate with different local manufacturers. Manufacture NY also serves as an R&D centre aiding independent fashion SMEs and manufacturers to explore the latest in nontoxic, natural and sustainable fibres and synthetic materials and thus stimulate further collaboration between the two parties.

Feature Case: Manufacture NY

Founded by Bob Bland, a Brooklyn-based fashion designer, entrepreneur and community organiser, Manufacture NY aims to create a new, vertically integrated business model that will transform apparel and textile production for the 21st century and rebuild America's fashion industry while creating a transparent and sustainable global supply chain. Part production hub, part incubator, part learning lab and part R&D lab, the 160,000-square-foot Brooklyn facility marked an advancement in sustainably minded research, design and manufacturing for emerging designers, manufacturers and entrepreneurs.

Through Manufacture NY's R&D centre, independent fashion companies and manufacturers can explore the latest in nontoxic, natural and sustainable fibres and synthetic materials – such as bio-fabrics, bio-leathers and 3D printed soft materials – to use in their apparel, textile and wearable tech designs. The wearable technology has merged with traditional fashion manufacturing and design to create beautiful, scalable products and technologies for start-ups and Fortune 500 tech companies alike. Led by Amanda Parkes, PhD, their Chief of Technology & Research, Manufacture NY sought to create a new model for production research, creating the opportunity to make previously undiscovered connections, integrate the traditional factory manufacturing techniques of fashion with new digital technologies and scientific processes and leverage the proximity and expertise of its fashion development, production and talented designers' studios.

Manufacture NY was described as a 'hybrid fashion incubator and factory'. The incubator was executed in four main areas: production, business development, branding and marketing. It performed everything from assistant work to physically creating garments in addition to managing and growing the business and working with retailers. For the 19 current incubator design members, the result was a fairly holistic approach that addressed each brand individually and engaged with them at different intensities depending on their needs.

Source: "Manufacture NY: The New Model for Sustainable Innovation" 17 December 2014, TriplePundit.

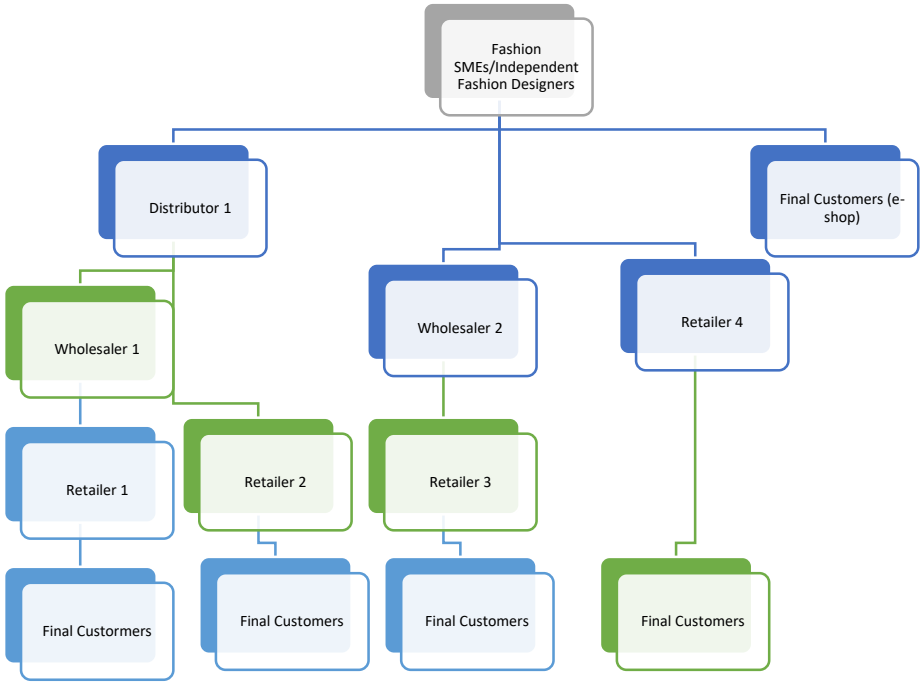
In Korea, the Seoul Fashion Creative Studio (SFCS) is a fashion incubator initiative advanced by the Seoul metropolitan government and designed to foster up-and-coming fashion designers. The SFCS provides studio space and customised services for start-ups including promotion, marketing, training and

consultation activities. By gathering the most talented fashion designers in the city, more manufacturers are able to start businesses with these young designers and attain mutual benefits. By the agglomeration of economies, both fashion designers and manufacturers are able to share the specialised labour market and sustain relationships between individuals and firms.

4.2.3 Marketing and Branding

Marketing and distribution are crucial to the long-term development of a company's brand. Marketing helps fashion products develop their own unique positions in the local and overseas markets and also raise the popularity of designers and brands. However, fashion products often access their customers through distribution channels, which may include fashion distributors/showroom agents, wholesalers and retailers (see Figure 4.2.3). These distribution channels are independent when it comes to fashion SMEs, which can be regarded as downstream partners and/or buyers depending on the contractual agreement.

Figure 4.2.3 Distribution Channels in the Fashion Industry



Good distribution channels are needed for the products to reach fashion and clothing retail spots and gain access to consumers. However, it is usually challenging for fashion SMEs and especially young fashion designers to reach the right local and overseas distribution channel. Without a good distribution channel, it is difficult for a fashion enterprise to penetrate into local and overseas markets.

Governments can organise fashion shows and trade fairs to create platforms for fashion MSMEs and independent fashion designers to reach potential downstream partners/buyers. In addition, governments could help negotiate with overseas fashion show organisers and provide subsidies that allow local fashion SMEs and designers to join and showcase local and prominent fashion cultures and the designers' latest collections. These shows not only help to strengthen designers' branding but also create opportunities to access local and overseas showrooms.

Similarly, other forms of public relations support, such as exposure in local and international fashion magazines and access to local and overseas fashion showrooms, can also raise public awareness and facilitate the promotion and distribution of designers' products. To facilitate stronger cooperation between local businesses and fashion designers, governments could help industry associations to produce a directory of designers so that the industry can be marketed to other business sectors more easily.

In Hong Kong, China, the government created several programmes and schemes to help SMEs to promote their brands both locally and globally. To promote fashion SMEs and talented fashion designers' brand names locally, HKDC organised 'Fashion PMQ', featuring 40 local fashion and accessories designers in Fashion Mart and Fashion Crossover Pop-ups. It was the first of the B2C fashion events held in PMQ, a place for creative lifestyle experiences. The establishment of PMQ enabled the formation of an economy of agglomeration and fostered a better branding effect for local fashion brands.

Feature Case: PMQ in Hong Kong, China

PMQ is in the former Hollywood Road Police Married Quarters in Hong Kong, China, which had been conserved and revitalised into a creative industries landmark. The Government of the HKSAR adopted a partnership approach whereby the Architectural Services Department, with funding approval from the Finance Committee of the Legislative Council, undertook the conservation and revitalisation works of PMQ under the Public Works Programme. The project rented shop spaces to designers, with a view to supporting the nurturing of creative talent. Some related events and workshops were held there to cultivate the exchange of creative ideas.

PMQ comprises two main buildings: Hollywood and Staunton, which were named after their adjacent roads. Hollywood and Staunton were linked together on the 4/F to encourage circulation between them. The buildings included various design studios and pop-up stores, homes for designers and 'create-preneurs'.

Different events can be staged at QUBE (a 600-square-metre multi-function hall between two main buildings), Aberdeen Courtyard and Marketplace (1,000 square metres on the ground floor) and the pop-up stores on different floors. In addition to the project, PMQ is part of the heritage conservation and is open for the public to visit. Its events include exhibitions, workshops, product launch, banquets, fashion shows and car shows.

A resource centre known as Read PMQ & Taste of Asia and a flexible co-workspace known as 'Hub PMQ' are scheduled for development. Moreover, designers in residence encourage international design talents to visit, stay and work together with local counterparts and the public. In short, PMQ provides an environment to nurture local designers.

PMQ website: http://www.pmq.org.hk/

The HKTDC organised 'CENTRESTAGE', a fashion event held in Hong Kong, China to promote local fashion designers' collections and brands from around the world. The HKTDC has worked hard to help local fashion MSMEs to penetrate overseas markets, such as by participating in international fashion shows and providing extensive information and customised business matching services to fashion SMEs and overseas business partners. The HKTDC took the Hong Kong, China fashion design to new markets by

leading prominent designers to take part in major international fashion week events, such as Tokyo Fashion Week in 2015 and Copenhagen Fashion Week in 2016, under the Fashion Hong Kong promotional campaign. CreateHK also provides sponsorship to designers so that the fashion industry can participate in trade fairs outside Hong Kong, China, such as book fairs and fashion weeks, for business development. Most fashion designers have given very positive feedback on the HKTDC's support and have claimed that Hong Kong, China fashion designs are gaining increasing recognition in overseas market.

Feature Case: Promoting Fashion Designers in Hong Kong, China

The HKTDC has put effort into promoting local designers and brands by organising both CENTRESTAGE and Fashion Hong Kong to give them opportunities to showcase their designs on an international stage.

CENTRESTAGE is a new international fashion event first held on 7-10 September 2016, providing a promotional platform for fashion brands, especially Asian brands, to present their collections and reaffirm Hong Kong, China's position as a global fashion capital. At the fair, more than 50 spectacular events were held, including around 30 fashion show trend seminars, designer sharing sessions, industry seminars and networking events. CENTRESTAGE ELITES was highlighted as the opening gala fashion show. In the previous year, it showcased collections from four intriguing rising stars in Asia: Mim Mak (Hong Kong, China), Simon Gao (Beijing), Ko Taeyong (Seoul) and Pongsak Suprratccheep and Thita Kamonnetsawat (Bangkok). Nearly 1,000 industry professionals and the city's fashionistas were attracted to the event. CENTRESTAGE covered a wide range of topics, including fashion and retail trends, fashion technologies, experience-sharing sessions and marketing strategies, giving fashion lovers the latest market intelligence.

The HKTDC also began organising a series of international promotion events known as Fashion Hong Kong in 2015, providing opportunities for local talented designers to shine on the international stage. It successfully launched the Fashion Hong Kong promotion during Copenhagen Fashion Week, New York Fashion Week and Amazon Fashion Week Tokyo, giving local designers a pathway to gain worldwide exposure and recognition. A one-month citywide campaign was also held to promote CENTRESTAGE. With support from over 90 partners, including renowned fashion brands, malls, hotels, restaurants and fashion and design institutes, more than 80 activities were staged across the city to promote its designers and labels in a global arena.

CENTRESTAGE website: http://www.centrestage.com.hk/

The Seoul metropolitan government has helped local fashion industry MSMEs to promote their brand names and facilitated the growth of the local fashion industry. To support these rising fashion designers, the SFCS provides studio space and customised services for start-ups, such as by increasing their exposure on social media to build better brand recognition. In Korea, Seoul Fashion Week is a global fashion event

held twice a year. This world stage allows fashion designers to showcase their stunning fashion collections and gain the attention of the public and media. It can also nurture local designers, as many companies attend the associated fashion fair.

Concept Korea is another global fashion project that publicises Korean fashion culture and helps local designers and MSMEs to pave a path into the overseas fashion market. Moreover, the Korean government actively engages in holding fashion events to attract both locals and foreigners to local fashion trends. For example, the Gangnam Fashion Festival is a large annual fashion event with a variety of activities such as a fashion show and a fashion contest that attract a large number of visitors every year.

In Japan, the government launched the Cool Japan initiative to promote the cultural strength of the nation. Fashion plays a key role in the initiative. The Japan External Trade Organization (JETO) is a government-related organisation that assists SMEs in trading with overseas corporations and international expansion. The JETO particularly highlights the fashion industry as a part of the government's Cool Japan initiative. It has a vast overseas network in 55 countries and provides services including transaction mediation, research and export promotion.

In the US, New York Fashion Week, held in February and September of each year, showcases young and talented designers and fashion SMEs, who can receive recognition from buyers, the press and the general public. Regarding collaboration with the private sector, Made in NY: Fashion supports all levels and components of the local fashion ecosystem through various programmes and initiatives, including the Made in NY Certification, which grants use of the distinguished 'Made in NY' mark for qualifying businesses. Use of this mark allows fashion brands to tangibly illustrate their commitment to local production and coalesce as a local community.

4.2.4 Financing

Fashion designers, especially independent young designers or start-ups, may not find it easy to gain access to initial capital investment to finance their operation and production. Even established fashion SMEs may also need to find some ways to finance their production. However, given the high risk and seasonal nature of the industry, banks usually do not readily give loans to fashion designers and SMEs. As a result, different APEC economies have launched various low-cost loans and systems to help fashion SMEs.

In recent years, CreateHK has provided financial support to initiatives conducive to the development and promotion of creative industries in Hong Kong, China, including the fashion industry, through the CreateSmart Initiative (CSI). The CSI was established by the Government of HKSAR in June 2009 to promote and speed up the development of local creative industries so as to build Hong Kong, China into Asia's Creative Capital. The CSI aims at providing financial support to projects conducive to the development of creative industries in Hong Kong, China, and will fund projects with objectives that are in line with the Government's strategic direction to drive the development of the creative industries

In Japan, the government provides financial support to fashion SMEs mainly through low-cost loans, tax incentives and funding plans. The government provides 10% of all loans to SMEs at a consistent rate. The Japan Finance Corporation (JFC) owned by the government is responsible for the financial assistance of MSMEs through its two units: micro business/individual and SME.[30] The JFC provides micro-enterprises with unsecured low-interest loans without requiring a guarantor[31] due to these firms' inability to provide collateral and lack of credit.

The Korean government set up a branch to regulate economic policies to favour the growth of the nation's fashion industry. It invested a large amount of money into the fashion industry to nurture luxurious fashion and lifestyle brands. The investment provided support for R&D and the entire fashion design chain. In addition, the government established the Small and Medium Business Administration (SMBA) to support SMEs efficiently and systematically.[32] The SMBA launched several campaigns to create a fund ecosystem for venture business and start-ups.

To specifically support fashion production in New York, the NYC Fashion Production Fund was launched by Made in NY: Fashion in partnership with Capital Business Credit in June 2014. The fund provides emerging designers with production financing at below-market rates and flexible terms to cover the costs of purchase orders. Loans awarded range between US$50,000 and US$300,000, with terms from 30 to 120 days. Since 2015, the fund has provided 30 loans, a total of US$2.5 million in financing, to emerging NYC-based designers to manufacture their collections locally.

[30] Overview of Operations: https://www.jfc.go.jp/n/english/operations.html
[31] The loan interest rate is charged at 1.05% or waived if projects are approved under special laws, disaster restoration projects, etc. Facilitation of Fund Supply: http://www.chusho.meti.go.jp/sme_english/outline/04/01_01.html
[32] Small and Medium Business Administration: http://www.smba.go.kr/site/eng/main.do

The Fashion Manufacturing Initiative (FMI) was launched in 2013 at the request of the industry. The FMI was created by the Council of Fashion Designers of America in partnership with the New York City Economic Development Corporation and founding partner Andrew Rosen to nurture, elevate and preserve garment production in New York City and to ultimately provide a way to connect fashion designers with local manufacturing. It includes the FMI Grant Program, workforce development, the NYC Production Resources Database and professional development and Made in NY collaborations.

4.2.5 Others

a. Business Consulting and Information Sharing

When participating in GVCs, SMEs are required to operate in an unfamiliar, dynamic and complicated business environment. As indicated in our survey results, one major external barrier is the overseas business environment. The experience gained by SMEs in local markets may not be applicable in the overseas market. However, the language barriers and absence of a business network may make accessing information about the overseas market difficult. Thus, it is important for the government to provide business consultation and information sharing services to fashion SMEs. As discussed in Section 4.1, to support the internationalisation of MSMEs and their integration into GVCs, general policies at APEC seek to provide consultation and information sharing services to MSMEs.

Different APEC economies provide consultation services to SMEs, and some are tailor-made for the fashion industry. For example, in Hong Kong, China, the SME Centre, which is operated by the HKTDC, is an interactive centre offering a vast amount of practical information for SMEs. Business starters can also meet with TDC professional consultants onsite for free advice and gather relevant start-up information and exchange ideas with SME peers. In the US, the Small Business Administration (SBA) is a government agency that provides support to entrepreneurs and small businesses. The SBA provides services such as counselling, training, capital, contracting, disaster assistance, business advocacy and local directories.[33] The agency's activities can be summarised as the '3 Cs' of capital, contracts and counselling. In Korea, the SMBA, was established by the government to support SMEs efficiently and systematically and to strengthen their competitiveness.[34] In Chinese Taipei, the Ministry of Economic Affairs, Industrial Development Bureau and Taiwan Textile Federation entered into a collaboration to establish Design Atelier

[33] Resources Guides for Small Business: https://www.sba.gov/sites/default/files/files/resourceguide_national.pdf
[34] Small and Medium Business Administration: http://www.smba.go.kr/site/eng/main.do

in 2011. The centre provides advanced technological equipment and data for manufacturing that is usually inaccessible to garment manufacturers and small firms.[35] In addition, the centre provides a platform for garment manufacturers to take advantage of closer collaboration opportunities and integrate into the industry.

APEC governments also share market information with fashion SMEs to help them integrate into GVCs. The KRIFI, a government-affiliated non-profit institute, was established recently and specialises in professional research and company support.[36] The institute engages in a large variety of supportive activities within the Korean fashion industry, including providing comprehensive information about global trends and styles and opportunities to network with professionals for mutual exchanges.

Consultation and information sharing services could be more effectively delivered via a professional body, such as an industry council or trade association. In the US, the Service Corps of Retired Executives (SCORE), supported by the SBA, was set up to provide free business mentoring services to American entrepreneurs. The SCORE provides advice on business planning, marketing and financial management. In Chinese Taipei, the Fashion Institute of Taipei was set up in 2007 under the supervision of Taipei City's Department of Cultural Affairs[37] in collaboration with industrial organisations such as the Taiwan Textile Federation. The institute functions to support local young start-ups and designers by providing resources and opportunities to network with larger apparel companies.[38] In Korea, the Korea Fashion Association (KFA) works to promote the Korean fashion industry and lend it more power to compete globally by increasing its market value. The KFA helps businesses in different ways, such as by providing designers with up-to-date business information and incubating professional human resources.

b. Intellectual Property Rights

Intellectual property (IP) rights may also pose difficulties for independent designers. Fashion design should be a respected art from, and copyright protection on apparel products has received much attention. For instance, Europe has broad IP protection for fashion designs. In the European Union, fashion products, including traditional apparel categories, accessories and footwear, can be protected under European

[35] Design Atelier Paves a Way for Taiwan's Textile Industry: http://www.chinapost.com.tw/print/327473.htm
[36] Korea Research Institute for Fashion Industry (KRIFI): http://krifi.re.kr/eng/index.asp
[37] Taipei Costume Cultural Center (The Fashion Institute of Taipei): http://english.culture.gov.taipei/ct.asp?xItem=72152014&ctNode=30860&mp=119002
[38] Taipei Costume Cultural Center (The Fashion Institute of Taipei): http://tcgwww.taipei.gov.tw/ct.asp?xItem=72152014&ctNode=30860&mp=119002

Community and national copyright laws. In the United States, copyright protection for fashion designs is more limited. For instance, an artistically sketched, tailored and coloured dress is not afforded copyright; only the original pattern, a print of an artist's painting on the apparel or a distinctive trademark may be copyrightable.[39]

As for the increasing concern over IP rights in the global market and industry, governments can lead or promote the development of an IP system and facilitate IP trading in the industry. For instance, the Hong Kong, China government has launched different programmes and policies on the development of IP. In March 2013, it established a Working Group on Intellectual Property Trading to advise on overall strategies to promote the development of Hong Kong, China as an IP trading hub, and to identify policy and other support measures to facilitate IP trading in Hong Kong, China. Since the second half of 2015, the government has reached out to different industries such as the fashion and textile, retail and publishing industries to promote cross-sector IP trading.

Asia IP Exchange (AsiaIPEX), a free on-line platform and database showcasing IP around the world, was launched by HKTDC in December 2013. AsiaIPEX is developed and managed by the HKTDC, which aims to facilitate international IP trade and connection to global IP players. In 2015, AsiaIPEX showcased more than 25,000 IP listings and formed strategic alliances with 28 partners from overseas and in China and Hong Kong, China.

4.2.6 Survey Results

In the previous sections, policies adopted by different governments to facilitate the integration of fashion SMEs into GVCs were discussed, and some successful cases were analysed. As governments could help SMEs integrate into GVCs in a number of ways, it is important to understand the demand for the industry to prioritise government policy agendas. Our survey of fashion companies indicated the industry's perceived importance of government support, as shown in Table 4.2.6.

[39] Protecting Fashion: A Comparative Analysis of Fashion Design Protection in the U.S. and Europe, http://www.cardozoaelj.com/2014/09/19/protecting-fashion-a-comparative-analysis-of-fashion-design-copyright-protection-in-the-u-s-and-europe/

Table 4.2.6 Industry Views on Government Support

	Importance (0-10) (0 = not important, 10 = extremely important)	Additional effort (0-10) (0 = not necessary, 10 = extremely necessary)
Design	7.29	7.23
Sourcing	7.43	6.46
Production	7.36	7.08
Marketing and Distribution	8.5	8.23
Financing	6.92	6

Source: Survey results.

The results show that it is most important to have government support for marketing and distribution. This area also needs the most additional effort from the government. The second most important area for government support is sourcing. Interestingly, the score for additional effort is low, which may indicate that the current government support is sufficient. The area of design is also important and needs additional government support.

5. Concluding Remarks and Policy Implications

This study examines the integration of fashion SMEs into GVCs and provides policy recommendations to APEC governments to support that integration. The fashion industry plays a crucial role in different APEC economies. The industry generates significant (direct and indirect) economic benefits for those economies. In particular, it contributes to each economy at different levels of economic development. In less-developed economies, the industry supports the development of some labour-intensive manufacturing sectors such as textiles and creates abundant job opportunities. It also promotes the exports of the economies. There are many successful cases, including Hong Kong, China in the 1950s, in which the fashion industry helped the region develop into an export-oriented economy. For the regions transitioning from developing to advanced economies, economic upgrading is necessary. The industry encourages creativity, which is one of the drivers in the economic upgrading process. The industry makes not only economic, but also cultural, social and political contributions. For example, the fashion industry can promote an economy's international image.

This study also provides a framework for analysing GVCs in the fashion industry. There are six major value-adding activities: research and new product development; design; production; logistics and distribution; marketing and branding; and services. It has generally been observed that the higher value-added activities on the chain tend to be either upstream or downstream, while manufacturing and assembly – the stages at which most developing countries enter the value chain – often result in comparatively lower value addition. At both the firm and industry levels, it is common to start from low value-added activities such as manufacturing and assembly. After more experience and expertise are gained, firms can move on to higher value-added activities upstream and downstream. This process is called economic upgrading. In the fashion industry, there are different types of economic upgrading. One of these is process upgrading, which involves starting from CMT and progressing to OEM, ODM and finally OBM.

This study also discusses the benefits of fashion SMEs participating in GVCs. First, participation in GVCs provides ample opportunities for fashion SMEs to engage in economic upgrading. This gives SMEs access to learning processes and upgrading opportunities. However, participation in GVCs also expands SMEs' reach into the market, and allows SMEs to acquire updated knowledge and encourage innovation in the participation process. Recent developments in the global economy have also facilitated fashion SMEs' participation in GVCs. For example, the e-commerce boom has allowed SMEs to access the global market without a physical presence. In addition, the phenomenon of production fragmentation allows SMEs to gain competitiveness in their core specialised products and designs by outsourcing non-core activities.

Advancements in production technology, such as VM, also facilitate more effective collaboration across firms at different stages of production in a production chain. Yet fashion SMEs also face challenges when participating in GVCs. These challenges include knowledge and skill development, business model innovation and creativity, ICT and sustainability and environmental concerns.

Given the challenges facing fashion SMEs' participation in GVCs, governments could play a significant role in facilitating the integration process. We look at the five major areas in which governments could help SMEs' integration and some successful examples that other economies could learn from. In terms of design, governments could provide support in the forms of education, training and technological adaptation. Governments could also organise trade fairs to facilitate the sourcing process, which is particularly important for SMEs. In terms of production, governments could enhance cooperation between fashion designers and manufacturers, such as by providing co-workspaces. According to our survey, marketing and distribution is the area most in need of government support. Governments could organise fashion shows locally and overseas to promote local fashion designers in international markets. Finally, governments could provide financing to fashion SMEs to allow them to participate in GVCs.

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Appendix 1 – Questionnaire for Fashion Industry

Study on SMEs' Integration into Global Value Chains (GVCs) in Services Industries (Fashion Design)

GVC/SME Fashion Design Survey

As part of the initiative – SME's Integration into Global Value Chains (GVCs) in Services Industries – proposed at 2016 APEC's meeting, we are now conducting a case study on SME's integration into GVCs in the sector of fashion design. The main purpose of this study is to (i) facilitate better understanding of how GVCs in fashion design are structured; and (ii) identify opportunities and difficulties for small and medium-sized enterprises (SMEs) in fashion design, in particular their participation in the GVCs. Finally, the study will provide recommendations to governments on helping the SMEs in fashion design to build capacity and developing strategy for their effective integration into the GVCs, in other words, helping SMEs "go global" or reach out foreign markets.

INSTRUCTIONS:

For the purpose of this survey, fashion products here refer to mainly clothing and apparels, not including other textile goods, such as hats, gloves, shoes and other accessories.

This survey consists of **three (3)** parts. Please complete ALL of the following questions in each part to reflect your opinion as accurately as possible and to answer factual questions to the best of your knowledge.

All information provided in this survey will be used for analytical purposes to understand the opportunities and difficulties for SMEs' integration into the fashion design GVCs, as well as to investigate government policies supporting the integration.

All information and responses will be kept private and confidential. Your participation is entirely voluntary. Thank you for your cooperation.

Part I. Company/ Organization Information

This section requires you to describe your company/ organization's basic information such as nature of business. Please answer the following question and your information will be kept anonymously in any case. (Please check the box that best corresponds to your answer for each question below.)

1. Your economy :_____

2. Respondent's position :_____

3. How long (in years and months) has your company/ organization been established? :_____

4. How long has your company/ organization been involved in the fashion industry? :_____

5. How many employees does your company/ organization have? :_____

6. What is the nature of business of your company/ organization?

	Fashion design
	Manufacturing
	Wholesale
	Retail
	Trading
	Consulting
	Marketing and distribution
	Others (please specify):

Part II. Participation in Global Value Chains (GVCs)

This section requires you to describe your company/ organization's participation in GVCs. Please answer the following questions and your information will be kept anonymously in any case.

7. Does your company/organization currently export goods and services to other economies?

	Yes
	No Please state the reasons (e.g. lack of capacities; unfamiliar operating and market environment; trade barriers including quota restriction): (Please directly go to Q.10.)

8. What is the share of overseas market contributing _____% to your whole business?

9. Name the five largest markets your company/organization export to. Also state the share of each market as a percentage of the total exports of your products and services by value.

Rank	Economy	Share of export (%)
1		
2		
3		
4		
5		

10. Please rate the significance of barriers for your company/organization integrating into the GVCs, with 0 indicating the barrier not present, 10 indicating the barrier carrying the highest level of significance. (Please see the appendix for more detailed description of the barriers.)

Rating (0 – 10)		
	Internal Barriers – barriers internal to the SMEs associated with organizational resources/ capabilities	Informational barriers
		Functional barriers
		Product and price barriers
		Distribution, logistics and promotion barriers
		Others (please specify):
	External Barriers – barriers stemming from the home and target business environment in which the company/organization operates	Procedural barriers
		Governmental barriers
		Customers and foreign competitor barriers
		Business environment barriers
		Tariff and non-tariff barriers
		Others (please specify):

11. Does your company/organization currently have the production activities locally or in other economies?

	Local
	Other economies
	Both

12. Please state the reason(s) for the location choice for the production activities answered in Question 8.

_____

_____

Part III. Government support on Fashion SMEs' Integration into the GVCs

This section requires you to describe the government support related to fashion SMEs' integration into the GVCs.

The major business activities in fashion industry are: *Design*, *Sourcing*, *Production*, and *Marketing and Distribution*. Other business supporting activities, including R&D and financing, may also be involved.

13. Is it necessary for your government to have policy support for fashion SMEs in your economy integrating into the GVCs?

	Yes
	No Please state the reasons.

14. Please rate the importance of the support from the government to your company/ organization, and the necessity for additional effort from your government.

Government Support	**Importance** **(0 – 10)** (0 = not important, 10 = extremely important)	**Additional effort** **(0 – 10)** (0 = not necessary, 10 = extremely necessary)
Design (e.g. providing training for fashion designers, organizing local and overseas fashion shows to promote local fashion designers, etc.)		
Sourcing (e.g. reducing or removing import tariff of raw materials, organizing trade shows for new materials and techniques/technologies, etc.)		
Production (e.g. offering affordable workspace, providing training for workers, etc.)		
Marketing and distribution (e.g., providing overseas trading/marketing information; organizing fashion shows; lowering import tariff of fashion products from other economies via trade negotiations/agreements, and enhancing export facilitation of fashion products to other economies, etc.)		
Financing (e.g., providing government loans or startup funding, etc.)		
Others		

15. What government policies/measures are expected to support the fashion SMEs in your economy?

	Government policies/measures
Design	(e.g. providing training for fashion designers, organizing local and overseas fashion shows to promote local fashion designers, etc.)
Sourcing	(e.g. reducing or removing import tariff of raw materials, organizing trade shows for new materials and techniques/technologies, etc.)
Production	(e.g. offering affordable workspace, providing training for workers, etc.)
Marketing and distribution	(e.g. providing overseas trading/marketing information, organizing fashion shows, lowering import tariff of fashion products from other economies via trade negotiations/agreements, and enhancing export facilitation of fashion products to other economies, etc.)
Financing	(e.g. providing government loans or startup funding, etc.)
Others	

– End of Survey –

Thank you for your participation.

Appendix: Different Types of Barriers Faced by SMEs

Informational Barriers

Limited information to locate/analyse markets

Unreliable data about the international market

Identifying foreign business opportunities

Inability to contact potential overseas customers

Functional Barriers

Lack of managerial time to deal with internationalisation

Inadequate quantity of and/or untrained personnel for internationalisation

Lack of excess production capacity for exports

Shortage of working capital to finance exports

Product and Price Barriers

Developing new products for foreign markets

Adapting export product design/style

Meeting export product quality/standards/specifications

Meeting export packaging/labelling requirements

Offering technical/after-sales service

Offering satisfactory prices to customers

Difficulty in matching competitors' prices

Granting credit facilities to foreign customers

Distribution, Logistics and Promotion Barriers

Complexity of foreign distribution channels

Accessing export distribution channels

Obtaining reliable foreign representation

Maintaining control over foreign middlemen

Difficulty in supplying inventory abroad

Unavailability of warehousing facilities abroad

Excessive transportation/insurance costs

Adjusting export promotional activities to the target market

Procedural Barriers

Unfamiliar exporting procedures/paperwork

Difficulties in communicating with overseas customers

Slow collection of payments from abroad

Difficulties in enforcing contracts and resolving disputes

Governmental Barriers

Lack of home government assistance/incentives

Unfavourable home rules and regulations

Unfavourable foreign rules and regulations

Customer and Foreign Competitor Barriers

Different foreign customer habits/attitudes

Keen competition in overseas markets

Business Environment Barriers

Poor/deteriorating economic conditions abroad

Foreign currency exchange risks

Unfamiliar foreign business practices

Different socio-cultural traits, verbal and non-verbal languages

Inadequacy of infrastructure for e-commerce

Political instability in foreign markets

Tariff and Non-Tariff Barriers

High tariff barriers

Strict foreign rules and regulations

Inadequate intellectual property rights protection (e.g. intellectual property)

Restrictive health, safety and technical standards (e.g. sanitary and phytosanitary requirements)

Arbitrary tariff classification and reclassification

Unfavourable quotas and/or embargoes

High costs of customs administration

Appendix 2 – Questionnaire for APEC Governments

Study on SMEs' Integration into Global Value Chains in Services Industries (Fashion Design)

GVC/SME Fashion Design Survey

As part of the initiative – SME's Integration into Global Value Chains (GVCs) in Services Industries – proposed at 2016 APEC's meeting, we are now conducting a case study on SME's integration into GVCs in the sector of fashion design. The main purpose of this study is to (i) facilitate better understanding of how GVCs in fashion design are structured; and identify opportunities and difficulties for small and medium-sized enterprises (SMEs) in fashion design, in particular their participation in the GVCs. Finally, the study will provide recommendations to governments on helping SMEs in fashion design to build capacity and developing strategy for their effective integration into the GVCs, in other words, helping SMEs "go global" or reach out foreign markets.

INSTRUCTIONS:

For the purpose of this survey, fashion products here refer to mainly clothing and apparels, not including other textile goods, such as hats, gloves, shoes and other accessories.

This survey consists of **four (4)** parts. Please complete ALL of the following questions in each part to reflect your opinion as accurately as possible and to answer factual questions to the best of your knowledge.

All information provided in this survey will be used for analytical purposes to understand the opportunities and difficulties for SMEs' integration into the fashion design GVCs, as well as to investigate government policies supporting the integration.

All information and responses will be kept private and confidential. Your participation is entirely voluntary. Thank you for your cooperation.

Part I. General Information on SMEs in Fashion Industry

This section requires you to describe your economy's background regarding SMEs and those in fashion industry. Please share any additional information that you may have and your information will be kept anonymously in any case.

1. Your economy :_____

2. Please provide the definition of "SME" used in your economy.

_____

_____

_____

3. Please state the information about fashion industry[1] SMEs in your economy.

Number (Units)	Percentage currently exporting (%)	Number of employees (persons)

[1] Fashion industry includes, but not limited to, production-related procurement, clothing and apparel production, distribution or agency services, etc.

4. Please state the information about fashion design SMEs in your economy.

Number (Units)	Percentage currently exporting (%)	Number of employees (persons)

5. What is the share of fashion industry in the

   :_____%

   total export of your economy by value?

6. Name the five largest economies that fashion products your economy export to. Also state the share of each economy as a percentage of the total exports of fashion products from your economy by value.

Rank	Economy	Share of fashion export (%)
1		
2		
3		
4		
5		

7. What are the major policy objectives of your economy to promote fashion industry (e.g., accelerating economic growth, boosting export, creating jobs, and promoting local culture overseas, etc.)?

_____

_____

_____

_____

Part II. Current Policy Measures on International Trade

This section requires you to describe your economy's policy measures on international trade of fashion products and services. (Please check the box that best corresponds to your answer for each question below.)

8. Does your government impose any barriers for imports of fashion-related raw materials and products?

	Yes
	No

If yes, please indicate which of the following tariff and non-tariff barriers are being imposed.

	Tariff barriers	Specific duty
		Ad valorem duty
		Protective tariff
		Others (please specify):
	Non-tariff barriers	Quota system
		Licenses or permits
		Product standards
		Packaging requirements
		Others (please specify):

9. Does your government impose any barriers for imports of fashion-related service (e.g. design and consulting)?

	Yes
	No

If yes, please indicate which of the following barriers are being imposed.

	Subsidies to local service providers
	Domestic regulation (including licensing and qualification requirements, and technical standards)
	Payments and Transfers
	Others (please specify):

10. What are the trade-facilitating measures that have been implemented or planned to be undertaken for imports/exports of fashion-related raw materials and products in your economy (e.g. providing subsidies, simplifying customs and clearing procedures, and publishing trading information like import, export and transit procedures, etc.)?

_____

_____

_____

_____

11. What are the trade-facilitating measures that have been implemented or planned to be undertaken for imports/exports of fashion-related services in your economy (e.g. providing foreign service suppliers with local and business setup information, and enhancing market access of local service suppliers to foreign markets, etc)?

_____

_____

_____

_____

Part III. Fashion SMEs' Integration into the GVCs

This section requires you to describe the government policy supports related to fashion SMEs' integration into the GVCs.

The major business activities in fashion industry are: *Design*, *Sourcing*, *Production*, and *Marketing and Distribution*. Other business supporting activities, including R&D and financing, may also be involved.

12. Please give the key government policies/measures, if any, in your economy to support fashion SME's integrating into the GVCs.

Activities	**Key government policies/measures**
Design	(e.g. providing training for fashion designers, organizing local and overseas fashion shows to promote local fashion designers, etc.)
Sourcing	(e.g. reducing or removing import tariff of raw materials, organizing trade shows for new materials and techniques/technologies, etc.)
Production	(e.g. offering affordable workspace, providing training for workers, etc.)
Marketing and distribution	(e.g. providing overseas trading/marketing information, organizing fashion shows, lowering import tariff of fashion products from other economies via trade negotiations/agreements, enhancing export facilitation of fashion products to other economies, etc.)
Financing	(e.g. providing government loans or startup funding, etc.)
Others	

13. Please state the strategic directions and/ or future policies in your economy to support fashion SMEs' integration into the GVCs.

_____

_____

_____

Part IV. Successful Cases

14. Please nominate a maximum of three fashion designers/fashion SMEs in your economy who have successfully integrated into the GVCs and their contact information for interviews and in-depth studies.

Name of fashion designer/ SME	Contact information (i.e. email and telephone number)

– End of Survey –

Thank you for your participation.

Appendix 3 – Summary of Workshop Discussion

Workshop on SMEs' Integration into Global Value Chains in Fashion Design
Date: 11 May 2017, Thursday
Venue: Room 221, National Convention Center, Ha Noi, Viet Nam

The workshop was divided into the following sessions: Preliminary Results of the Study on SMEs' Integration into GVCs in the Services Sector of Fashion Design; Policies and Measures to Support Fashion Industry in APEC Economies and Panel Discussion; and Experience Sharing by Fashion Designers and Panel Discussion.

1. Preliminary Results of the Study on SMEs' Integration into GVCs in the Services Sector of Fashion Design

In this session, Dr Andrew Yuen from APEC Study Center, The Chinese University of Hong Kong highlighted the preliminary results of the Study on SMEs' Integration into GVCs in the Services Sector of Fashion Design. The objectives of the study are:

i. identifying opportunities and difficulties for SMEs in fashion design;
ii. helping SMEs in fashion design to build capacity and develop strategy for their effective integration into GVCs;
iii. coming up recommendations with policies and measures to help SMEs in fashion design "go global" or reach out foreign markets.

Dr Yuen first provided an overview of fashion industry in the world. It is suggested that the fashion industry not only brings in economic benefits, but there are also cultural and social impacts. Currently the business value of fashion industry worth USD 1.3 trillion, which contributed about 2% of the global GDP, and the Asia Pacific is the largest fashion market in the world, which contributed 37% to the total share. After introducing the concept of Global Value Chains (GVCs), the GVC in fashion industry was discussed and the six major value adding activities, namely research and development, design, production, logistics and distribution, marketing and branding, and services, were identified.

The benefits for SMEs' participation in GVC were also discussed in the session. The benefits include process upgrading, product upgrading, and functional upgrading. The study identified i) development of e-

commerce, ii) fragmentation of production and iii) new technology as the opportunities for fashion SMEs participating in GVC. Yet, there are also challenges faced by the SMEs if they want to participate in GVC. The challenges include knowledge and skills development, business model innovation and creativity, information communication and technology (ICT), and sustainability and environmental concerns. Dr. Yuen also shared the results from the survey among fashion companies, which showed that the major barriers for them to participate in GVC are related to Distribution, Logistics, and Promotion.

In the survey among government officials in APEC economies, all the respondents indicated that fashion industry is important to their economies, and for different reasons. They include promoting economic growth, boosting export, creating jobs, elevating international image, encouraging innovation and nurturing startups. Reviewing the international experiences in supporting SMEs participating in GVC, Dr Yuen shared the policy recommendations in the preliminary study in the areas of financing, design, sourcing, manufacturing, and marketing and distribution.

2. Policies and Measures to Support Fashion Industry in APEC Economies and Panel Discussion

In this session, government officials and guest speakers shared their experience on their government policies and measures to support fashion industry in APEC economies.

Ms Rebecca Tse, Senior Product Promotion Manager, Hong Kong Trade Development Council (HKTDC) discussed the effort made by HKTDC to support the local fashion industry in Hong Kong. There are three main objectives for the HKTDC's support: 1) Building "Fashion Hong Kong" Icon overseas, 2) leveraging online platforms and media partners in platform, and 3) Branding HK as a fashion metropolis. To promote Hong Kong fashion icon overseas, Ms Tse shared that HKTDC supported potential fashion designers to participate in fashion shows at Copenhagen, New York and Tokyo. HKTDC also set up online platforms including online fashion magazine, fashionally.com and Instagram account to promote Hong Kong fashion. Meanwhile, they also collaborate closely with Zalora to engage the up-and-coming e-tailers. In branding Hong Kong as a fashion metropolis, they came up with the idea of "Hong Kong in Fashion" citywide promotion and held plenty of trend seminars and designers sharing session to strengthen Hong Kong's image as a fashion metropolis in the world.

Ms Pannakarn Jiamsuchon, Minister Counsellor (Commercial), Office of Commercial Affairs, Royal Thai Embassy in Ha Noi shared some of the achievements made by the Department of International Trade Promotion (DITP), Royal Thai Government, which aims at expanding the market for Thai products and

enhancing the competitiveness of the Thai entrepreneurs/ designers. DITP set up the project named "Designers' Room" to provide opportunities for creative branding and promote Thai designs internationally and locally. To promote Thai fashion brand overseas, DITP held the Who's Next campaign in Paris and participated in the MQ Vienna Fashion week. Meanwhile, they have some showcases of designers' pieces locally named BIFF & BIL, displaying accessories, leather products and footwear. In addition, Ms Jiamsuchon also talked about some of the successful designers nurtured by the program, including Mr EK Thongprasert and Mr Paul Direk, both of them won a number of fashion awards and well-recognized as up and coming designers in the global fashion industry.

Ms Chungmin Lee, CEO of Trendlab 506, Korea, discussed the five major development stages of Korean fashion industry, starting from exporting apparel products to having domestic production of apparel product, followed by an account of the beginning, development and maturation of fashion market in Korea. She also mentioned some of the effort made by the Korean government to facilitate the growth of fashion industry in Korea, for instance, setting up creative design studios in Seoul, Daegu and Gyeonggi, and organizing marketing events including Concept Korea and 10 Soul. Ms Lee concluded that the fashion industry in Korea is certainly moving to a new stage due to the effort made by the government and local designers.

In the panel discussion, the support to fashion SMEs via technology was discussed. Ms Rebecca Tse mentioned that HKTDC helped SMEs to develop online stores connecting the blossoming China and ASEAN market. Local designers are able to link up with online retail giants, like Taobao, T-mall or JD.com, to set up their online stores. Meanwhile, HKTDC also partnered with Zalora to help fashion designers expanding their markets to ASEAN. Ms Chungmin Lee cited the technologically support from the Korean government; other than setting up online shops, the government also provides the designers with fast factories and 3D scanning systems before they go into real production stage. Moreover, the Korean designers are also exploring the possibility of attaching new technology to their accessories and wearables. For Thailand, Ms Pannakam Jiamsuchon introduced Thai government's efforts in providing business advice to Thai designers in conducting online business and linking trading partners globally for them.

3. Experience Sharing by Fashion Designers and Panel Discussion with Fashion Designers

In this session, Mr Barney Cheng, Founder and Managing Director of Yenrabi Ltd, Ms Janet Cheung, Vice Chairman of Hong Kong Fashion Designers Association, and Mr Ek Thongprasert, Creative Director of Ek Thongprasert and Curated shared their successful experiences in fashion industry, especially the development in the global market.

During the panel discussion, Mr Cheng highlighted the importance of a coactive attitude towards the success of a fashion designer. He compared the attitudes of his interns and commented that certain interns are learning much faster because their proactive attitude.

Mr Thongprasert highlighted the importance for young designers to acquire deeper understanding on the basic theories of fashion designs and aesthetics. Taking himself as an example, other than simply studying fashion design, he also studied personal psychology. Moreover, he pointed out that under globalization, fashion designers are being more homogenous and losing uniqueness simply because of the desire of being accepted. He thus suggested teachers in fashion design institutes to focus more on the production process rather than the end product of their students' design.

Ms Cheung provided another perspective of government support: she believed that an excessive support to young designers and fresh graduates may not be beneficial for their long term development, as they may lose the ability to survive in the competitive business world afterwards. Moreover, she recommended young designers to widen their scope rather than being too full of themselves. She quoted from one of her favourite designers that "fashion designers are only as good as their last season". She held the belief that every fashion designer should seek continuous improvement by searching and researching.

Ms Lee shared the Korean experience in their fashion industry development. She commented that fashion designers are living in a stage that know-how is less important than know-who. In order to work in a global competition, connection with experts in different aspects may be even more important than the design itself.