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SME Competitiveness Outlook 2015

SMEs and global markets:
the missing link for inclusive growth

SMEs and Global Markets: The Missing Link for Inclusive Growth

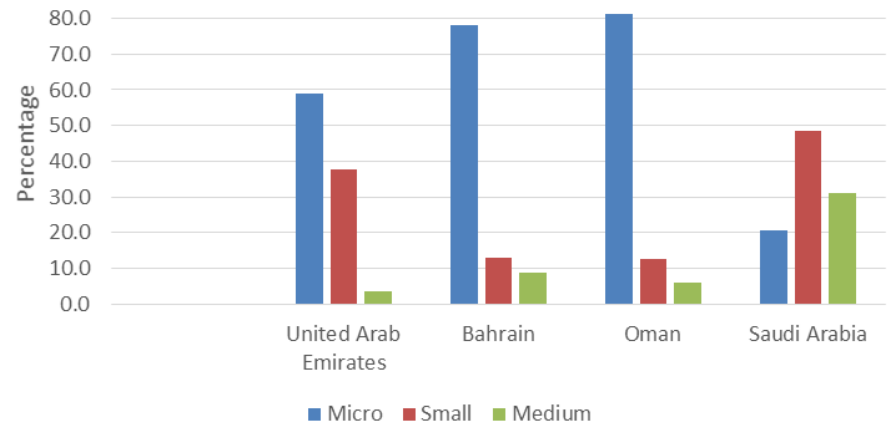
Marion Jansen, Chief Economist, ITC
1st MENA Trade Workshop
Carthage, 3 June 2015



SMEs: different definitions, different weights in the economy

- There is no universally accepted definition of Small and Medium Sized Enterprise.
- In most countries SMEs represent:
 - Above 90 per cent of the number of firms
 - Around 60 per cent of employment
- ... but the picture differs across countries

Country by pc-GNI	Max # employees	Country by SME size	Max # employees
Norway	100	Pakistan	50
Switzerland	250	Vietnam	300
Brazil	100	Bangladesh	100
Thailand	200	Ghana	100
Moldova	250	Tanzania	20
Egypt	50	Malawi	50



SME Competitiveness Outlook 2015

Benefits from background studies:

- Dorothy McCormick and Herbert Wamalwa, University of Nairobi
- Charles Harvie, University of Wollongong
- Gerald McDermott (University of South Carolina) and Carlo Pietrobelli (IDB and University Roma Tre)
- Lei Zhang and co-authors, Shanghai University of International Business and Economics (SUIBE)
- Leila Baghdadi, Tunis Business School
- Ashraf Ali Mahate, Handam bin Mohammed Smart University, Dubai and Dubai Exports.
- Jaroslav Zhalilo, Institute for Economics and Forecasting, Kiev

SME Competitiveness Outlook 2015:

SMEs and Global Markets – The Missing Link for Inclusive Growth

SMEs: Who are they and how do they perform in global markets?

SME performance and inclusive growth

Internationalizing? Ok, but the elegant way

Why are not all SMEs global gazelles?

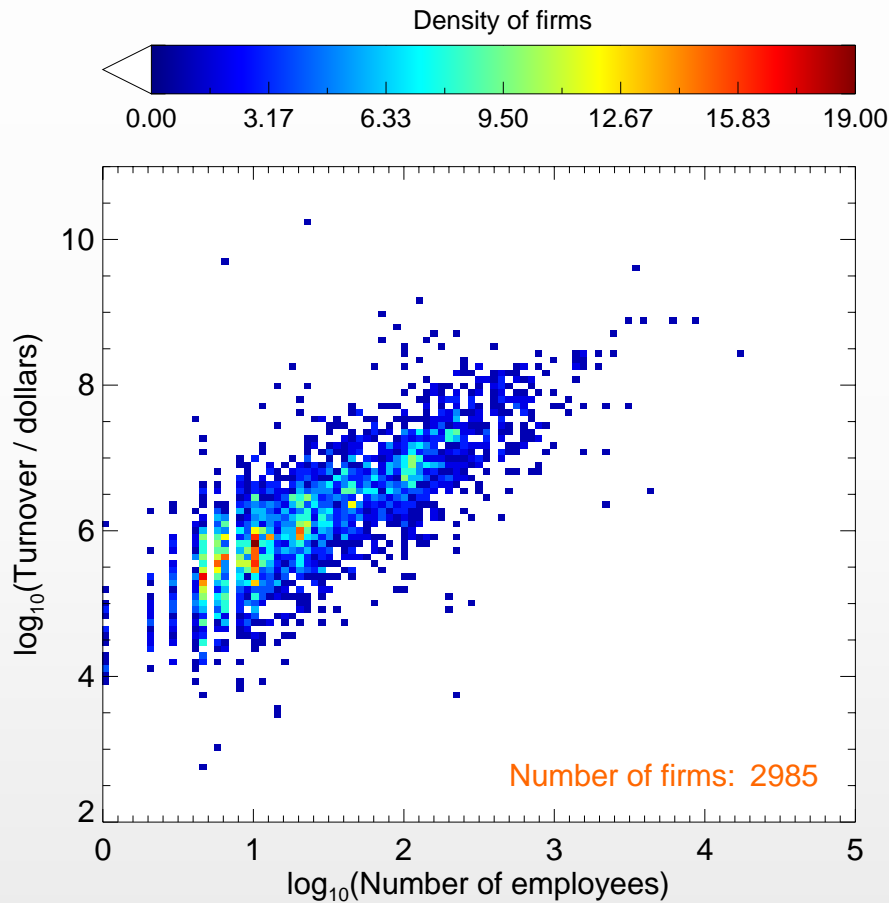
Best practices

Local SMEs and Global Policies

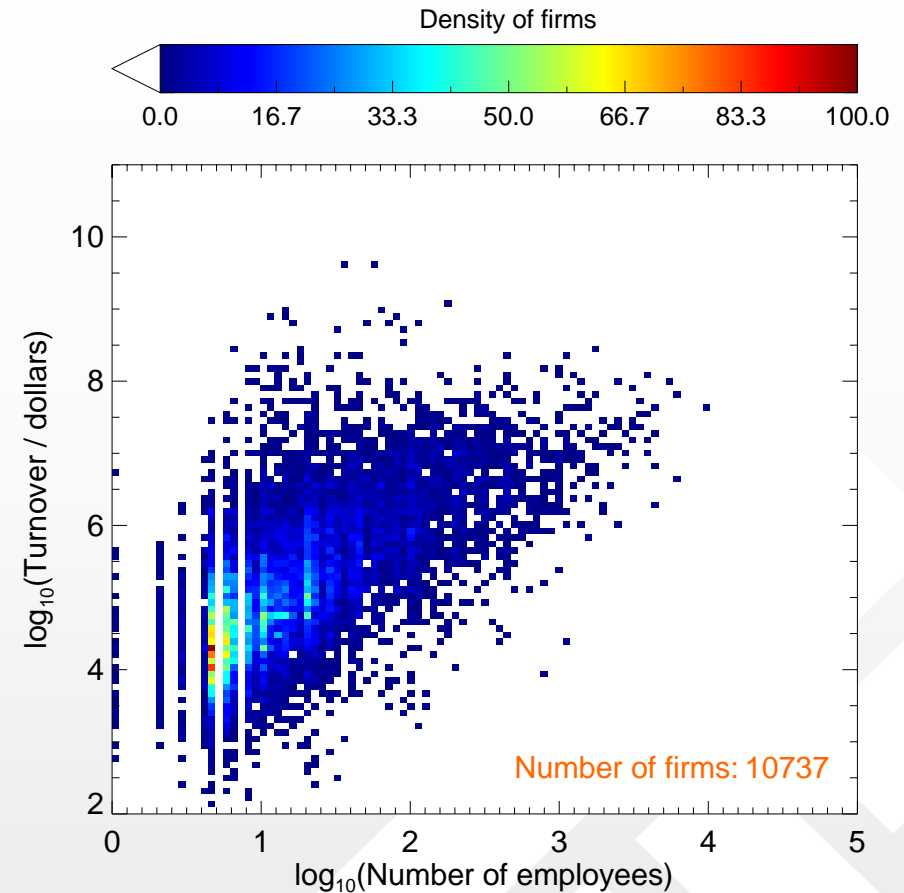
SMEs and inclusive growth

In LDCs, firms are born small and tend to stay small

Developed Countries



Least Developed Countries



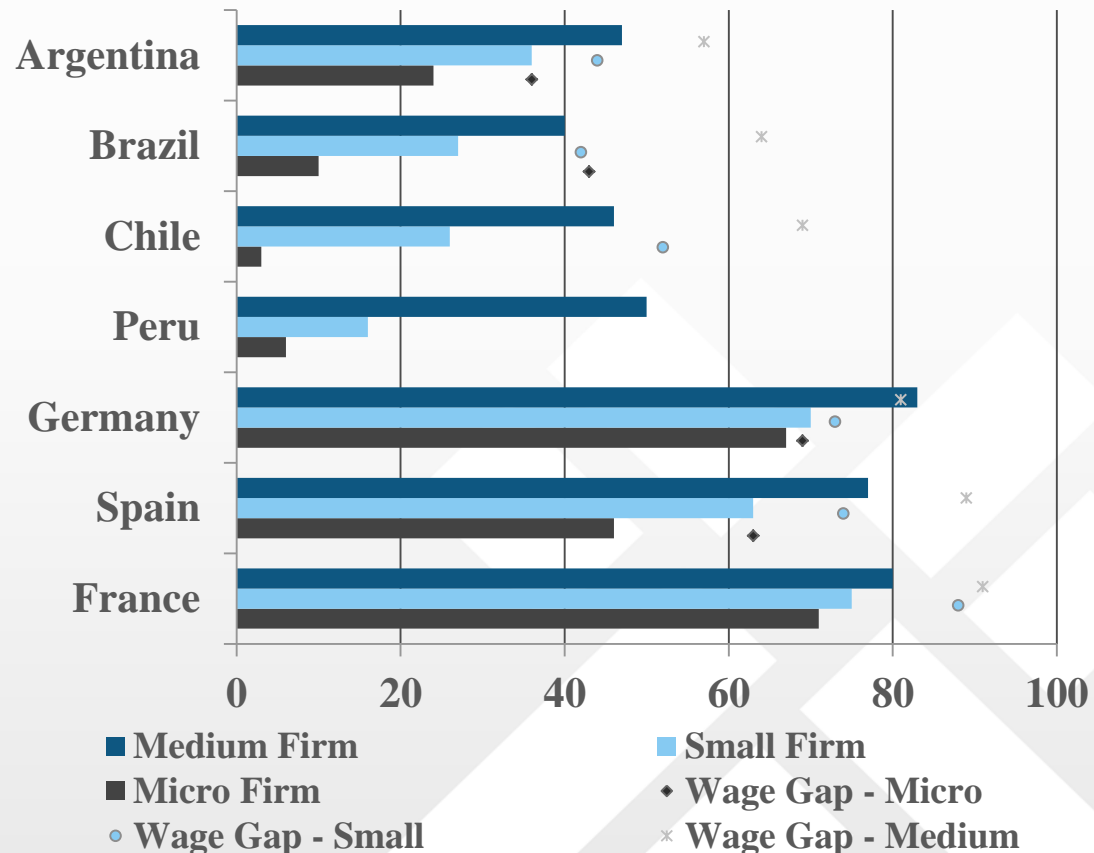
Source: OCE calculations from World Bank ES dataset

*Developed countries in sample are predominantly eastern European nations

SME Characteristics: Productivity and wages

- SMEs are generally less productive than large firms
- The gap is larger in developing economies
- A similar pattern is observed with wages
- Working with SMEs will be a challenge, but there are large gains to be made

Relative Productivity & Wage Gaps in Selected South American and OECD Countries (*Large firms=100*)



Source: Adapted OECD-ECLAC, 2013, p. 47

From McDermott and Pietrobelli, ITC, forthcoming

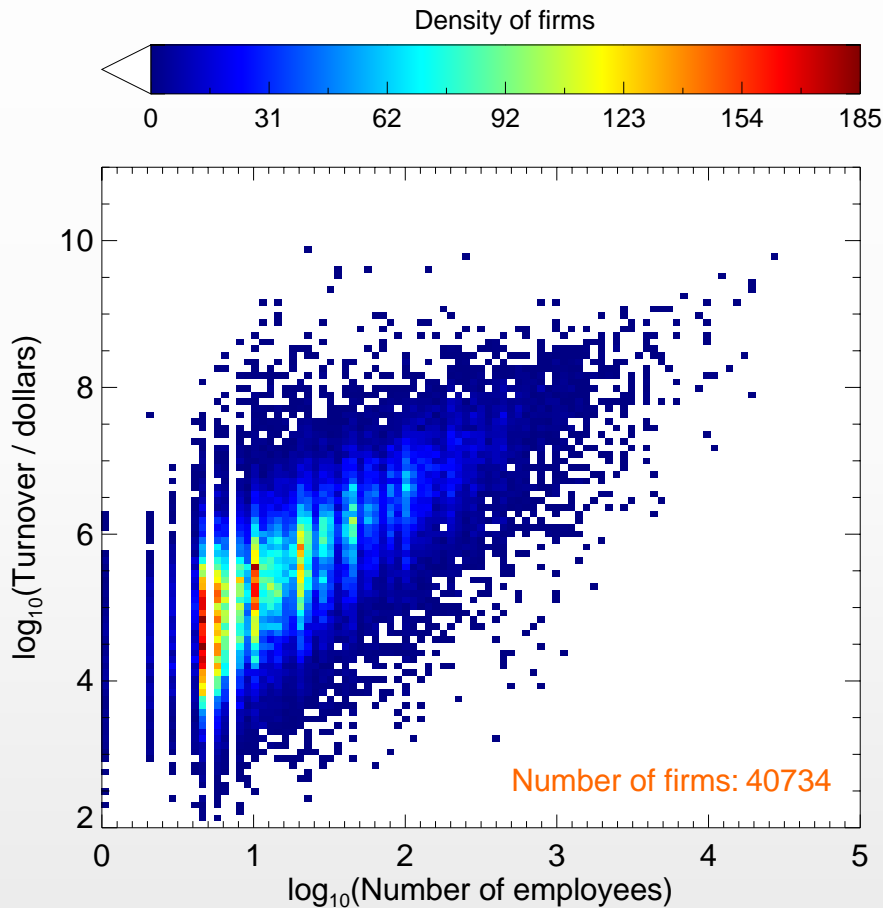


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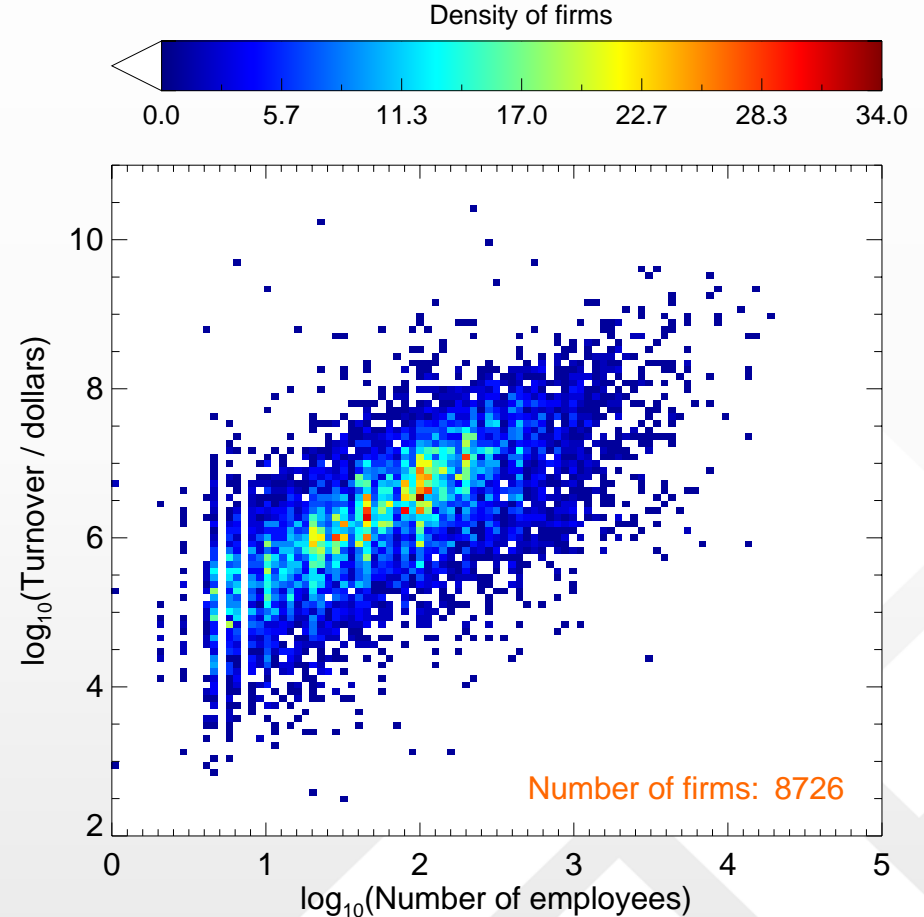
Internationalization as a solution?

Internationalization and selection?

Non exporters



Exporters



Source: OCE calculations from World Bank ES dataset

*'Exporter' is defined as a firm with 10% or more of sales exported (direct plus indirect)



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Trade matters for productivity

Firms' productivity and international trade status, Tunisia 2000-2010

Firms engaging in trade are more productive than firms not engaging in trade (no exports, no imports), with the exception of offshore firms that do not import

	All firms	Firms with more than one employee			Services
		All	Manufacturing	Non Manufacturing	
Non exporting and importing firms	0.992*** (0.006)	0.992*** (0.006)	0.828*** (0.001)	0.607*** (0.012)	1.352*** (0.007)
Onshore firms exporting and non importing	0.314*** (0.021)	0.031*** (0.021)	0.268*** (0.031)	0.471*** (0.053)	0.0532*** (0.034)
Onshore firms exporting and importing	1.434*** (0.006)	1.434*** (0.006)	1.232*** (0.013)	1.14*** (0.016)	1.895*** (0.011)
Offshore firms and non importing	-0.847*** (0.010)	-0.849*** (0.010)	-0.904*** (0.017)	-0.771*** (0.085)	-0.645*** (0.017)
Offshore firms and importing	0.566** (0.005)	0.566*** (0.005)	0.382*** (0.012)	0.920*** (0.095)	0.909*** (0.016)
N	336806	326572	105114	30712	190313
R2	0.200	0.200	0.213	0.18	0.298

From Bhagdadi, ITC, forthcoming

Gains at the bottom of the chain are not necessarily high

Company	Function		Cumulating
Chinese Farmers	Raw material	1	1
Chinese Factory	Manufacturing costs	2	3
Chinese Factory Owner	Owner margin	2	5
Lebanese design workshop	Design	0.1	5.1
	Boat	0.2	5.3
	Customs	0.7	6
Chinese state plant	Quotas	0 – 0.5	
Spanish trader	Trader margin	2	8
Spanish supermarket	Distribution	20	28
Lebanese company	Market research	10	38
Lebanese company	Advertising	2	40
French Brand	Margin	10	50

Internationalizing by connecting to GVCs? ... but how to avoid being trapped at the low end of the value chain?

Ruffier (forthcoming)

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Internationalizing the elegant way

Internationalizing the elegant way:

- Knowing what to do: market information
- Doing the job: labour productivity and **skills**
- Funding your activity: access to working capital and **credit**
- Signalling quality: the importance of international standards
- Having access to foreign markets: inputs and outputs
- Getting products and services to the customer: logistics
- Be forward looking: **innovation**
- Making it happen: leadership and management skills

Dynamic competitiveness

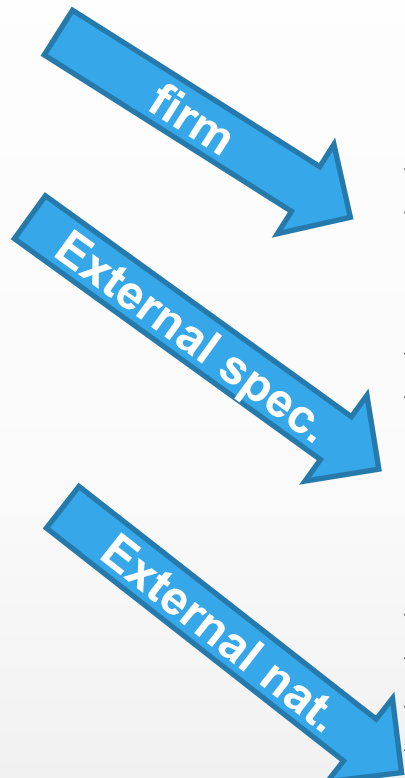
Be “competitive”

Why is not every SME a global
“gazelle”?

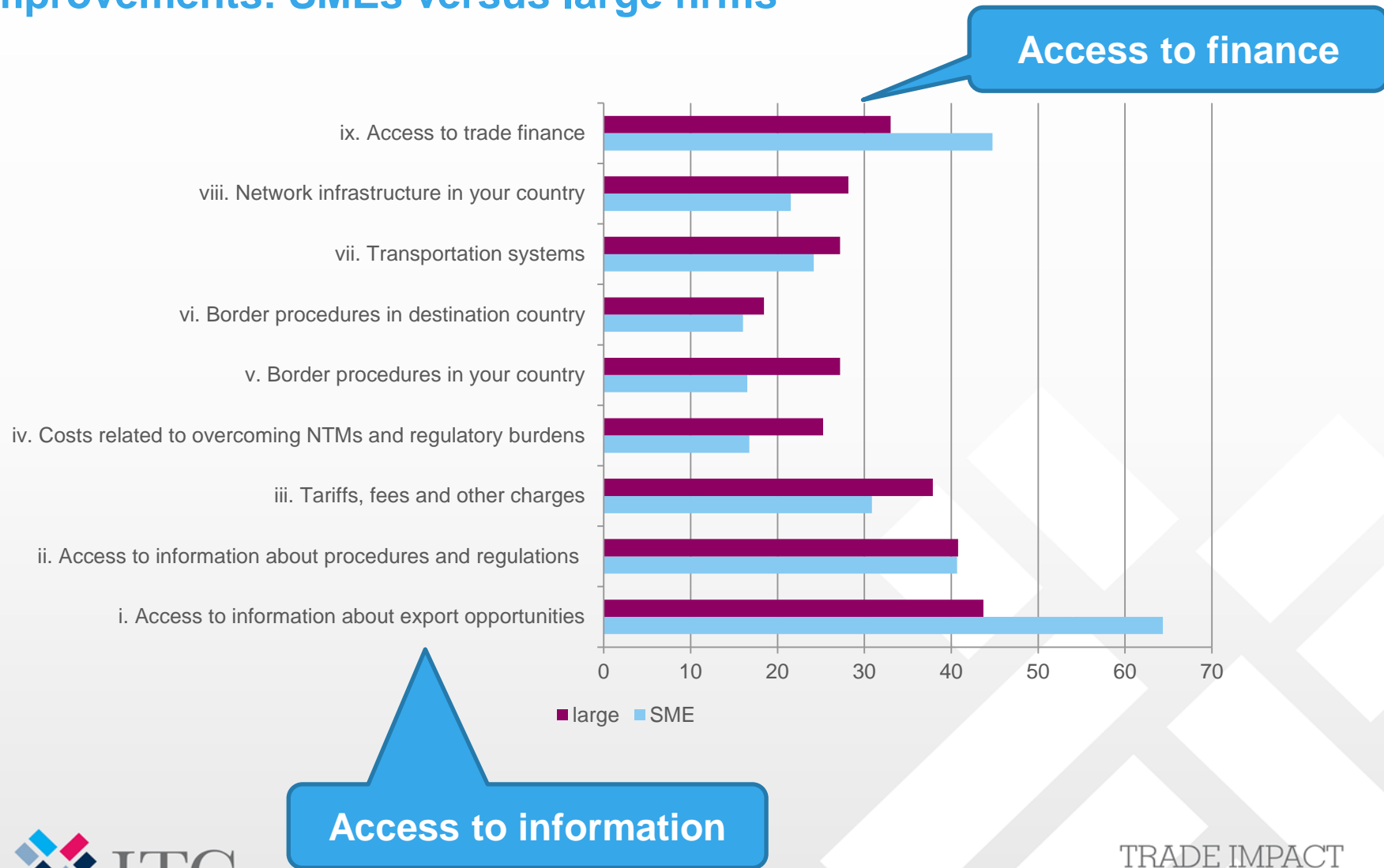
Meeting international standards

- Access to information about product and service requirements
- Firm level capacity to meet regulatory and standard related requirements
- Commensurate technical infrastructure at the national level for specific activity
- Addressing Non-Tariff Barriers and Procedural Obstacles for more Efficient Cross-Border Procedures
 - Promoting Inter-Agency Coordination
 - Enhancing Transparency and Predictability
 - Simplifying Documents and Procedures and Reducing Charges and Fees

Knowing what to do: market information

- 
- Have an email; have a website
 - Be connected with peers, suppliers, buyers (clusters)
 - Broadband access is available
 - Relevant data/information are readily available (public good)

What are the three factors in which you would most value improvements: SMEs versus large firms



Connectivity

The percentage of SMEs with



production certified to an international standard



LDC compared to the best performing country.
Based on World Bank Enterprise Survey data.

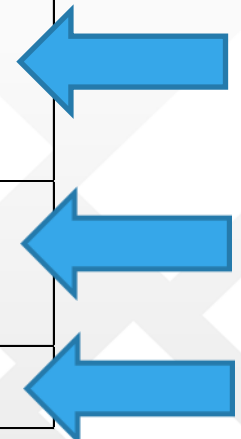
Assessing and addressing SME competitiveness

SME Flagship: SME Competitiveness Grid

3 Pillars of Competitiveness



			3 Pillars of Competitiveness		
			Capacity to Compete Today	Capacity to Connect	Capacity to Change
Internal factors: strengths and weaknesses	SME Readiness to Trade				
	External factors: opportunities and threats	Immediate business environment			
		Overall economy			



3 Layers of Determinants

Summing Up

- SMEs represent significant share of economic in terms of GDP and employment
- Significant economic gains can be obtained from raising productivity in SMEs as distance to productivity frontier is often large in developing countries
- Higher productivity is likely to lead to higher wages
- Increased SME productivity can significantly contribute to inclusive growth

Summing Up

Increasing SME productivity can significantly contribute to inclusive growth

Exporters are more productive
Importers are more productive

How to get there?

Increase competitiveness to:

- Link up directly to global markets
- Or indirectly through value chains, but the elegant way

3 Pillars of SME Competitiveness:

- Compete
- Connect
- Change

3 Layers of Determinants of SME Competitiveness:

- SME Readiness to Trade (firm level capacity)
- Immediate business environment
- The overall economy