

CUTS Session on
Trade Policy - A Tool to Facilitate the Participation of SMEs in Global Trade
WTO Public Forum, Geneva
September 27, 2016

1. Overview

1.1 CUTS International organised a session on ‘Trade Policy - A Tool to Facilitate the Participation of SMEs in Global Trade’ at the World Trade Organisation (WTO) Public Forum on Tuesday, September 27, 2016. It was moderated by Pradeep S. Mehta, Secretary General, CUTS International. While opening the session, he observed that presentations and discussions would aim at brainstorming around the question “*Why trade policy is an important tool to facilitate the participation of SMEs in global trade*”?

1.2 With some examples from South Asia and Sub-Saharan Africa, the different presentations made a case for the necessity and the kind of changes required in the trade policy of low-income countries for facilitating this objective, particularly from the point of view of:

- employment generation in tradable manufacturing and services
- helping small and medium enterprises (SMEs) to become a part of global value chains
- facilitating SMEs to be a driver of innovation driven future economy including linking it to the Hangzhou G20 Summit Declaration

2. Presentations by the Panellists

Rajesh Aggarwal, Officer in-charge of the Business & Trade Policy Section, International Trade Centre, Geneva

2.1 Dr Aggarwal shared experience of Sub-Saharan African countries of how micro and SMEs there have been integrating into the Global Value Chains (GVCs), based on country studies and field level experiences. It is undeniable that African performances have improved considerably, but their shares in the global trade stands at 2.2 per cent. There are remaining challenges impeding African SMEs to participate more in GVCs, such as low productivity across all sectors, and dominance of forward integration. Some of the causes of low backward integration are that most of the value chains are controlled by multinationals and trade costs in all African regions are above the world average (except for Southern Africa). For example, if an Italian shirt is to be tailored in Tanzania, cost of delivery of that shirt to South Africa will be 25% higher than if tailored in Malaysia.

Mostafa Abid Khan, Minister, Permanent Mission of Bangladesh in Geneva

2.2 Dr Khan shared the experiences of SMEs in Bangladesh in their engagement in global trade and how useful (or not) the trade policy in facilitating their participation in GVCs, including their diversification into new products and services. He affirmed that it is very difficult to defend the interests of SMEs in his country at the moment, as their voice is not much represented at governmental level.

2.3 Some of the main barriers faced by SMEs in participating in GVCs are challenging access to finance, lack of infrastructures (including energy), and uncompetitive position due to low productivity. Trade policy is one of the important tools to allow SMEs participation in the GVCs, along with other tools that are not handled by trade policies, such as technology, innovation, access to finance, connectivity, infrastructure development etc.

2.4 The example of trade policy and measures put in place in the 1980s in Bangladesh was presented. Importers and exporters were given flexibility in terms of taxes and duties which have allowed the country to become the second largest exporter of garments today. Companies that were SMEs in 1980s became big enterprises because of those trade policies.

Mona Shrestha Adhikari, Development Consultant / Associate Expert on Gender and Trade, Economic Development Services, Australia

2.5 Dr Shrestha noted that both gender equality and inequality can lead to economic growth, which is not inclusive in both cases. Economic growth based on gender inequality is negatively impacting human development. Unfortunately, gender inequality is still the current reality in terms of labour market participation, access to jobs, wages, responsibilities etc. Women still do more work in informal trade or under-valued activities. It is a fact that young women entering the workforce now are likely to work four more years than men because of disproportionate responsibilities in terms of unpaid care work.

2.6 Women mostly own small businesses that are often at the bottom of the value chains' pyramid. Only one out five exporting firms are owned by women. Adding to the common barriers to trade and business development, women entrepreneurs are also facing gender barriers (that is, cultural gender stereotypes, limited access to education, etc.).

2.7 To unlock women's potential, it is critical to ensure that trade policies are developed and analysed using gender lenses, and to engage women in the policy processes / engagement of women. It is now time to bring changes in the mind-set of people, and recognize that women are active agents of the economy, and hence to start/continue investing in women's economic empowerment.

Marcus Bartley Johns, Senior Trade Specialist, Trade and Competitiveness Global Practice, The World Bank Group

2.8 Mr Johns highlighted the importance of flanking policies (monetary, fiscal, and competition, investment and other policies for structural reforms) in making SMEs more and more competitive. The key challenges remain in increasing SMEs' productivity for them to become more competitive. Those constraints are both at the firm level and at the enabling environment level.

2.9 In terms of complementary areas of policies, numerous actions can be taken at the firm level such as improving business and management practices through skills development programs for instance. Marcus mentioned the criticality of looking at business and entrepreneurship incubators, support their establishment and growth.

2.10 To develop an enabling environment for SMEs to grow, there is a strong need for cross-cutting reforms and interventions. Different examples of actions were presented. SMEs capacities of using technologies and opportunity of developing digital economy should be enhanced, by addressing basic connectivity challenges for instance. The challenge of access to finance should also be tackled in developing a more enabling environment for SMEs, along with gender inequality that exacerbates challenges faced by all SMEs (i.e. support in transition from informal to formal trade).

3. Floor Discussion

3.1 After the presentations, Mr Mehta opened the floor for questions and comments. Some panellists were asked to clarify some points concerning their respective presentation. Even if Tanzania and South Africa are both parts of the same regional organization (i.e. SADEC), free trade in the region may not have happened at the time of the study, or there might have an exception on the concerned tariff line. It was highlighted that in Africa, costs of production are the same as China, but the moment a product reaches a port, costs become very high. Anti-competitive practices exist in the transport and infrastructure sectors, which are making the prices very high in Africa.

3.2 A participant asked for more clarity about what is considered as “informal trade”. The informality lies in businesses that operate without being formally registered (i.e. no business identification number), and that often don’t pay taxes. It concerns all sectors, going from manufacturing to services. About 80% of informal traders are women. The persons working in customs considered informal trade as illegal trade. An ITC program is increasing awareness around this issue, and supports informal traders that are often arrested at borders.

3.3 The challenging issue of financial regulations were briefly discussed. This is an issue raised in regard to Basel III norms, during the last G20 meeting. It is very sensitive to look at financial regulation of banks, without creating any burdens on private sector development, especially for SMEs’ access to finance.

4. Concluding Remarks

4.1 While closing the session, Mr Mehta emphasised that there is a critical need to implement effective comprehensive policies for SMEs to enter the GVCs. However, it was made clear that trade policy is not a magic wand, to empower women and allow inclusive trade, and thus complementary policies should also be implemented in parallel. Development partners and private sector also need to engage and invest in economic empowerment of women. Trade costs should also be reduced to support an enabling business environment, along with strengthening good governance, which is an important criteria for SMEs development.