

Competitiveness in the CSME

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Competitiveness

The type of competitiveness

- **National Competitiveness** – as applied to the national economy needing to carve its place in the global market for its exports of both goods and services as well as being able to attract investment for its growth; or
- **Enterprise Competitiveness** – primarily concerned with risk taking in order to make a profit in domestic, regional and international markets

Competitiveness

- Both National and Enterprise competitiveness are mutually supporting
 - There must be the enabling environment where policies, infrastructure and legal and regulatory environment is conducive to achieving ‘both prongs of the combined thrust’
- The CSME serves as the facilitatory framework which enhances the chances for success

The enabling environment

Pre-requisites include the legal, administrative and legislative settings such as:

- Establishment of a Regional Organisation for Standards and Quality (SROSQ)
- Removal of various restrictions on Intra-regional trade in goods and services
- Institution of Administrative Arrangements to encourage free movement of skills
- Establishment of National and Regional Accreditation Infrastructure
- Free Movement of Capital and the Integration of National Capital Markets
- The design and implementation of essential laws in areas of competition, consumer protection and Anti-Dumping and draft legislation for regional agreement on areas such as financial services, Intellectual Property, Government Procurement and e-commerce

Focused on Goals

The objectives for the Caribbean remain:

- The eradication of Poverty
- Increased employment opportunities
- Increased overall productivity
- Attain international competitiveness whilst retaining intra-regional cooperative competitiveness

Towards a Regional Strategy

- CSME recognises the need for a regional strategy for achieving the stated objectives which must include as its key elements:
 - Prioritising according to those sectors most likely to contribute quickly to the attainment of objectives
 - Recognition of pivotal role of Innovation and Entrepreneurs, Research and Development
 - Establishment and mainstreaming of support measures such as Human and Institutional Capacity Building, involvement of civil society, information access and retrieval, exchange of Best Practice and financing arrangements
 - Coherence of macro-economic policies, harmonization of laws and a convergence of outlook between private and public sectors

Innovation, Science & Technology, Research and Development

- **International Competitiveness** is a clear goal in the Revised Treaty
 - But the treaty does not clearly articulate a set of requirements for achieving this
 - Meetings of Minister of Science and Technology (now defunct) addressed Technology & Innovation mainly in the context of environmental & sustainable development issues not competitiveness
- Specialised National Institutions of Science and Technology, prevalent in the planned economies era of the 80's and 90's, may no longer even exist
 - suggesting an obvious immediate corrective measure at our disposal given the critical role they can play in the market oriented environment of today

Capitalism and Competitiveness

- Today, Capitalism features “rampant competition”
 - efficient development & utilisation of innovative technologies would benefit from this market – driven paradigm
 - Patents are developed and enshrined on the one hand while specialised research responds to user demand
 - In this scenario the role of the state is more of a facilitator of the financial support to the sector producer/investor
- Revised Regional Science & Technology Policy proposal was presented at 5th COTED held in 1998
 - Incorporating recommendations on Private Sector, Sector Policy Guidelines for the development of Human Resources and critical Information and Communications Technology
 - Recommendations made are still valid
 - There is still absence of any motivating factor to make it happen. No contest; No incentive or Reward System is made explicit & no measure of success

Capitalism and Competitiveness

- Experience of the European Union (EU) instructive where competition and collaboration among emerging researchers across Member States is actively promoted
 - benefits of cross fertilization of ideas, encouraging academic and industrial interaction and developing technological capacity would outweigh the initial financial support of such a strategy
 - This strategy would likely breakthrough in terms of impact on the apparent cultural technological malaise in the Caribbean
- Competitiveness like Entrepreneurship is a state of mind. Either you want to WIN or you don't!
 - CARICOM may not be prepared to win 'at all costs', but we can promote the desire to win at everything – Culture, Sports, Education, Business
 - We must value indigenous and individual resources highly, including our time, measured by the expected return on the activity we engage in
 - To ensure proposals to improve competitiveness take effect there must be the reversal of public sector thinking to be more like the private sector i.e. **competitive spirit permeates all operations**

Country Experiences:

competitiveness (Innovation & Entrepreneurship)

Trinidad and Tobago

1. Lack of urgency
 - Slow implementation of legislation. Too much bureaucracy. Customs Management Poor
2. Non-coherence in strategies
 - Entrepreneurs uncertain about where new opportunities lie. Insufficient coordination amongst complementary activity. Trust among similar firms in an Industry lacking
3. Support Mechanisms in Financing
 - Micro & small entrepreneurs bypassed in funds for new ventures. Bank credit is major source.. New sources of financing for higher risk projects required. Small businesses constrained by low capitalisation, high administrative costs for small loans, high interest rates. Uncoordinated and fragmented private financial intermediation. Culture for borrowing for the state created agencies (e.g. Divestment Development Companies (IDC and SBDC). Other gaps in adequate and relevant training (accounting, customer targeting)

Country Experiences:

competitiveness (Innovation & Entrepreneurship)

4. Focus of Ministers

Company (BDC)

- ❖ National Entrepreneurship Development Co. Ltd (NEDCO)
- ❖ Tourism and Industrial Company (TIDCO).
- The first two are deficient in strategic interest and technical capability reflective of government or social development rather than private sector initiative
- However, new emphasis emerging with restructuring where
 - Encouragement of spirit of entrepreneurs focusing on women, youth and most disadvantaged
 - but still largely not private sector more social

Country Experiences:

competitiveness (Innovation & Entrepreneurship)

- State institutions not equipped to deal with potential medium scale local investor. More private sector support action required:
 - Have segments than can be privatised e.g. Postal Services
 - Have Ministries rewarded for good productivity results so that it is in their best interest to perform
 - See what Ministry Services can become user fee oriented

Competition Policy

- Article 169 of the Revised Treaty establishing CSME sets out the intended goals and objectives of a Community Competition Policy
 - Clearly states that the community shall pursue inter alia the promotion and maintenance of competition and enhancement of economic efficiency in production, trade and commerce
 - Establishes the measures that should be adopted by Member States to prohibit and penalize anti-competitive business conduct
 - However, it falls short of giving the indication of the extent of such penalties as for example in terms of the value of the monetary benefits derived from such behaviour
- It has been noted elsewhere that because CARICOM economies are constrained by lack of economies of scale, that monopolies are sometimes inevitable
- Many CARICOM states are in the early stages of formulation and implementation of an overall Competition Policy backed by a Competition Bill
 - Need technical assistance and training in the legislative arena

Consumer Protection

- Policy lumped with competition policy in Article 169
- Consumers are important in ensuring that markets work and exert pressure for firms to perform
 - Consumer representation at every available consultative opportunity has become practice within the Community
- In well functioning markets it is the response from the consumers that help domestic firms to improve their quality thus developing their ability and experience to compete in foreign markets.
 - Firms can incorporate the domestic market as part of their trial run with less investment risk
- Consumer policies serve to improve both the range of products and the propensity for conforming competitive behaviour by firms
 - Consumer policies should form part of an accepted programme for competitiveness
- Trinidad & Tobago approved a foundation for Consumer Policy since 1996-1998. Information on other countries not yet available

Entrepreneurship plan for SME's

- Recognised importance of SME's today is largely the result of experience and passage of time rather than deliberate policy initiative
- Characteristics of SME's include:
 - Family ownership
 - Low level skills & technology use
 - Concentration in retail and services
 - Lack of necessary collateral for credit access
 - Faced with high interest rates
- In Barbados, most SME's operate informally and outside the regulatory framework
 - Implications for monitoring and control
- In OECS, most of domestic business done by SME's
 - These SME's suffer problems of weak managerial and business skills
 - but evidence of some change evident in improving quality of product and productivity, growing introduction of technology etc.
 - Some improvements attributed to competition from foreign and larger domestic producers as well as lessening of the 'protection mentality'
 - With creative effort in removing constraining factors facing SME's growth and expansion can take place

Access to Finance

- Steps to be taken may include:
 - Analyse market trends..
 - Provide those financial instruments which are accessible through national financial intermediaries
 - Encourage exchange of good practices in enterprise finance
 - Work to improve relationships between financial institutions and SME's
 - Make special allowances for less complex application procedures
 - Make SME lending a rewarding aspect for the credit institutions through concessionary onlending.
 - Include the training of the officers of the Financial Institutions in the Technical Assistance programmes

Legislation and Regulation Mechanisms

- Need to take account of needs of SME's and how to encourage development of new companies
- Show how regionalization could affect performance of SME's. At the sectoral level encourage cross border projects to contribute to raising their competitiveness.
- Ensure that the framework conditions are inclusive of specific SME friendly measures such as reduced requirements or longer transition periods for SME participants
- Have our Public Awareness campaigns target SME's. May need increased consultations and increased role for TASU.
- Utilize the CSME Focal Points as Help Desks and Support to SME's in areas such as Intellectual Property Rights Protection. In other words they must help translate CARICOM regulations and legislative mechanisms into concrete actions.
- Encourage networking amongst firms and greater use of support schemes
- Work through information provision to change attitudes and increase motivation
- More awareness promotion of CSME and international orientation with regard to opportunities for export as well as required procedures

Conclusion

- To complete CSME, there still remains a number of Inter-governmental Agreements to be drafted and implemented.
- New institutional Arrangements are still largely on the drawing table especially with regard to the Single Economy. Recognition of Pivotal role of Private Sector – Recommendations for institutionalizing public-private sector relations have been made. Including:
 - the formation of a Caribbean Business Council
 - Inter-Ministerial, Business and Labor Advisory Committees
 - National Coalition Centres for Service Providers

Conclusion

- Outstanding elements regarding the Macro-economic framework. The following timelines for implementation of the composite elements are:
 - Financial Services Policy Harmonisation: 2005
 - Capital Market Integration: 2005
 - Investment Policy Harmonisation (CARICOM Investment Code) 2005
 - Incentives Policy Harmonisation: 2006
 - Fiscal Policy Harmonisation: 2006
 - Final Stage of Monetary Cooperation: 2007

Conclusion

- **The Role of Venture Capital**
 - A born-again type of conversion as it were is required so that every action is geared towards promoting commercial opportunity, as opposed to a restraining and regulations mind-set
 - Applying this to the Access to Finance Problem would then suggest measures that are more consistent with creating competition both in the supply as well as the demand side of the loan market where SME's are concerned
 - This deviates somewhat radically from the type of intervention usually recommended involving softer lending conditions and concessionary rates and dedicated SME development institutions
 - This approach will require a restructuring of the entire risk capital provision in such a way that for instance on the demand side the very small and medium sized business can themselves become providers of capital. Such an idea is already mimicked in the Money Service Business Market where evidence of significant financial intermediation exists

Conclusion

- **The Role of Venture Capital (cont'd)**
 - With some organization and amendment to the respective Financial Institutions Acts, and particularly in the light of new cross border modes of supply of services, these Money Service Providers could well be transformed into recognized avenues of finance and hence serve to mitigate the accessibility problem.
 - On the supply side, the state support will also be more market oriented, helping to develop, and partner the private sector in the provision and facilitation of infrastructure and support services
 - There is no doubt a range of formal and informal financial instruments that can be applied to this area of financing of the SME's. Loan Guarantee Schemes and Equity Financing and state sponsorship of leveraged financing are all viable solutions that have been tried and proven in the developed countries.
 - For the Caribbean, these may however be less adaptable given the characteristics of our Private Sector and our SME's as earlier outlined. Hence new and creative ways will have to be found if we are to be effective eventually in developing a sustainable sector

Conclusion

- There are other key areas which should also be addressed such as:
 - The role of Information and Communication Technologies
 - The growing significance of Tourism
 - The infrastructural requirements especially efficient Transportation.
 - The creation of a Regional Investment Fund.
- At the regional level strengthening the capacity of the Private Sector and improving the environment for their operation is a must. It is recommended that:
 - Governments should publicize and reward successful entrepreneurial and innovative activity
 - Develop efficient business support services based on regional mobility of these providers so as to benefit from economies of scale
 - Encourage private sector associations