

**With reference to the letter of invitation of 15 April 2016 to offer substantive inputs to the 2016 HLPF from H.E. Oh Joon, President of ECOSOC.**

*Please note as follows inputs from the International Trade Centre (ITC) based on the template provided in the aforementioned letter:*

## Background

Formed in 1964, ITC is the only development agency fully dedicated to the development of SMEs. We work with and through partners to strengthen the competitiveness of SME exporters and build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, youth and poor, underserved communities.

### (a) Assessment of “ensuring that no one is left behind” at the Global Level

1. Globally, small and medium-sized enterprises (SMEs) are over 95% of all firms and provide 60-70% of total employment when both formal and informal sectors are taken into account<sup>1</sup>. Yet despite their potential to be a key driver for global growth and a main factor of inclusiveness by employing larger shares of vulnerable groups of societies in particular women and youth<sup>2</sup>, integrating SMEs into the global economy is a major challenge. SMEs are therefore considered the ‘missing link’ for inclusive and sustainable development<sup>3</sup>.
2. Analysis in 145 countries reveals that annual pay for women in 2015 was equal to the amount men were earning ten years before<sup>4</sup>. Higher wages for female

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<sup>1</sup> Association of Chartered Certified Accountants, 2010; Ayyagari et al., 2011; Edinburgh Group, 2013

<sup>2</sup> De Kok, Jan et al. 2013

<sup>3</sup> ITC, 2015

<sup>4</sup> World Economic Forum, 2015

employees, however, are likely to have knock-on effects on the wider economy, as women in developing countries are known to have a higher propensity than men to invest in their families and in the community at large, leading to a positive impact for the country as a whole<sup>5</sup>. Higher wages for female employees could therefore lead to higher expenditure on school enrolment for children, including girls, with the inclusion of an increased number of educated women in global workforce<sup>6</sup>. Leaving women behind in workforce participation is detrimental to aggregate productivity and may cause total income losses of up to 30% (Teignier and Cuberes, 2014).

3. Youth employment is of critical concern to policymakers, especially since the 2008 crisis. High youth unemployment causes skills attrition and human capital depreciation. Current policies recognize that exporting SMEs are a powerful engine for youth employment and vocational training. Thailand, for example, has the lowest youth unemployment in Asia at 3%, and most successful SMEs in terms of exports<sup>7</sup>.
4. Promoting young entrepreneurs and accelerating market connections of young SMEs positively effect youth employment and job creation. Young entrepreneurs are more likely to hire fellow youths and pay them higher wages than older firms<sup>8</sup>.
5. SMEs have significantly contributed to net employment growth since the 2008 financial crisis, bolstering the rationale to focus on SME development<sup>9</sup> and internationalization<sup>10</sup>. Yet wages paid by SMEs are significantly lower than those paid by large firms. Evidence on SMEs in the Latin American and Caribbean (LAC) region as well as in Organization for Economic Co-operation and Development (OECD) states shows the wage gap between SMEs and large firms are even more significant in developing than industrialized countries<sup>11</sup>. Such wage gaps are

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<sup>5</sup> ITC, 2015; EY 2009

<sup>6</sup> Klasen and Wink, 2002; Klasen, 2005; Klasen and Lamanna, 2008; Aguirre et al., 2012

<sup>7</sup> ITC, 2015

<sup>8</sup> Ouimet and Zarutskie 2013

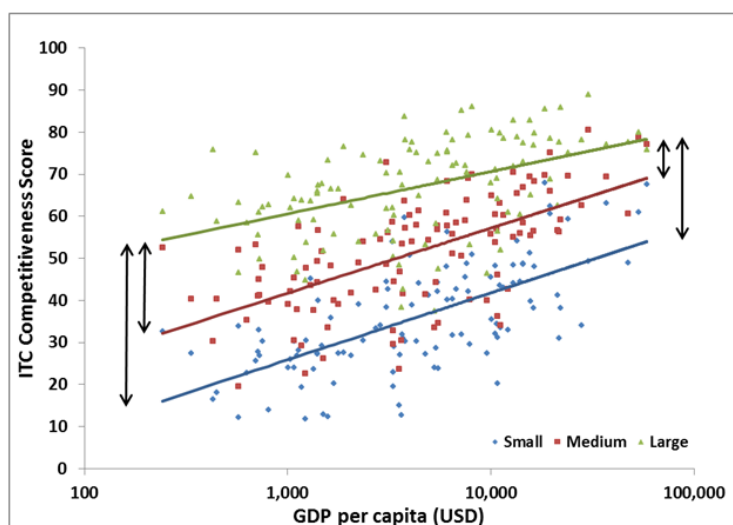
<sup>9</sup> Haltiwanger et al., 2011; Criscuolo et al., 2014

<sup>10</sup> Jonas Onkelinx et al 2015

<sup>11</sup> McDermott and Pietrobelli, 2015

largely caused by SME productivity lagging behind large firms, confirming evidence for size and development productivity premiums<sup>12</sup>.

6. Closing the productivity gap of SMEs is crucial for inclusive growth, especially in developing countries to deliver two direct effects: First, increased SME productivity contributes to GDP growth. Second, higher wages in the low-wage segment of the economy are likely to generate positive and equitable income distribution effects<sup>13</sup>.
7. ITC research from 113 countries confirms there is a competitiveness gap between large firms and SMEs. The gap between small and large firms is relatively wider than that between medium-sized and large firms. Importantly, the competitiveness gap between small and large firms decreases to a relatively smaller extent than that between medium-sized and large firms as development increases. SMEs in developing and least-developed countries are at the highest risk to be left behind.



*Figure 1:  
The competitiveness gap  
between small, medium and  
large firms (ITC SME  
Competitiveness Outlook  
2016).*

<sup>12</sup> Gönenç et al. 2014; Chang and van Marrewijk, 2013

<sup>13</sup> ITC, 2015

## (b) Gaps, Areas Requiring Urgent Attention, Risks and Challenges

8. To ensure sustainable economic growth, SMEs need to diversify exports (both products and markets) to be included in global value chains. Developing a broad export base enhances the position of SMEs in the global economy's production chains by promoting, amongst others, sustainable demand for products and services to stabilize overall exports, job security and economic growth. A DHL survey<sup>14</sup> found internationalization improves long-term business growth by acquiring know-how and diversifying products, ensuring SMEs are not left behind in the global economy.
9. Services sectors provide inclusive development potential given their large share in GDP and employment<sup>15</sup>. In fact, these sectors are particularly important due to their impact on the development of efficient infrastructures and synergies with all the other economic sectors<sup>16</sup> as well as their relatively high potential for the generation of development results vis-à-vis manufacture in the era of the Internet of Things (IOT).
10. Overall the challenge of women and youth reinforce the need to create supportive environment for SMEs. Promoting ownership of SMEs by women and young people and strengthening their capacity to overcome bottlenecks faced when internationalizing, can play a vital role in generating inclusive economic growth and spreading gains across all strata of societies<sup>17</sup>.
11. Especially exporting SMEs in developing countries face obstacles that hinder their inclusion in global value chains, such as the ability to meet buyers' increasing demands on environmental goods and services<sup>18</sup>. Yet, SMEs often lack information about sustainability requirements and standards as well as certification processes and, overall market access conditions. ITC data confirms that enterprises that are new, small or medium-sized are more affected by such

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<sup>14</sup> DHL, 2013

<sup>15</sup> World Bank, 2000

<sup>16</sup> ITC, 2015

<sup>17</sup> ITC, 2015

<sup>18</sup> Nielsen, 2015

non-tariff measures (NTMs) than larger firms<sup>19</sup>. Trade potential may hence be lost if trade policies do not provide for the removal of trade barriers, allowing for the inclusion of SMEs into global value chains.

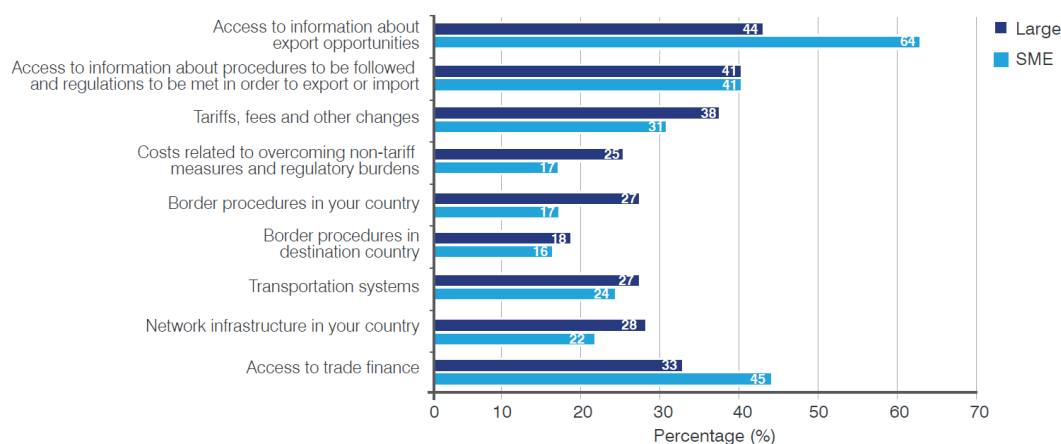


Figure 2: Improvements valued: SMEs vs large firms (OECD and WTO, 2015)

12. Apart from relatively high costs involved for SMEs in comparison to large firms, the results of an ITC Monitoring Survey<sup>20</sup> highlight that SMEs have difficulty gathering this kind of information. Access to information about procedures to be followed and regulations to be met to export and import was ranked the third most important factor in which SMEs would value improvement, as illustrated by Figure 2.

### (C) Valuable Lessons Learned on 'ensuring that no one is left behind'

13. It is hard for SMEs to be heard in international markets and to tap into sustainable development and growth opportunities, due to a lack of advocacy and because their needs are fragmented and dispersed. Trade and Investment Support Institutions (TISIs) are important in enabling and encouraging engagement and inclusion of SMEs in international markets.
14. The concept of TISIs covers many institutions, which may differ largely with regards to their function, form and funding. However, TISIs can be easily placed into one of three categories: general, sector-specific, or function-specific.

<sup>19</sup> ITC, 2015

<sup>20</sup> OECD and WTO, 2015

15. General TISIs include trade promotion organizations (TPOs), investment promotion organizations, trade-related government ministries, chambers of commerce, and economic development agencies. These are some of the largest TISIs, with some of the widest mandates for promoting trade, and are often publicly funded with the exception of Chambers of Commerce, which are usually membership-funded.
16. Sector-specific TISIs include exporter associations, trade associations, sector chambers and other sector-based bodies. These bodies are typically smaller in size and scope than general TISIs. Yet, these TISIs often provide highly specialized sector-specific information and know-how.
17. Finally, function-specific TISIs offer services that facilitate the process of importing and exporting for firms, as well as guidance and assistance on inward and outward investment. Function-specific TISIs include export and credit financing bodies, standard and quality agencies, export packaging institutes, training institutions, trade and law arbitration bodies, and post-investment after care bodies.
18. ITC research shows TISIs to be a valuable intermediary between the private sector and policy makers, both executive and parliamentary. TISIs can unify the voice of SMEs and lobby for government support in attaining strategic infrastructure.
19. Spreading valuable information to reduce market failures, TISIs play a key role in supporting the inclusion of SMEs in international markets, facilitating business-to-business contacts and lower trade costs. Especially general TISIs are often portals for the latest market intelligence and run technical assistance programmes.
20. Based on data from 94 countries, ITC research has shown that the efforts of TISIs in supporting SMEs leads to significant development results: for every dollar of export promotion invested in a TPO for example, there are on average \$87 of exports and \$384 of additional GDP per capita generated.

*(Ref – Paras.13 to 20 all ITC 2015 & 2016)*

#### **(d) Emerging issues likely to affect the realization of this principle**

21. More awareness on the role of trade as a tool for achieving sustainable development and the principle of no-one left behind is key. For example, Goals 1,

2 and 5 of Agenda 2030 recognize that equal access to economic resources and markets for men and women; and promoting gender equality and women's empowerment on access to economic resources are approaches to be adopted in order to empower women. The adoption of these Goals and related targets affirm the relationship between trade and women's (economic) empowerment. This also applies to other vulnerable or marginalized groups such as youth and poor communities.

#### **(e) Areas where political guidance by HLPF is required**

22. Foster inclusive and sustainable growth and development through trade and international business development. Key focus areas for the HLPF to consider:

- *Access to Trade and Market Intelligence*
- *Steps towards to Conducive Business Environment*
- *Strengthening Trade and Investment Support Institutions*
- *SMEs connection to International Value Chains*
- *Promoting and Mainstreaming Inclusive and Green Trade*
- *Supporting Regional Economic Integration and South-South Links*

23. Leverage the private sector is critical to realizing the principle. An increased effort at advocacy on the importance of private-public partnerships (including with SMEs) will be important. Governments need to create the right enabling environments both for business to do what it does best, i.e., create economic growth and opportunity, and also to create the right collaborative frameworks for business, government and civil society to work productively together to meet social needs when governments cannot meet them by themselves.

#### **(f) policy recommendations on ways to accelerate progress for those at risk of being left behind**

24. Trade is recognized as an engine for inclusive economic growth and poverty reduction that contributes to the promotion of sustainable development both by the 2030 Agenda (para. 68) and the Addis Agenda of Action (para. 82).

25. International trade accounts for over 50% of low-income developing countries GDP and is an important source of finance to both the private and public sectors.
26. Trade growth enhances a country's income generating capacity, which is an essential prerequisite for achieving sustainable development. Increasing imports competitively can improve consumer surplus and the prospective competitiveness of domestic producers that use imported intermediates. Increasing exports enhances national income growth at the aggregate level. Market access conditions, both to foreign markets for exports and domestic markets for imports, are an important determinant of the effectiveness of trade as a means of implementation.
27. A predictable trading environment can also help to promote long-term investments that could further enhance the productive capacity of a country. Open trade relations and closer economic ties also favor regional integration, convergence toward common international best practices and overall stability of the international system.
28. The concession of preferential treatment for developing and least developed countries on labour intensive products can help diversifying exports and reduce inequality within and across countries (as stated by target 10a). The main challenges to realize the potential of trade to pursue sustainable development and ensure no one is left behind: 1) strengthen the multilateral trading system to avoid that proliferation of RTAs<sup>21</sup> exacerbate the marginalization of low-income or small and vulnerable economies in world trade; and 2) support "complementary actions" and policy coherence at national and regional levels so trade serves as a means of implementation and is a driver to reduce inequality by generating productive employment, decent work, women's empowerment and food security.
29. Measuring trade flows and market access conditions is key to monitoring trade-related target of Goal 17 and assessing progress on other targets and means of

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<sup>21</sup> "In 2014, almost half of world trade took place between countries that had signed an RTA with one another, and almost one third was regulated by "deeper" trade agreements. Virtually all countries belong to at least one RTA, with some countries being more active in forming bilateral and regional RTAs than others. Globally, the emergence of "mega" RTAs, such as the Trans-Pacific Partnership Agreement (TPP) and the United States-European Union Transatlantic Trade and Investment Partnership (TTIP) may further change the dynamics in world trade flows as well as the underlying international trade rules" (UN IATF, 2016).



implementation. New Agenda 2030 indicators (17.10-11-12) monitor trade including services (representing a growing share of employment in many developed and developing countries) as a component of developing and LDCs export portfolios. They focus also on tariffs applied among non-developed countries in South-South and intraregional trade. Disaggregating these indicators by country groups and product sectors could assess synergies with other objectives set by Agenda 2030 including: the decrease of agricultural market distortions (target 2.b), improvements in the transfer of environmental goods and services (target 17.7) and favorable access to essential medicines (3.b).

30. Supplementary indicators (e.g. export diversification, level of processing of products exported, preference utilization rates and even firm level information) will be needed to provide contextual data and enhance our understanding of the backward and forward links among trade, sustainable development and poverty reduction.