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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

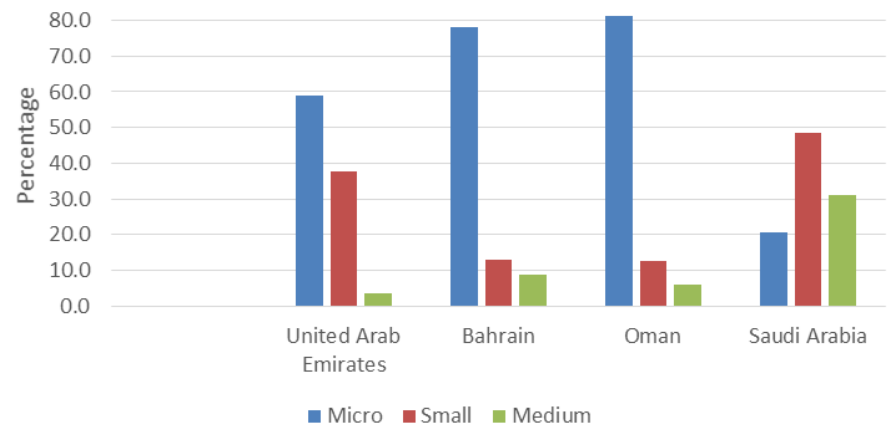
Marion Jansen, Chief Economist, ITC
WTO; 26 March 2015, 2015



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?

Key bottlenecks to SME internationalization ...

Bottlenecks, So What? ... Key arguments for assisting SMEs

The small push that may make the difference for SME growth

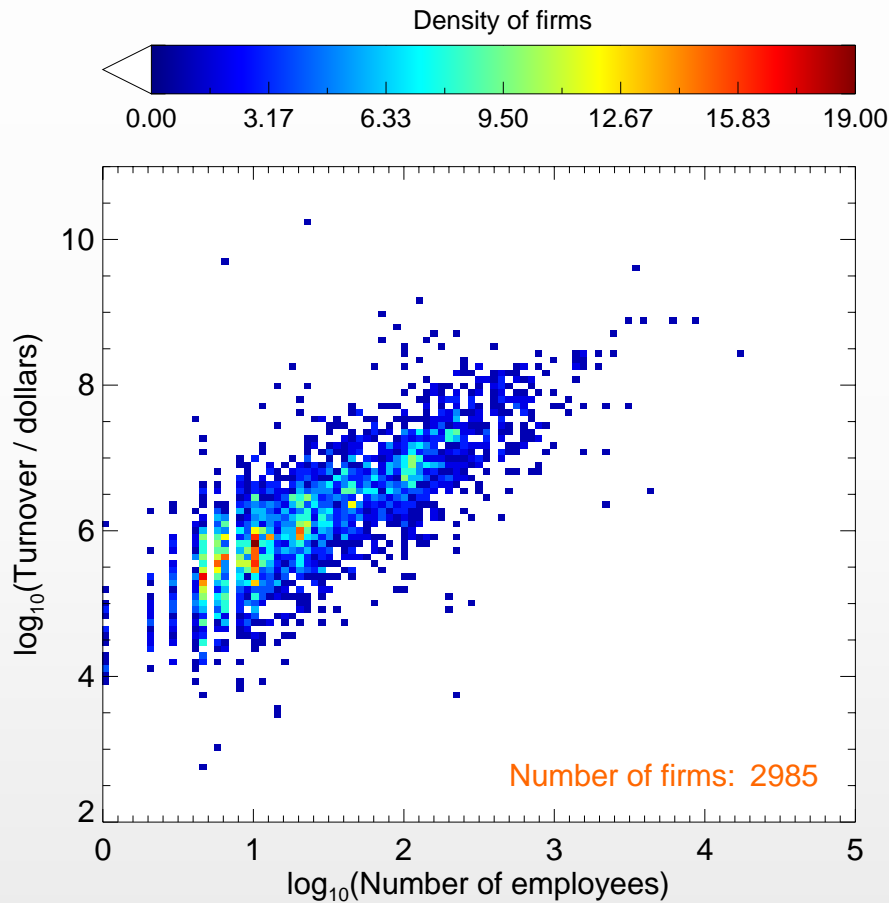
Internationalizing? Ok, but the elegant way

Local SMEs and Global Policies

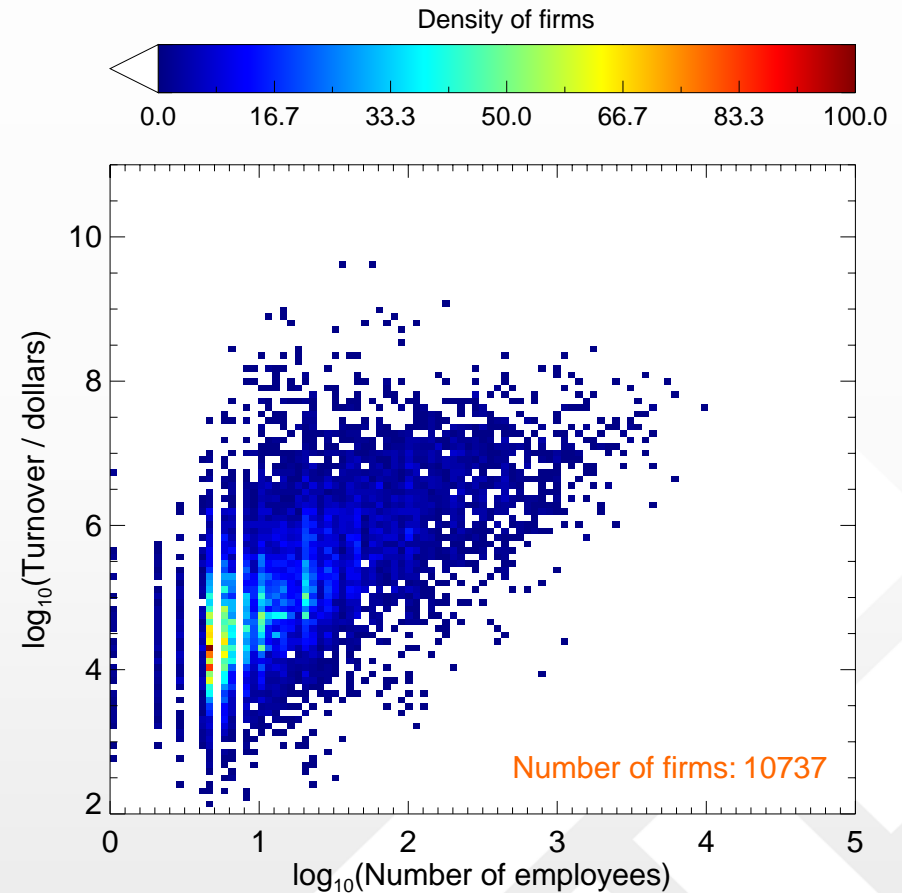
SMEs: who are they and how to the perform in global markets?

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

Developed Countries



Least Developed Countries



Source: OCE calculations from World Bank ES dataset

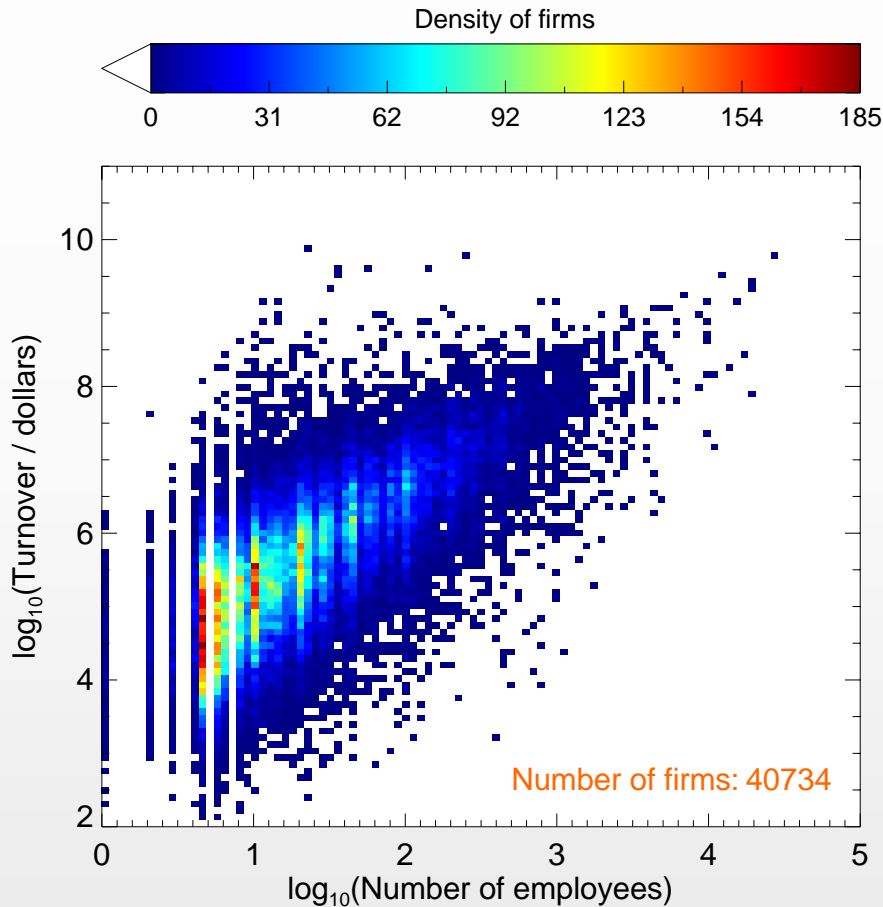
*Developed countries in sample are predominantly eastern European nations



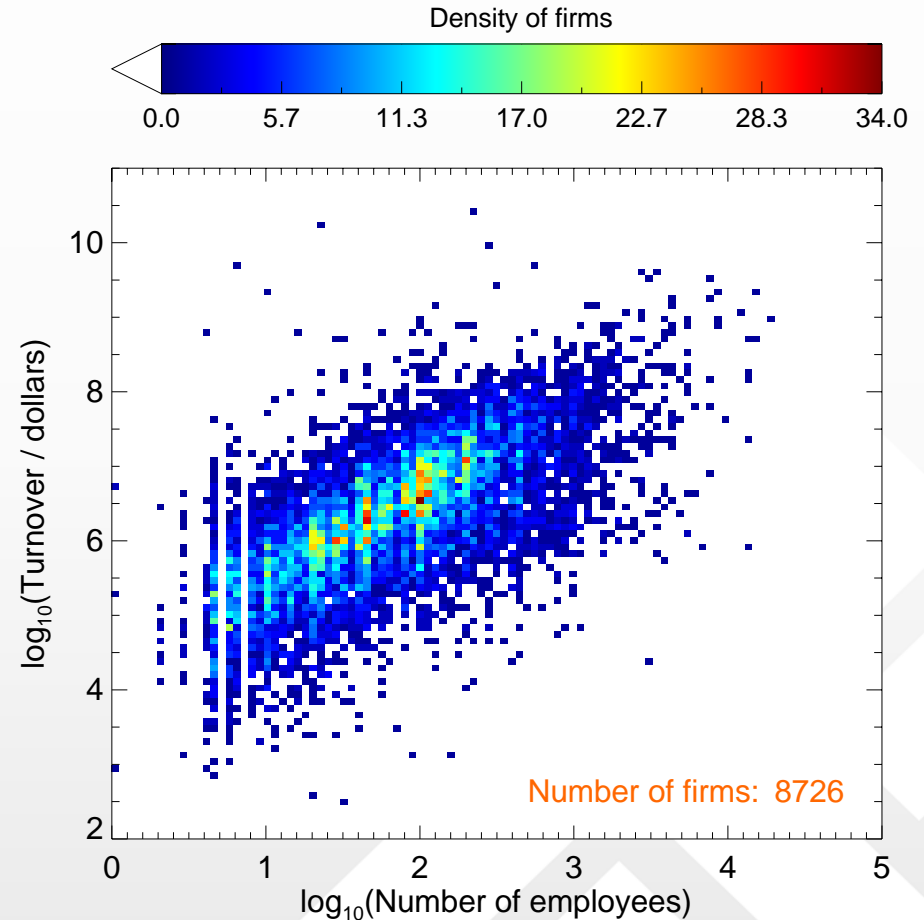
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Theory predicts it, data confirm it: exporters tend to be larger in size than non-exporters

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)



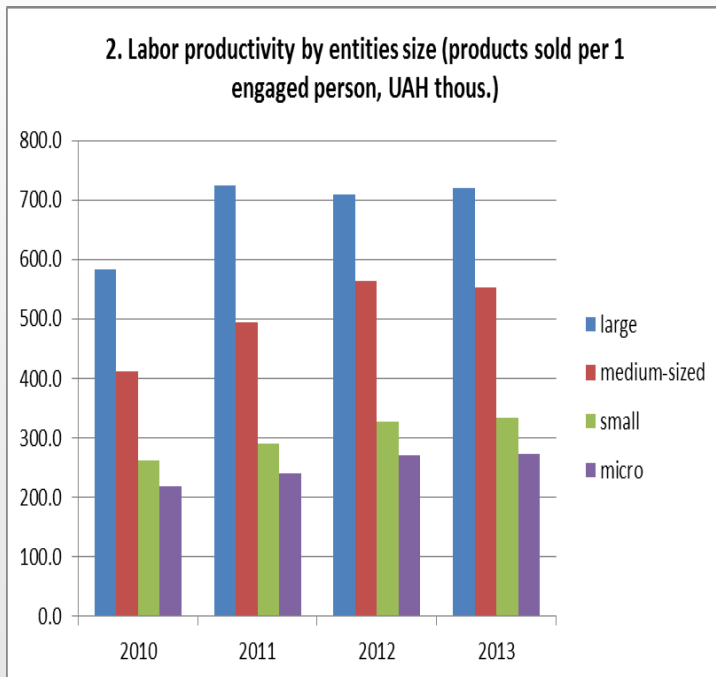
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Strengthening SMEs

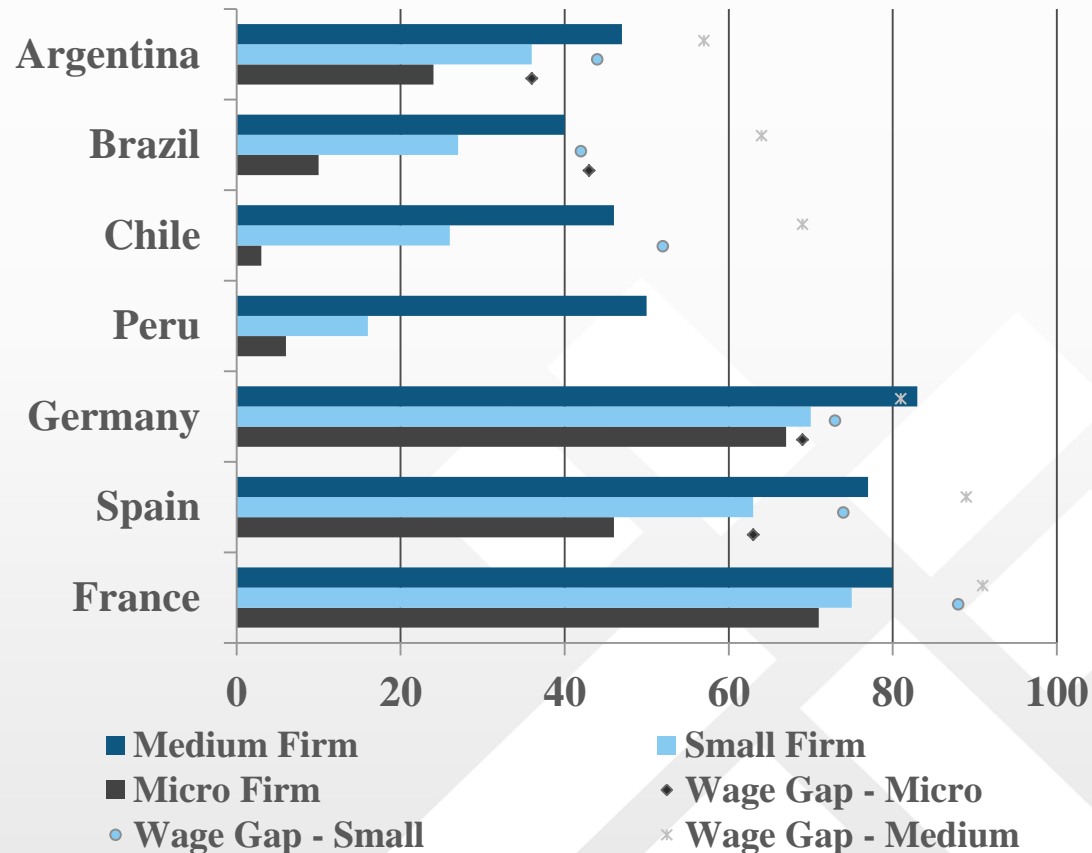
A Quick Win in Terms of Growth ?

SME Characteristics: Productivity and wages

- SMEs are generally less productive than large firms
- The gap is larger in developing economies



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

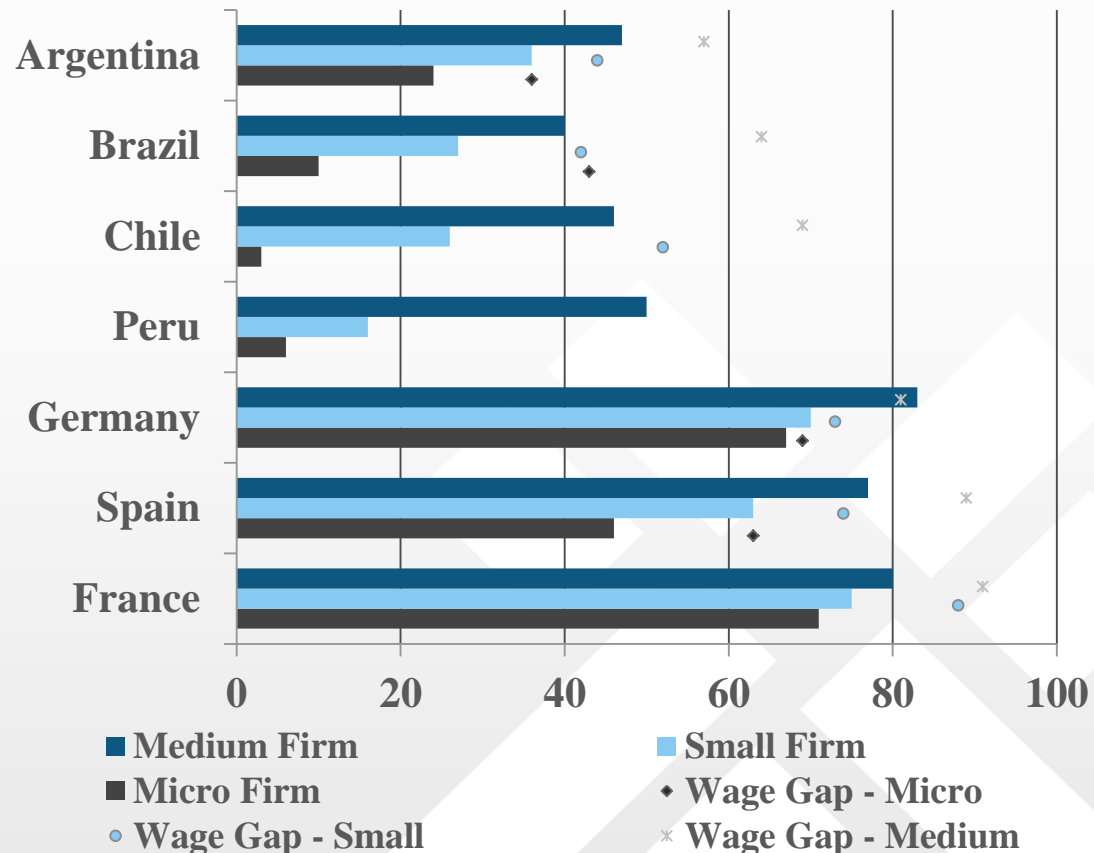


Source: Adapted OECD-ECLAC, 2013, p. 47

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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Internationalizing the elegant way

Exports Matter for SME Productivity and so do
Imports

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

Internationalizing the elegant way

Linking up to Value Chains ... but how ?

Linking up to value chains ... but how?

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

Harvie et al (2010) show that moving up the value chain (in 7 Asean country and China) is notably facilitated by:

- Higher labour productivity
- Higher foreign ownership share
- ICT as core business
- Having acquired production knowledge

Initial level of **supplier capacity** will determine:

- the governance approach within the chain
- and will determine gains captured by suppliers

Ruffier (forthcoming)

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 Pillars of SME Competitiveness

➤ **Compete** Now:

- Deliver in time
- **Meet quality requirements**
- Meet cost requirements

➤ **Connect:**

- Know your customer and reach out
- Know your competitor
- Know what is changing in markets

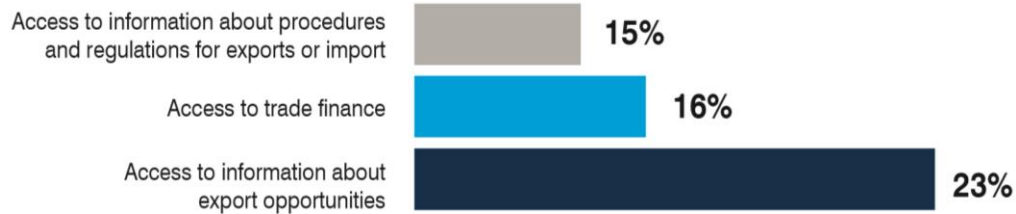
➤ Be ready to **Change:**

- **Have access to funding**
- Have access to skills
- Be able to innovate

Pillars of competitiveness

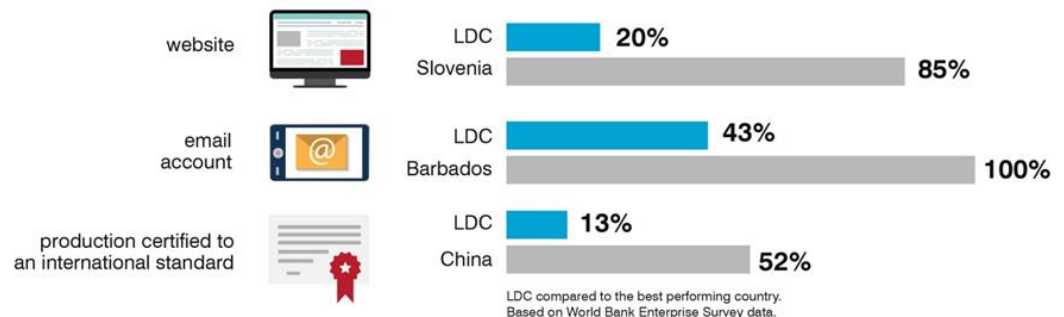
The most important

Bottlenecks to SME internationalisation



Based on an ITC survey of 418 SMEs. Top three responses

The percentage of SMEs with



3 Layers of Determinants of Competitiveness

- **SME Readiness to Trade (firm level capacity), e.g:**
 - Quality control system in place
 - Search for market information
 - Have a business plan
- **Immediate business environment, e.g.:**
 - Access to quality certification institution
 - Linkages to relevant players (e.g. cluster)
 - Access to institutions/mechanisms lending to SMEs
- **Overall economy** (business environment at the “macro”-level), e.g.:
 - Border procedures
 - Internet bandwidth
 - Efficiency of banking sector (interest rate spread)

The 'immediate' business environment matters

Coordination: McCormick and Wamalwa cite examples of African countries where, multiplicity of ministries and departments handling SME issues leads and lack of strong sector specific associations at the local level has contributed to co-ordination failures.

Knowledge and technology spillovers: McDermott and Pietrobelli refer to the key benefit from inter-firm linkages, be they horizontal or vertical, in terms of knowledge and technological spillovers and externalities among the firms.

Citing evidence of the Wenzhou clusters in China, Zhang et al. (forthcoming) argue that clusters play an important role in the internationalization of SMEs, because:

- **transaction and information gathering costs** are reduced
- Firms in the cluster share a regional brand
- The cluster facilitates integration into global value chains, often directly through the establishment of multinational joint ventures

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 higher wages
- Increasing 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 Layers of Determinants of SME Competitiveness:

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

3 Pillars of SME Competitiveness:

- Compete
- Connect
- Change