

Government of Australia Foreign Policy White Paper – Contribution from the International Trade Centre

February 2017

ITC appreciates the opportunity to contribute to the consultations on Australia's foreign policy. This note sets out our responses to the questions posed by the Government of Australia in its Call for Public Submissions, and is based on ITC's extremely positive experiences of working in partnership with Australia over the last four years on trade and development issues. We only provide responses to those questions where we feel we can add the greatest value, and are available to provide more detailed and comprehensive information on any of the topics covered if that would be of interest.

Q3. Australia is an influential player in regional and international organisations.

- Which regional and global organisations matter most to us? How should we support and shape them? How can we maximise our influence?

ITC has been working with Australia since 2013 and we believe that our objective of achieving trade impact for good is closely aligned to Australia's priorities of inclusive growth, open trade and creating economic opportunities for the private sector. In our experience, the most relevant organisations for Australia are those (like ITC) that combine the ability and demonstrated track record to deliver tangible outcomes and impact (e.g. ITC's work with poor women handicraft producers in PNG and Vanuatu) with a focus on shaping the international agenda (e.g. ITC's SheTrades initiative) to deliver transformational change, while ensuring value for money.

We have greatly valued DFAT's close engagement in developing and implementing our programmes. The supportive challenge we receive from DFAT has enabled us to sharpen and develop our approach, and deliver better interventions. We would welcome the opportunity to continue working in close partnership with Australia in the future.

Where Australia feels comfortable that a potential partner organisation's vision and mandate is aligned to Australia's priorities, and have confidence in their operational capacity and attention to value for money, we would recommend developing longer term support programmes (around five years). This provides stability and allows partner organisations to work closely with Australian institutions to develop and deliver innovative programmes that achieve sustainable results.

Australian institutions and businesses have an extremely valuable pool of experience and best practice. ITC has greatly benefited from this, for example by building on approaches developed by AUSTRADE, by collaborating with PT&I to develop programming in the Pacific, working with the Export Council of Australia to develop a trade training standard, and participating in events at the Lowy Institute. Australia should ensure that this type of support and collaboration is made available to international organisations.

Q5. Australia confronts a range of strategic, security and transnational challenges.

- How can Australia best deal with instability beyond our borders? How can our foreign policy, including our overseas development assistance program, support a more prosperous, peaceful and stable region?

Promoting Trade

We believe that trade, particularly inclusive trade, has a key role to play in building prosperity and peace, globally as well as in Australia's region. Trade helps to maintain and activate new partnerships and foster cooperation among private, public and civil society stakeholders. International trade and investment are important levers to share expertise, know-how and technology, to foster and disseminate innovation.

Assisting SMEs to internationalise is particularly important for building prosperity and for connecting Australia to its wider region. Globally, SMEs account for more than 90% of all enterprises, around 50% of GDP and over 70% of employment opportunities. Evidence shows that SMEs that are integrated into global markets are more productive and have tremendous opportunities to grow. The value they create fuels sustainable development and brings about positive spill-over effects and developmental impact on the most vulnerable sections of society.

The growing importance of regional and global value chains provides an opportunity for SMEs to increase their exports by integrating into these chains as providers of intermediary goods and services. Trade in services deserves particular attention – they provide much of the market differentiation, value-addition and innovation in modern production processes and are becoming ever more crucial in increasing the competitiveness of companies beyond the services sector. Many of Australia's neighbours are Small Island Developing States, and services (including tourism) are particularly significant as a means of overcoming geographical constraints.

Australia can promote inclusive trade within the region by working with neighbouring countries and organisations that deliver Aid for Trade (such as ITC) on the following issues:

Trade and Market Intelligence for SME competitiveness

Access to trade and market intelligence is critical to international business success. Today, it is crucial for firms to be able to access, analyse and act on trade and market-related information. In an increasingly digital world characterized by the information society, access to timely trade and market intelligence is a sine qua non for export success. The provision of innovative, cutting-edge market information to enable improved business decision-making has been at the heart of ITC's mandate since its foundation in 1964.

Non-tariff measures (NTMs) are of particular concern to exporters and importers in developing countries and present a major impediment to international trade and market access. Exporting companies seeking access to foreign markets and companies importing products need to comply with a wide range of requirements including technical regulations, product standards and customs procedures. Such requirements are often accompanied by procedural obstacles which increase trade costs, particularly for SMEs. Aid for Trade needs to help SMEs in developing countries overcome non-tariff barriers. ITC is seen to be a leading player in this area.

Trade Facilitation for exporting SMEs

Trade Facilitation has important implications for a country's export competitiveness as businesses continually require efficient access to imported raw materials, intermediate goods and capital goods. The benefits of "fluid borders" and improved trade logistics are major sources of competitive advantage which are even more critical in today's world of increasing global production sharing, shortening product lifecycles and intensifying global competition. Even though there are advantages for all countries, the need for effective trade facilitation is greatest for landlocked developing countries (LLDCs) as their trade is dependent on the efficiency of border controls and transit mechanisms in neighbouring countries. The fragmentation that lies at the core of global value chains requires goods to cross borders several times during the production stage and to comply with customs procedures and other border administration measures each time. Inefficient export and import procedures, lack of competitive transport services and excessive red tape add to the cost of doing business for companies located in many developing and least developed countries. Businesses have increasingly expressed concern about overbearing or unnecessary trade transaction costs and have called for greater transparency, efficiency and procedural uniformity in customs procedures.

Strengthening trade and investment support institutions

Just as the trade landscape is changing, the world of trade and investment support institutions (TISIs) is also evolving and broadening to address a more "whole of economy" approach to doing business. These TISIs and other business support organizations such as Women in Business institutions increasingly play a vital role in facilitating the international competitiveness of SMEs. They provide companies with wider, and often tailored, options to support their international business aspirations. Like their SME clients, these organizations are required to constantly innovate to be successful in the dynamic trade and investment environment.

A recent study that ITC has conducted demonstrates that Trade Promotion Organizations (TPOs) have a very large multiplier effect both on exports and on GDP. The publication suggests that each extra dollar invested in a TPO yields, on average, more than 80 dollars of additional exports and more than 384 dollars of additional GDP. It is, therefore, important to invest in building the capacities of TISIs including TPOs as they in turn assist SMEs by providing efficient business support services to them.

Addressing the drivers of migration

In countries vulnerable to excessive out-migration (which represents a challenge to their societies and economies and puts their citizens at risk) it is crucial to step up job creation and create more meaningful income opportunities at home. Increasing the income opportunities available for youth, especially potential and returning migrants, is key for future economic growth and societies' inclusiveness.

ITC's approach to this challenge may be of interest to Australia. We are working to improve the employability of entrepreneurs to connect to trade and tap into new economic opportunities. ITC takes a market-led approach and sets out to strengthen existing youth development systems, structures and services to create employment opportunities. It aims to scale up skills among youth in the workforce in response to market demands, delivering improved employability and self-employment opportunities along selected value chains. Managing migration also requires the

successful integration of returning migrants. ITC is working in selected communities to develop possibilities for employability and integration of migrants and returnees, increasing their opportunities for employment and self-employment.

Women's economic empowerment

Women's economic empowerment is a prerequisite for sustainable development and pro-poor growth, and consequently essential to create a more prosperous, peaceful and stable region. Promoting women's entrepreneurship and involvement in international trade is a powerful driver for women's economic empowerment, and is good for the economy, good for society and good for women. Research shows that:

- Countries that provide more economic opportunities for women, including entrepreneurship, are more competitive in the global economy.
- When women-owned businesses trade, the contribution they make to the economy in terms of wages, jobs and productivity is disproportionately higher than that made by men-owned businesses.
- Women are more likely to use their earnings and increased bargaining power to buy goods and services that improve family welfare, which has the potential to break intergenerational cycles of poverty.
- A woman is economically empowered when she has both the ability to succeed and advance economically and the power to make and act on economic decisions. This matters because it gives women greater control over decisions within their households. It is also essential if women are to play an active role in shaping institutions, social norms, and the well-being of their communities.
- Women's economic empowerment is also a key to stabilising migration flows from developing countries¹. More than half of global migrants are women, and the rate of female migration is growing faster than male migration. Research shows that poor women migrate – women who own a business and other resources are less likely to move (the converse is true of men). Women's economic empowerment will therefore contribute to reducing international migration.

However, women entrepreneurs face many barriers. ITC surveys show that women entrepreneurs own and manage only one in five of exporting firms. ITC has set out (through its SheTrades initiative <https://shetrades.com/>) seven pillars of action that, if addressed, will increase women's participation in international trade. SheTrades seeks to galvanise partners and stakeholders to collaborate in building an enabling ecosystem of support to women entrepreneurs.

1. **Quality data.** Data collection, analysis and dissemination related to women's economic participation remains scarce, particularly with respect to international trade activity. It is essential to marshal data in order to craft policies that harness a valuable but largely untapped resource in procurement and global value chains – women entrepreneurs. Research and analysis can be transformed into an evidence-base that informs the development of meaningful policies and

¹ Fleury, Anjali (2016). KNOMAD Working Paper 8. Understanding Women and Migration: a Literature Review

programmes. Political will and the utilisation of a gender lens in evaluating data and programme outcomes are also essential.

2. **Fair policies.** Trade policy is intended to create unbiased positive outcomes for the economy in general, yet more often than not current policies have little or no gender awareness of the embedded disadvantages faced by women entrepreneurs. Research conducted by the United Nations Conference on Trade and Development (UNCTAD) reveals that gender-based inequalities impact on trade policy outcomes and trade performance, and lack of gender awareness in policy has the continued result of impeding women's access to markets.
3. **Government contracts.** Public procurement constitutes up to 30% to 40% of the economies of least developed countries, but women-owned businesses receive only a tiny (and frequently undocumented) share of that market. In its combined role as buyer and policy maker, public organisations can help shape and increase the participation of women-owned businesses in procurement markets. Inclusive public procurement can support the success of women-owned businesses, especially SMEs without adding costs to taxpayers. Positive government action can also serve as a powerful example to business, thereby increasing the inclusiveness of private sector supply chains.
4. **Business deals.** Business can create corporate procurement programmes that continue to lead the way in embedding diversity and inclusion in global value chains, and can promote collaborative efforts to advance procurement from women entrepreneurs.
5. **Market access.** Women face obstacles in setting up their businesses, and fewer women-owned businesses participate in the formal economy, in corporate and public procurement, and in international trade. In addition, women's businesses tend to be smaller and concentrated in less productive sectors. Women-owned businesses need to scale, focus on more productive sectors and move up the value chain, in order to more successfully compete in the increasingly complex trade landscape.
6. **Financial services.** Women entrepreneurs are more likely than their male counterparts to cite access to finance as a major or severe constraint on their business operations. In addition, financial institutions have not yet fully realised the business opportunities of meeting the specific financing needs of women entrepreneurs as a distinct customer group. In addition, sometimes women are held back by a lack of information and financial literacy. Bold steps need to be taken to close the access to financial service gap between men and women, including bank accounts, saving, housing finance, SME loans, equity, insurance products and digital payments.
7. **Ownership Rights.** Ownership rights are fundamental to women's business capacity. These rights make it possible for women to start businesses, and to provide the collateral necessary to finance growth and internationalisation.

ITC has a comprehensive range of strategies, tools and initiatives for promoting inclusive trade, particularly the involvement of women owned SMEs. We would be delighted to work in partnership with the Government of Australia to identify how these solutions can be best deployed to respond to Australia's priorities.

Q6. Australia uses a range of assets and capabilities to pursue our international interests

- How can Government work more effectively with non-government sectors, including business, universities and NGOs, to advance Australia's interests?

Business has a critical role to play in trade and economic development. The Government can support businesses that operate internationally (either directly or through specialist organisations such as ITC) to build linkages with SMEs within the region. International corporations benefit from diverse and robust value chains, while SMEs in partner countries will gain by learning about buyers' sourcing policies and practices, receiving mentoring and training from buyers, as well as from market and investment opportunities. This is a vital component of SMEs' path to internationalisation, delivering prosperity and other benefits as explained in the previous section.

At ITC we have over fifty years' experience in helping businesses from countries such as Australia to expand their supplier base to incorporate SMEs from developing countries while providing those SMEs with the support they need to meet international buyers' requirements. ITC's SheTrades initiative already provides a platform and a framework that can help Australian businesses to meet their diversity objectives and connect with women owned SMEs from within the region and beyond. We would welcome the opportunity to work with the Government of Australia to identify how our strategies, tools and networks could be deployed to further this aim.

Trade and Investment Support Institutions (organizations that support business, ranging from trade promotion organizations, chambers of commerce, sector associations, enterprise development agencies, and others) are extremely important for broadening reach to the private sector in target countries. ITC has been working with Trade and Investment Support Institutions (TISIs) since its inception, building their capacity and working with them to develop their SME members and connect them to markets. Given the importance of value chains in international trade, ITC increasingly focuses on assisting TISIs, and works with business service providers, to effectively facilitate SME participation in value chains. This includes services related to investment promotion. ITC promotes and activates regional and international networks between TISIs of various countries, including the promotion of South-South business linkages. We would welcome the opportunity to work with Australia to share our experience and best practice of working with TISIs.

About ITC

Established in 1964, the International Trade Centre (ITC) is the joint agency of the World Trade Organization and the United Nations. ITC's mission is to foster inclusive and sustainable economic development, and contribute to achieving the United Nations Global Goals for Sustainable Development. ITC works towards creating 'trade impact for good'.

The agency enables SMEs in developing and transition economies to become more competitive and connect to international markets for trade and investment, thus raising incomes and creating job opportunities, especially for women, young people, and poor communities.

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