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Redesigning Canadian Trade Policies for New Global Realities

Edited by Stephen Tapp, Ari Van Assche and Robert Wolfe

About this chapter

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Redesigning Canadian Trade Policies for New Global Realities, edited by Stephen Tapp, Ari Van Assche and Robert Wolfe, will be the sixth volume of The Art of the State. Thirty leading academics, government researchers, practitioners and stakeholders, from Canada and abroad, analyze how changes in global commerce, technology, and economic and geopolitical power are affecting Canada and its policy.

How Gender Affects SMEs' Participation in International Trade

Arancha González

International trade plays a vital role in shaping countries' economic and social performance. Trade facilitates access to new technologies in the global marketplace that enhance incentives for innovation, and it creates new employment opportunities by expanding export sectors.[1] In developing countries, in particular, it brings structural economic changes that increase the employment of lower-skilled workers in the informal sector — which includes economic activities in unprotected jobs not regulated by government.

In both developing and developed countries, small and medium-sized enterprises (SMEs) constitute the largest part of the private sector and the vast majority of employment. Formal and informal SMEs together represent roughly 95 percent of all firms globally, around 50 percent of global gross domestic product (GDP) and more than 70 percent of total employment (ITC 2015a). SMEs similarly play a crucial role in Canada's economy and international trade (see Sui and Tapp, Ahmed and Melin, and Mallett, in this volume), constituting 98 percent of all businesses in Canada and representing 30 percent of Canada's GDP. Ninety-seven percent of Canadian goods exporters are SMEs, and they account for over one-quarter of the total value of Canada's exports (Innovation, Science and Economic Development Canada 2016).

Enabling SMEs to trade and invest internationally could boost economic growth and productivity, which, in turn, would increase the benefits from trade. Improving SMEs' performance could also result in a more equitable distribution of income within countries by raising the earnings of SMEs' employees, who generally make less money than those employed at large firms. In addition, greater participation by SMEs in trade could promote formalized employment, which could create better-paid jobs and improve job security and working conditions.

Increasing entrepreneurship among women could be particularly effective in tackling both inequality and poverty, since poverty also has a feminine face. Globally, almost 40 percent of all SMEs are owned by women, so helping these businesses connect to global value chains (GVCs) could magnify trade-related benefits. In Canada, 35 percent of SMEs are owned outright by women or in equal partnership with men. Notably, female-owned SMEs are more concentrated in the services sector, which tends to be less productive on average than goods production (Innovation, Science and Economic Development Canada 2016).

Economic development and gender equality go hand-in-hand. Societies with less income and gender inequality not only offer better social and economic opportunities for women; they also tend to grow faster. Achieving gender equality is thus not only a worthwhile objective in its own right, but also smart economics (World Bank 2012). The latest *Africa Human Development Report*, for example, finds that economic and social discrimination against women is costing Africa $105 billion, or 6 percent of its GDP, annually (United Nations Development Programme 2016). Closing this gender gap, therefore, would be a boon for the continent's economic and social prospects.

Before devising policies to address these issues, however, we must first acknowledge that the effects of trade policies are not gender neutral. This is because men and women have different skills, challenges and roles in the economy and in society, and different access to and control over resources. The relatively poor adaptation of women to the challenges and opportunities of integrated markets, because of structural issues, is an important reason that trade policies can pose problems for women.

These concerns are even more pronounced in developing countries. A recent survey of twenty such countries by the International Trade Centre (ITC) reveals that gender has a significant effect on the participation of SMEs in these countries in international trade (ITC 2015b). The survey also shows striking disparities between men's and women's participation in trade, with only 20 percent of the trading SMEs owned or managed by a woman. In addition, female-owned or -managed exporting firms were less likely also to import than were their male counterparts: while almost 60 percent of male-owned and -managed exporting companies also imported, just over 50 percent of their female did so. The survey also finds that women experience more problems raising funds, competing in and accessing markets than do their male counterparts.

These gender differences are often attributed to the tendency of female-owned enterprises to be smaller than male-owned ones, and therefore often lack the resources needed to expand into global markets. Women, however, do not choose, or prefer, to own smaller businesses or to remain in informal jobs. They do so because they face unique constraints and challenges. Female-owned businesses are underrepresented in international trade for a number of reasons, and they vary across countries.

Factors Hindering Female Traders

Three of the most significant factors that hinder many female entrepreneurs from tapping into GVCs and higher-value activities are regulatory biases, procedural obstacles and cultural biases.

Regulatory and legal barriers are a key reason for the lower integration of women-owned SMEs in international markets. Ninety percent of 173 countries surveyed by the World Bank have at least one law that explicitly discriminates against women (World Bank 2015). In many economies, regulatory barriers restrict women's right to work and own assets. In the Middle East and North Africa, in particular, women often need permission from a male guardian to register a business. National policies to address land ownership and equal rights to own and rent property would help to eliminate these constraints; in practice, however, such policies are politically charged and difficult to implement.

The ITC's recent SME Competitiveness Outlook finds that more female-owned exporting firms report procedural obstacles to trade than do male-owned firms, even when the standards are the same (ITC 2016). Among the obstacles female-owned micro firms experience are "information and transparency issues," "informal or high payments" and "discriminatory behaviour."

Culture-based gender roles particularly affect women in developing countries. Even in developed countries such as Canada, however, most female SME exporters perceive that gender plays a role in the operation and internationalization of their firm. A UN report reveals that, globally, women spend at least twice as much time as men on unpaid domestic work (United Nations 2016). This significantly impedes women from fully participating in the economy. As a result, women-owned enterprises are less likely to internationalize. Other aspects of these cultural biases include:

> Time constraints on female managers: Due to women's higher participation in unpaid domestic work, women often face a tradeoff between job and family. Nevertheless, due to cultural norms and values, in many countries women are still expected to leave their job once they have children as they continue to shoulder the burden of domestic responsibilities. As a result, women are often forced to start their own, usually informal, businesses due to lack of employment opportunities.
> Limited access to productive resources such as finance and land: Women have less access to finance because they have less physical and reputational collateral, own less property and assets, and may also have weaker credit histories than men. This could explain why women are concentrated in less capital-intensive firms.
> Limited access to information and networks: Cultural biases and social norms also prevent many women from joining formal business networks, which usually make it easier to identify and seize market opportunities. Instead, women tend to rely more on informal and personal contacts.

Together, these barriers and biases help explain why women-owned businesses are generally smaller and less productive than their male-owned counterparts. Because of their small size, women-owned companies also suffer disproportionally from trade-related fixed costs, such as nontariff measures. The reason for this is simple. Nontariff measures, such as standards or lengthy customs procedures, often lead to higher transaction costs for exporters. SMEs tend to trade in lower volumes than large firms, which implies that fixed trade costs make up a larger share of their unit costs than that of firms that export larger quantities. As female-owned enterprises tend to be smaller than male-owned ones, nontariff measures hit women harder.

Connecting women-owned SMEs to world markets is important for achieving gender equity and equality and for giving women the opportunity to reap the same benefits from trade as men do. So far, most initiatives — whether by trade and investment support institutions, governments, multinationals, international organizations and nongovernmental organizations — have been based on facilitating access to finance, market information and networks, and on capacity-building and training. Although such initiatives are useful, establishing an enabling environment for inclusive trade goes beyond these issues and also requires changes in the international trade arena.

Incorporating Gender into Trade Policy

Recent experiences in trade opening and their effects on gender equality make a strong case for incorporating gender dimensions into trade policy design and implementation. Women's economic empowerment must be an integral part of an integrated development policy framework, not only because it would generate employment, but also because women reinvest a large portion of their earnings (in some cases up to 90 percent) in their families and communities, and therefore can be a powerful way to spread the gains from trade throughout the domestic economy. Several policy instruments provide specific entry points to mainstream gender dimensions in international trade policy.

First, incorporating gender perspectives in the process of trade opening is one way to ensure that women and men are similarly affected by international trade. Some bilateral and regional free trade agreements (FTAs) include an explicit social clause — a provision to insert regulations and labour issues, along with other issues related to poverty, minority protection and social development more generally. To ensure inclusive gains from trade and to address particular challenges facing women, however, future trade agreements should focus more on gender-related issues through, for example, incorporating clauses that are specific to gender. The recent FTA between Chile and Uruguay, in fact, has an entire chapter of gender provisions that not only acknowledge the importance of enhancing women's opportunities to participate in the international economy to boosting sustainable economic growth, but that also call for establishing a gender committee to oversee the mainstreaming of gender in implementing the agreement. The gender dimension should feature in the analysis of so-called offensive and defensive interests at the start of any trade negotiation, and should inform the parties' negotiating positions. This, of course, requires gender-disaggregated data. Areas of particular interest are nontariff measures, including rules of origin, as well as services commitments and government procurement. These areas need not require specific "gender rules," but such rules and commitments should be crafted through a specific gender lens. In addition, the effect of these agreements on advancing women's economic empowerment should be regularly examined, including in the World Trade Organization's Trade Policy Review Mechanism. The conclusion of bilateral trade agreements or unilateral trade preferences could also be made conditional on removing legal discriminations to women's economic empowerment.

Multilateral development assistance frameworks, including Aid for Trade, provide a second entry point to mainstream gender perspectives in trade capacity building. The Enhanced Integrated Framework — a multidonor program that supports the least developed countries to be more active players in the global trading system by helping them tackle supply-side constraints to trade — recognizes the need to address gender-specific constraints to trade, and with support of the ITC, has incorporated gender issues across its projects. The ITC's "SheTrades" Initiative seeks to galvanize global efforts to connect one million women entrepreneurs to markets by 2020. Through the SheTrades mobile app, women entrepreneurs are able to share information about their companies, increase their visibility, expand networks, connect and internationalize. Another ITC program, the Global Platform for Action on Sourcing from Women Vendors, helps connect partners — who collectively purchase more than $1 trillion dollars in goods and services — with a network of over 50,000 women vendors.

Last, but not least, multilateral platforms and intergovernmental forums such as the United Nations' Sustainable Development Goals (see Biggs, in this volume) and the Women20 — an engagement group that provides support for the efforts made by the G20 towards achieving inclusive growth and raising the profile of gender issues — are crucial for fostering gender-related discussion and action among experts and for providing a solid basis for consensus-building. The Asia-Pacific Economic Cooperation forum has incorporated discussions and assessments of how trade agreements affect women, and works to advance women's economic empowerment and inclusion through its Policy Partnership on Women and the Economy. Another example is the Southern African Development Community, which recognizes gender equality as a fundamental human right and an integral part of regional integration and economic growth. In addition, there are frameworks that promote women's human rights, such as the Convention on Elimination of All Forms of Discrimination Against Women.

As trade policies interact and are mutually affected by many other domestic policies and international factors, there is a need to enhance their overall coherence and to foster a more coordinated approach to removing barriers to the participation of women entrepreneurs. Now, more than ever, it is imperative that all actors work together to make equal economic opportunities a reality for men and for women. Lifting the barriers that prevent women from fully participating and benefiting from trade is a common interest for all of us. When women are better off, the world is better off.

Note and References

1. This commentary draws on text prepared for a keynote speech I presented at the Queen's Institute on Trade Policy, Queen's University, October 16, 2016.

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