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Nano-Firms, Regional Integration and International Competitiveness: The Experience and Dilemma of the CSME

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Globalisation and International Competitiveness

Globalization has reached the point where there is only one reality that matters and that is the global economy. While it is not yet seamless, the global economy is well on the way to being a single economic space. In these circumstances international trade in its widest connotation dominates domestic production, investment and trade. The key to survival and growth in this context is to be competitive in the production of goods and services both for the world market and the national market. It is firms not countries that carry out international trade and investment, and therefore international competitiveness is that of firms not countries, though the two are interrelated. Krugman declares: "competitiveness is a meaningless word when applied to national economies".[1]

Kogut emphasizes the fact that "globalization is less and less about national competition around sectoral dominance but about the location of the value-added activities that compose the global community chains. From this perspective, firm strategies matter more, since comparative advantage and firm advantage are more delinked today than they have been before".[2] Poor competitiveness at the macroeconomic level can even retard firm level competitiveness and contribute to a divergence between national and firm competitiveness. For example, The Global Competitiveness Report of 2005 reveals that Jamaica was ranked at 53rd in the business-competitiveness index but only 70th in the growth-competitiveness index.[3]

Development, Competitiveness and CARICOM

As globalization and multilateral trade liberalization proceed, the small developing economies of Caribbean Community (CARICOM) will face an intensification of international competition. The continued economic development of CARICOM countries will require them to increase the international competitiveness of their exports of goods and services, in both existing production and future export activities. International competitiveness[4] encompasses price and quality relative to that of other producers in the world economy.

The challenge of economic development is creating the capacity for sustaining a process of continuous upgrading and renewal of internationally competitive production for both export and domestic consumption. It has long been a tenet of Caribbean economic thought that regional economic integration is an indispensable mechanism for improving international competitiveness. It is this conviction that prompted CARICOM to make the enhancement of the international competitiveness of the economies of CARICOM, one of the objectives of the CARICOM Single Market and Economy (CSME).

Differences in Size

It is firms that trade and invest not countries. Therefore the issue of differences in size and small size has two dimensions: differences in size among countries; and differences in size among firms. The former aspect of the issue has been the subject of a voluminous literature, which has established that small size is an additional constraint for developing countries and that differences in size among countries are disadvantageous to those countries which are smaller. The latter aspect of the question of differences in size among firms has not received sufficient attention.

In the global economy there are enormous differences in size among corporate entities. The important implication of this for the international competitiveness of CARICOM firms is the reality that in general, small firms are at a disadvantage vis-à-vis their larger counterparts. Naturally there are exceptions to every rule and the successful operation of small firms in activities where economies of scale are not applicable is not in dispute, but this type of situation is an exception. The disadvantage of being a small firm is compounded when small firms are operating in small developing economies. All CARICOM firms operating in the national economies of CARICOM member states are not just small. They are minute by comparison with firms in the global marketplace. The difference in size of corporate entities is so gigantic that I have coined the term “nano-firms” to describe small firms in small developing economies to distinguish them from small firms in the conventional connotation.

Larger Firms have Better Prospects for International Competitiveness

The enhancement of the international competitiveness of the CARICOM national economies must involve the enlargement of CARICOM firms because they have better prospects for achieving and maintaining international competitiveness. CARICOM must ensure that CARICOM firms can be enlarged while not jeopardizing competition in the national and CARICOM markets. An important consideration is how quickly the supposed beneficent and procreative effects of the CSME will come into play to ensure that there is a transformation of CARICOM firms in such a way as to give them an improved prospect of being sufficiently internationally competitive. This is especially pertinent since the negotiations of the Doha Development Agenda and the CARIFORUM-EU Economic Partnership Agreement could be conclude by the end of 2007, increasing the exposure of the CARICOM firms to international competition, in range and extent. The region must secure the type of terms in its external trade negotiations, which allows it to seize the opportunities from the liberalization of the multilateral trading system. Slowing the pace and extent of exposure to more international competition is either a coherent negotiating tactic or a viable development strategy.

Enlargement of CARICOM Firms

The instrument chosen by CARICOM governments to enhance international competitiveness is the CSME. At a minimum, therefore, it must facilitate and ideally promote improvement of the international competitiveness of CARICOM firms. Though it is never explicitly stated, it can be surmised that firms will increase in size as they begin to export or expand exports or extend their operations to more than one CARICOM member state in order to realize economies of scale and scope. In this regard it is useful to distinguish between three types of CARICOM firms: National CARICOM firms (NCF) i.e. operating in one member state of CARICOM; trans-CARICOM firms (TCF) i.e. operating in more than one CARICOM member state; and CARICOM multinational firms (CMF). The increase in the size of NCFs and TCFs is vitally important because of the differences in size among firms in the global economy.

The dilemma, which confronts the member states is whether the CSME can facilitate and assist CARICOM firms to achieve international competitiveness. One way in which the CSME can enhance international competitiveness is to facilitate and even promote the enlargement of CARICOM firms. If the CSME does not facilitate or promote the enlargement of Caribbean firms its relevance to international competitiveness will progressively decline. The timely completion of the CSME could contribute to firm transformation and enlargement. The enlargement of firms is most likely to take the form of the transformation of the firm in one of the following ways: from a NCF to a TCF; or from a NCF to a multi-national corporation (MNC); or from NCF to TCF to MNC.

The Question

The question is, can the CSME contribute to the international competitiveness of the CARICOM countries. In order to evaluate the extent to which the CSME will contribute to the enhancement of the international competitiveness of CARICOM member states it will be necessary to examine the provisions of the CSME to discern if they can facilitate the enlargement of CARICOM firms.

CSME and International Competitiveness

The CARICOM Heads of government in 1989 decided to deepen the regional economic integration process and strengthen the Caribbean Community by creating the CARICOM Single Market and Economy (CSME). The overall objective was to go beyond facilitating the liberalization of intra-regional trade to the creation of a single CARICOM economic space to facilitate regional trade, production and investment. This action while reflecting concern about the limited level of intra-regional trade was made more urgent because of external developments specifically globalization[5] and the growing trend towards trade liberalization.

The process of creating the CSME commenced in 1989 and after several postponements of the date of completion, the Single Market was launched in January 2006 with six member states. Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago are the initial participants, in the Single Market. The other member states will accede as soon as they feel competent to fully assume the obligations. Apart from the incomplete membership, there is a considerable amount of work that remains to be done to ensure that all member states are fully compliant with all aspects of the Single Market. The establishment of the Single Economy which is an even more challenging exercise involving difficult steps, such as a single currency, appears to be a long-term goal.

The CSME is a regional economic arrangement, which can contribute significantly to the structural transformation and economic development of the small, developing economies of CARICOM. Owen Arthur, Prime Minister of Barbados, who has responsibility within CARICOM for overseeing the implementation of the CSME believes this to be "the only realistic and viable option by which to achieve sustainable development" and "the most effective means by which the individual economies of the region can be successfully integrated into the proposed new hemispheric economy and the evolving global economic system".[6] There is a complex dialectic between the regional and national because the CSME process has to be complemented by appropriate national policies[7] and institutions.[8]

The Revised Treaty in Article 6 (e) states that the objectives of the integration process include "enhanced levels of international competitiveness" and in Article 6 (f) refers to increased productivity. In addition to the effects which the regional market is envisioned as having on efficiency and international competitiveness, Article 51 (c) establishes the goal of the "promotion of regional economic enterprises capable of achieving scales of production to facilitate successful competition in domestic and extra-regional markets".[9]

The CSME is the mechanism which can bring these goals to fruition. The CSME can offset some of the disadvantages of small size by consolidating national markets into a larger regional market. The efficiency effects include the following:

- an enlarged market and pool of resources, which would be available in a regional market, would mitigate some of the constraints of the small size of national markets and would permit the attainment of economies of scale in an increased number of economic activities. The attaining of economies of scale can occur through market driven private sector-led activity and/or through government instigated production integration schemes.[10]
- the enlarged pool of resources and the free movement of capital and labour can facilitate the lowering of costs and improved productivity.
- the regional market in addition to facilitating the realization of economies of scale would promote efficiency and international competitiveness by reducing the monopoly power of firms in small national markets and this can result in reduced prices to consumers and an expanded variety of products.

- the intensification in competition, which will occur in the larger regional arena should prompt firms to achieve improved X-efficiency (efficiencies internal to the firm) and attain higher levels of productivity.[11] The result will be reduced costs of production, which can be reflected in lower prices improving export prospects and less expensive inputs for domestic production.
- exporters trading in the regional market can gain valuable experience, which will enable them to compete more effectively in a hemispheric market and in the global economy. Exporting exposes firms to international "best practices" and the demands of foreign buyers, which can induce learning.[12] This in turn can increase their productivity[13] through changes in both the product and in the production process.[14]

Differences in Size of Corporate Entities

The CARICOM firms whether they are NCFs, TCFs or CMFs are minute compared to the larger corporate entities against whom they must compete in the global economy. A comparison of the top 20 firms in CARICOM, Canada, Europe and the United States for the year 2003 reveals the gigantic difference in size. The largest CARICOM firm, Grace Kennedy of Jamaica had revenue of $412 million compared to George Weston of Canada with $22 billion, BP Oil and Gas in Europe with $174 billion and Wal-Mart Stores in the U.S. with $244 billion. (See Appendix). Grace Kennedy's revenue was 0.17 percent of Wal-Mart's revenue. Put another way Wal-Mart is 592 times larger than Grace Kennedy.

The total assets of the largest national CARICOM firm, the National Commercial Bank of Jamaica (NCB) in 2003 was $2,431 billion, which is 4.4 percent of the assets of Petrobas of Brazil, and 0.002 percent of the $1,097,190 million of assets of Citibank of the U.S. Allianz Worldwide of Germany with assets amounting to $796,262 million is 328 times larger than NCB of Jamaica and Citibank is 451 times larger. (See Appendix).

The largest employers in the CARICOM region are Neal & Massey of Trinidad and Tobago with a staff of 6,000 and Lascelles Demercado of Jamaica with 6,800 compared with General Motors and Wal-Mart of the U.S. with well over 600,000 employees.[15]

Nano-Firms

The firms in CARICOM are nano-firms because they are so small that they are not adequately described by the conventional definitions of small firms. The conventional definition of a small firm is a firm with less than 500 employees[16] but there are those who have proposed 200 employees[17] as the cut-off point. In Europe, the commonly used definition is 300 employees.[18] Even if the lower figure is accepted, the vast majority of firms in CARICOM are best described as micro-enterprises.[19] Approximately 85 percent of Jamaican firms engaged in exporting have less than 200 employees.[20] Using the figure of 500 employees there are probably less than 50 CARICOM firms which would exceed the conventional definition of a small firm. The meaning of small is very different in developing countries where, other than in capital-intensive manufacturing, a small-scale enterprise is regarded as having less than 50 workers.[21]

Small firms in small developing economies are in a fundamentally different and disadvantageous position, compared to a small firm in a developed economy. Small firms in developed economies benefit from a state sector that can assist them, high quality infrastructure and a wide range of firms across the spectrum of economic activity. The differences in size and level of development among economies are often overlooked by those who point out that growth rates and per capita income are not correlated to small size.[22] This fails to appreciate that what is distinctive about small developing economies is their acute vulnerability[23] and the related volatility of income and growth. Several vulnerability indices[24] have been used and they all reveal that small economies are more vulnerable than larger economies, whether these are developing or developed. Atkins, Mazzi and Easter found that 28 of the 30 most vulnerable economies were small developing economies.[25] Argentina, Brazil, Canada and the United States have vulnerability indices of 0.2 or less while the ten smallest countries range from 0.59 to 0.84.[26] A Commonwealth Secretariat/World Bank study has shown that of 111 developing countries 26 of the 28 most vulnerable were small countries and the least vulnerable were all large countries.[27] Growth experiences more volatility in small developing economies even compared to other developing countries e.g. terms of trade volatility is 30 percent higher.[28]

Small developing economies are aggregations of firms that are minute by global standards. The small size of an economy is linked to the small size of firms. The Inter-American Development Bank's survey of the 25 largest companies in 62 countries at different levels of development concluded that "the size of the economy where companies operate has a great influence on firm size. Nevertheless, the relationship is nor exactly proportional: if one economy is double the size of another it will tend to have companies 80 percent larger".[29] It revealed that large firms in Latin America were only 8 percent of those in developed countries when compared by total assets. "Some 58 percent of the differences in size is due to the fact that the economies of developed countries are larger".[30]

Small firms in small developing economies suffer disadvantages which emanate from the character of the market in this type of economy. These involve those firms which emanate from the small size of the national market and the economy as a whole. This severely curtails economies of scale and scope because of the smallness of demand and the quantum and range of supply of factors of production. Then there are those disadvantages which derive from operating in a small developing economy where markets are not competitive, and do not foster a dynamic necessary to force firms to achieve competitive advantage.[31] These small markets are characterized by the dominance of 1–3 firms,[32] barriers to entry,[33] inadequate infrastructure, higher cost of international transportation for exports, constrained capacity of government to render efficient support services, higher import costs and an absence of clusters of similar firms which constitute an industry.[34]

Winters and Martins in their empirical study document the cost disadvantages of small economies and these disadvantages are more pronounced in very small and micro-economies. They suggest that this type of firm can only export under special circumstances or if one or more of the factors of production receive a lower return than they would earn in a larger economy.[35]

Competitive advantage is much more likely to occur when the economy is sufficiently large to sustain "clusters" of firms connected through vertical and horizontal relationships. The small size of the economy makes it very unlikely that a cluster of firms or industry of firms will exist, thus compounding the difficulties of doing business in a cost effective manner. The availability of locally based competitors and suppliers is a critical determinant of the international competitiveness of the individual firms but is often absent in the small developing economies.[36] In this milieu the quality of management is of paramount importance to the achievement and maintenance of international competitiveness by nano-firms.[37] Nano-firms face supply bottlenecks, which are characteristics of small developing economies, notably the quality of infrastructure, the availability of human capital, the nature of financial intermediation and the level of government support. The support provided by governments is critical to the success of all firms but especially so for nano-firms. The crucially important factor is not the amount of government support but the character, quality and timeliness of that support. The Asian experience illustrates the vital importance of government's role in assisting firms to become internationally competitive and to achieve corporate transformation through enlargement.

Nano-firms can compete in the world economy but find it more difficult because of the disadvantages of being small by global standards and being small in a small developing economy. It has often been suggested that small firms are nimble and can be innovative because they are less encumbered by organizational and management structures. However, there are costs because this depends on the ability to access information, the capacity to adapt new technology and the availability of finance and infrastructure. The prospects for niches in the value chain of production have increased with the spread of flexible specialization,[38] technologies which facilitate the disaggregation of the production process, outsourcing and systematic collaborative subcontracting.[39] Some opportunities are open to small firms because these are too small to attract the interest of very large companies[40] or where their global persona does not allow them to easily identify with the nationality or ethnicity of consumers.

The validity of the argument about the difficulties which nano-firms confront in competing in the world economy is not diminished by the fact that there are success stories of firms smaller than nano-firms. There are some instances of micro-enterprises consisting of 1 to 15 persons that have survived and even thrived in the world economy. While fully conceding the entrepreneurial brilliance involved, more often than not there have been in special circumstances e.g. personal services, unique products and in specific lines of production where economies of scale are not important.

The existence of these owner managed economic units is based on particular segments of national markets[41] where they specialize in a single product, service or aspect of the production process. Micro-enterprises may, but generally do not, expand into nano-firms and are usually confined to sub-markets of national economies rather than participate in exporting. Naturally there are exceptions. For example, Walkerswood Caribbean Foods started as a two person cooperative which was eventually bought by a small enterprise and is now a nationally owned nano-firm employing over 100 workers and earning 85 percent of its revenues from exports.[42] Although small enterprises are much touted as an inexpensive and opportune way of creating jobs in developing countries[43] they have an extremely high mortality rate. In some forms of economic activity firms of less than 20 employees can survive in the local market but are too small to sustain export activity,[44] except in partnership with large foreign corporations. A recent study done for UNIDO documents the types of partnerships that have developed between large corporations and small firms with total assets or sales below $15 million[45] (the definition of small and medium size enterprises used by the International Finance Corporation).

Size of Firm Matters

There are instances where despite the presence of large and dominant corporations, some small firms will find creative ways to survive[46] but this does not mean that it is a general rule. The continued emergence and even proliferation of small enterprises[47] should not be misconstrued to be proof that they are not severely challenged and that the larger they are the better their prospects of survival, profitability and transformation. Nor is the validity of the proposition in any way brought into question by instances of the transformation of nano-firms and micro-enterprises into multinational corporations under the leadership of exceptional entrepreneurs. These instances are the exceptions to the rule. In addition, the scale that permits survival varies from one economic activity to another and changes with changes in technology, corporate organization, consumer tastes and government policy, which, at one time or another, favour expansion or contraction of the range of size that is viable. Larger firms fare better than small firms in exporting because of the costs involved and the barriers which have to be overcome to enter overseas markets. The positive relationship between firm size and exporting is extensively documented.[48]

The conclusion to be drawn is that the larger the firm the better the prospects for survival and success, both in the national and world market. Therefore, what is not contestable is the fact that size matters.

Regional Integration and Intra-Regional Investment

Regional integration normally leads to a significant increase in intra-regional investment. For example, intra-EU investment[49] increased from an average of 30% of total outward investment during the years 1984-1988 to 62% during the period 1989-1993. Investment between Argentina and Brazil increased from 1.4% and 0.3% of GDP, respectively, to 2.4% and 2.2% of GDP after the establishment of MERCOSUR.[50] However the experience of integration schemes among developing countries is that they concentrate on trade liberalization rather than investment promotion.[51] This is an apt description of the CARICOM experience to date. The preoccupation with trade liberalization has caused insufficient attention to be devoted to the promotion of intra-CARICOM investment flows. Not surprisingly, to date there has been very little production integration despite several regional plans in food production, mining, transportation and industry.[52] The limited investment is unfortunate because the formation of custom unions between developing countries usually produces a limited increase in trade with an expansion in investment being the primary benefit.[53]

There has been a very limited volume of intra-CARICOM investment. In the last decade there has been a significant increase in these flows involving a number of sectors, in particular tourism, banking and insurance. The major source of investment has been Trinidad and Tobago with Barbados and Jamaica also important to a lesser extent. These investments have taken the form of acquisitions, mergers, strategic alliances and joint ventures. Farrell has identified the driving forces behind these flows as asset utilization, market diversification, the pursuit of profit making opportunities and competitive positioning.[54] In some cases, the motivating circumstances are peculiar to a particular sector, for example, the regionalization of CNFs in banking and insurance prompted by the fact that "financial services are to a large extent non-tradable".[55]

Despite the recent increase, intra-CARICOM investment is small relative to total CARICOM investment and inflows of foreign investment. These flows involve the larger firms in the region including some that have become CARICOM owned multinational firms (CMF). These include the Jamaican owned Sandals and SuperClubs hotel chains, Grace Kennedy of Jamaica, Goddard's of Barbados, Prestige Holding of Trinidad and Tobago, CLICO of Trinidad and Tobago, and Sagicor of Barbados.[56] These firms evolved from nationally owned CARICOM firms to trans-CARICOM firms having gained experience in operating in their home market and then became CARICOM multinational firms.[57]

There are several possible explanations for the paucity of intra-regional investment. First, the pattern and volume of intra-regional investment reveal the limited emergence of trans-CARICOM firms and even when such corporate entities have been created they remain small by global standards. The volume of intra-regional trade has been so low that it has not elicited private intra-regional investment. During the period 1990 to 2000 intra-regional imports amounted to a paltry 9.5–11.1 percent of the region's total imports.[58] This reflects the fact that the combination of the very small national markets will not create a regional market, which is sufficiently large in size to generate economies of scale in most lines of production.

Second, the symbiotic relationship between trade and investment is such that either increased trade can induce investment flows or investment can result in an expansion of trade flows. If the latter scenario is the prevailing causality, then the explanation must lie outside of the ambit of trade. Possible explanations include persistent barriers to intra-regional investment such as national restrictions on the sectors in which foreign investment is permitted, national ownership requirements and prohibitions on land ownership. All of these restrictions, *inter alia*, are pandemic in the member states of CARICOM. This situation will be rectified only when CARICOM member states accept some constraints on their freedom to make decisions on investment issues in return for greater investment flows.[59]

Third, firms have skipped the regional stage and moved straight from being NCF to being MNC in the case of some major exporting firms. This has been the case where the firm has been able to establish an international brand, e.g., Grace brand of Grace Kennedy of Jamaica or an internationally famous product, e.g., Angostura bitters.

Fourth, in some instances, foreign firms particularly multinational corporations, which had already established regional networks of subsidiaries, preempted opportunities for CARICOM firms. These MNCs have not found it necessary to operate through alliances with CARICOM firms because of their size and traditional dominance of the local market. Some MNCs operate in several member states and in a manner which treats each national market separately, thereby retarding the formation of a genuine regional market.[60]

Fifth, there is no genuine CARICOM-wide capital market. National capital markets are fragmented and vary in size, institutional sophistication and range of financial instruments. National stock exchanges exist in The Bahamas, Barbados, Guyana, Jamaica, Suriname, Trinidad and Tobago, and the Organization of Eastern Caribbean States (OECS). Many of the largest corporate entities, including NCFs, TCFs and CMFs as well as the subsidiaries of multinational corporations, are not listed on these stock exchanges. Cross listing and trading take place only among the exchanges of Barbados, Jamaica, and Trinidad and Tobago. The number of cross listing is extremely limited "involving only ten firms, less than 10% of the publicly listed companies in the three countries".[61]

Sixth, the integration movement has been driven by a preoccupation with trade liberalization with the consequent neglect of intra-regional investment. This emphasis is not peculiar to the CARICOM experience as it has been a feature of several economic integration schemes among developing countries. While efforts to liberalize trade in goods were persistent, albeit with little success,[62] almost nothing was done to liberalize intra-regional capital movements. Symptomatic of this malaise was the failure to even approve the CARICOM Enterprise Regime (CER) whose objective was to provide "national treatment" to any CARICOM Enterprise. A CARICOM enterprise was defined as a company owned and controlled by nationals of at least two member states. Originally mooted in 1974 and revived in 1985, the CER was established in1988 but never came into effect. The official history of CARICOM explains that the member states "did not put in place the national legislation to give effect to the CER in a timely manner and by the early 1990's when a sufficient number had done so, our Community had already taken the decision to establish a Single Market and Economy".[63]

Consolidation of CARICOM Firms

The CARICOM firms, which are internationally competitive, have identified and exploited niches in the global economy for specialized services and /or unique high-value-added products by establishing brands. An important attribute of the small firms that are successful in pursuing niche opportunities is their creativity. Small firms in general are more innovative[64] perhaps because they are more prone to be caught up in Schumpeterian "creative destruction".[65] Often the innovations of small firms or the firms themselves are bought and the product is developed and marketed by multinational corporations and other dominant larger firms. Nano-firms that pioneer a product in the world market but lack the resources to make it globally available are acquired by MNCs, for example, Estate Industries, originator of Tia Maria and Desnoes & Geddes, creators of Red Stripe beer. New technologies such as those utilized in electronic commerce can be employed to alleviate some of the disabilities of small size,[66] although this is not enough to override the dominance of larger firms.

The consolidation of nano-firms will strengthen their capital base, adding to their resilience and making them more attractive as partners in strategic alliances[67] with larger firms and even multinational corporations. Size is often a particularly severe impediment in exporting but, in many instances, an appropriate strategic alliance can provide additional resources, access to marketing networks, management expertise and new technology. Strategic alliances or networks of small firms can mitigate some of the expenses that might be too much for a single firm.[68] The larger the firm the more likely it is to be able to meet the costs of penetrating foreign markets, learning the new market environment e.g. customs procedures, phyto-sanitary regulations and negotiating with foreign government agencies. Not surprisingly, the larger firms dominate export activity whether their national economies are developed or developing. Competing internationally, either by exporting or by establishment in overseas markets, is invariably linked to foreign investment.[69] The size factor is particularly important in industrial activity[70] and small firms will seek to attain scale through alliances unless they occupy a niche in which they are large, relative to their competitors.[71]

Policy Implications

There are a number of policy implications of the foregoing analysis in terms of the need to transform CARICOM firms, mediating the pace and extent of exposure to international competition, introducing a suitable system of regulation and supervision and the adoption of best practices.

Transformation of CARICOM Firms

Since what is critical to the prospects of improving international competitiveness is the enlargement of nano-firms, the CSME process must focus on facilitating and promoting the enlargement of CARICOM firms. The requisite action has to be taken at the level of the firm, national economy and region. Firm level action is the purview of the firm and the other measures are part of the public policy of national governments. At the national level, the creation of a business environment more conducive to corporate consolidation and enlargement will involve amendment and reorientation of taxation policy, modernization of the Companies Act and the regulatory environment[72] and willingness to accommodate monopolies and oligopolies.

Governments should provide support services because they have a significant role in improving the performance of small enterprises.[73] Since new technology is critical to competitiveness, governments in small developing economies must ensure that they provide an environment in which firms can easily and quickly acquire the latest technology. The small size, limited capacity and limited human and financial resources of nano-firms prevent them from spending adequate sums on R&D. They must therefore concentrate on adapting new technology, not creating new technology.[74] Larger firms are more likely to export because they are more able to identify export opportunities and have more resources to devote to the export process and can make the investment necessary to increase productivity.[75]

At the regional level, the objective must be the creation of a seamless regional economic space. This will not be accomplished until the Single Economy is established. It will require the harmonization of regulations, which constitute the business environment, and complete freedom of movement for capital and labour, thereby facilitating the lowering of transaction costs. The laborious process of increasing the number of categories of professionals eligible to move within the CSME region must be brought to an immediate closure. The emergence of genuine corporate integration must be encouraged because economies of scale cannot be realized by "a series of stand-alone entities producing the identical product in different locations with a large proportion of inputs acquired from outside the region".[76] The enlargement of nano-firms must be encouraged by the freedom of movement of capital throughout the entire CSME. This can be facilitated by the creation of a regional capital market, fully integrated financial services market[77] and the replacement of redundant national institutions by regional institutions, for example, replacing the seven national stock exchanges by a single regional stock exchange.[78]

Mediating the Pace and Extent of Exposure to International Competition

The CARICOM countries must seek to influence the pace and extent of exposure of CARICOM firms to international competition so that they will have as much time as possible to become internationally competitive. The regional integration process can contribute to the international competitiveness of Caribbean firms by promoting cooperation among CARICOM member states on external trade negotiations. The objective is to influence the pace, terms and extent of exposure of CARICOM firms to international competition. The rationale is explained in the Revised Treaty. Article 6 (g) and (h) establish as objectives "the achievement of a greater measure of economic leverage and effectiveness" in external relations and "enhanced coordination of Member States' foreign and (foreign) economic policies". Conducting external negotiations as a group increases the leverage which CARICOM can exert.

The objectives of the external trade negotiations must be to open opportunities for Caribbean firms, in particular the nano-firms, to enlarge by exporting and investing in the global economy. National investment promotion agencies in small developing economies must expand their remit to include the promotion of outward investment beyond national and regional boundaries. They should also give more attention to partnerships between nano-firms and multinational corporations as a format for foreign investment. In addition, such negotiations should seek to influence the pace and extent of liberalization i.e. exposure to international competition in order to create adequate adjustment periods. An adequate adjustment period will vary from sector to sector but must be long enough to allow nano-firms to cope with international competition. Too short an adjustment period could lead to the elimination of many nano-firms. Similarly too long a period could be detrimental as it might induce complacency, which would only postpone being overwhelmed by imports or larger foreign corporations.

Both of these objectives will be conditioned by the state of the regional integration process. The CSME should provide the foundation for a common approach to the external trade negotiations.[79] If the CSME is not completed before the scheduled end of ongoing external trade negotiations then CARICOM will be in the undesirable position of negotiating issues which have not yet been resolved and implemented by all member states.[80] Alternatively, the demands of the external trade negotiations might force the pace of completion of the regional integration process when this should ideally be determined by the volition and readiness of the member states.

Regulation and Supervision

It is important to ensure that TCFs emerge and consolidate their region-wide operations. In this process it is inevitable that national monopoly positions will be transformed into regional monopolies. The possibility of abuse of market dominance and anti-competitive business practices will have to be disciplined by competition from outside the CSME and by the supervision of regulatory mechanisms within the CSME. At present there is no CARICOM wide regulatory institution and the Competition Policy Commission has not yet been established. This situation requires national regulatory institutions to collaborate closely. A case in point is the financial sector where there are TCFs operating in a milieu of fragmented national financial and capital markets. It is essential that cooperation should increase between Ministries of Finance and Central Banks with a view to setting appropriate standards e.g. for capital adequacy and to reduce the risk of systemic crisis due to an intra-regional financial contagion. This needs to be complemented by the strengthening of national regulatory institutions as the meltdown of the financial sector in Jamaica during the 1990s vividly demonstrated.

The regulatory regimes, while pursuing the decent goals of good corporate citizens such as the protection of the consumer and the environment, must avoid stifling initiative and investment. The more lightly regulated economies, usually the developed countries, deliver higher growth rates and a more equitable distribution of income than those economies that are heavily regulated, invariably those of developing countries.[81] Small businesses and micro-enterprises are stymied by excessive regulation and cumbersome government bureaucracies forcing many entrepreneurs into the informal sector.[82]

Encouragement of Best Practices

Research on the theory and practice of nano-firms, i.e. firms in small developing economies, needs to proceed with urgency. This will enable governments to provide a policy environment, which is conducive to the growth, transformation and international competitiveness of nano-firms. An integral aspect of the work on nano-firms will be detailed case studies[83] of successful nano-firms to distill the best practices and to identify the strategies which have enabled small firms to export.[84] Governments in small developing economies must ensure that the support services they provide are linked to encouraging best practices. Small firms, including nano-firms, make demands on the public sector for services, information and assistance, which larger firms can provide from internal resources. While governments in small developing economies are small and therefore constrained, every effort must be made to enable nano-firms to be internationally competitive. One relatively inexpensive way to assist nano-firms is to reduce the bureaucracy that encumbers the activities of these entities. For example, 87.3 percent of the region's service suppliers have less than 20 employees and consequently find it difficult to cope with dealing with 20 different ministries and governmental bodies.[85]

One of the ways in which governments in small developing economies can assist nano-firms to attain international competitiveness is to create and promote national innovation systems.[86] Regardless of the limitations imposed by small size, all economies, especially developing countries, must make every effort to foster innovation and the adoption of innovation. Access and adaptation can take place through importation of equipment, foreign direct investment, licensing, patents, trademarks and strategic alliances. Opening the economy is a necessary but not sufficient condition. Nano-firms have to maintain a capacity to learn and acquire new knowledge, technologies and managerial techniques.

Conclusion

To meet the challenge of globalization and create and seize opportunities in the world economy, the CARICOM countries must improve the international competitiveness of their production and exports. The CSME is the institutional framework which the CARICOM states have decided to use in order, among other things, to enhance the international competitiveness of the region. It is envisioned that the CSME can ease the constraint of small national markets that limit the realization of economies of scale and scope in most lines of production and create a dynamic competitive regional market, which will galvanize entrepreneurship, investment and innovation. It is anticipated that the larger regional market will generate the type of competition which is limited by oligopolistic structures, which tend to predominate in the markets of small developing economies. Competition in the regional market is expected to spur firms to enhance the international competitiveness of their production, both for domestic consumption and for export.

This scenario is not likely to materialize unless CARICOM firms in their various incarnations can attain international competitiveness because it is firms not countries that trade and invest. CARICOM firms — even those that have become multinational corporations — will find this challenge difficult unless they enlarge and thereby reduce or eliminate the disadvantages of being minute compared to the firms they have to compete against in the global marketplace. The CSME provisions which have become operational to date, do not give sufficient attention to this important issue. This is evident in the paucity of intra-regional investment and the very limited number of mergers and acquisitions in the last decade. The facilitation of the enlargement and consolidation of CARICOM firms and thereby the improvement in their prospects of international competitiveness is extremely urgent. The urgency derives from the ongoing process of globalization and the imminent completion of certain external trade negotiations, both of which portend greater exposure to international competition.

Appendix

Top 20 Companies* in Canada, The Caribbean, Europe, Latin America and the United States
Ranked by Revenue in US$Millions *(also showing Assets in US$M and # of employees)* Data Year 2003

Canada

Company	Revenue	# Empl.	Assets
George Weston Ltd.	22,460.0		
Loblaw Companies	19,400.0		
Royal Bank of Canada	19,099.0		
Sun Life Financial	16,966.0		
BCE Inc.	14,764.0		
Imperial Oil	13,910.0		
Bank of Nova Scotia	13,278.0		
Canadian Imperial Bank of Commerce	13,171.0		
Bell Canada	13,012.0		
Manulife Financial	12,812.0		
Power Corp.	12,177.0		
Toronto-Dominion Bank	12,020.0		
Power Financial	11,888.0		
Magna International	11,842.0		
Great-West Life Co.	10,330.0		
Bank of Montreal	10,113.0		
Petro-Canada	9,594.0		
EnCana Corp.	8,332.0		
Nortel Networks	7,738.0		
Husky Energy	6,061.0		

Europe

Company	Revenue	# Empl.	Assets
BP Oil and Gas (UK)	174,218.0	109,000	141,158.0
Royal Dutch/Shell (Netherlands)	135,211.0	90,000	111,543.0
Total Fina Elf (France)	94,243.0	122,000	77,275.0
Allianz Worldwide (Germany)	85,867.0	180,000	796,262.0
ING Group (Netherlands)	82,983.0	112,000	620,120.0
Siemens Group (Germany)	77,264.0	484,000	78,923.0
E.On News (Germany)	62,495.0	165,000	85,311.0
BNP Paribas Bank (France)	54,321.0	85,000	726,422.0
HSBC Group (UK)	47,710.0	177,000	695,147.0
Unilever (Netherlands)	46,097.0	279,000	45,201.0
ENI News (Italy)	44,605.0	71,000	55,289.0
Fortis (Netherlands)	41,196.0	66,000	423,343.0
ABN-Amro Holding Bank (Netherlands)	40,937.0	112,000	525,630.0
Royal Bank of Scotland (UK)	31,871.0	99,000	534,885.0
Societe Generale Group (Germany)	31,350.0	87,000	451,516.0
Banco Satander Central (Spain)	31,323.0	116,000	315,607.0
HBOS Bank (UK)	27,836.0	55,000	452,920.0
Barclays Bank (UK)	26,111.0	77,000	505,429.0
Lloyds TSB Group (UK)	22,821.0	81,000	343,045.0

United States

Company	Revenue	# Empl.	Assets
Wal-Mart Stores	244,524.0	1,314,000	94,552.0
General Motors	186,763.0	99,000	370,782.0
ExxonMobil	178,909.0	375,000	152,644.0
General Electric	131,698.0	312,000	242,835.0
Citigroup	92,556.0	254,000	1,097,190.0
Chevron Texaco	91,685.0	68,000	77,359.0
IBM	81,186.0	318,000	96,484.0
American International Group (AIG)	69,923.0	177,000	547,295.0
Verizon Communications	67,625.0	255,000	167,468.0
Altria Group	62,182.0	77,000	87,540.0
Fannie Mae	52,901.0	193,000	887,257.0
Merck	51,790.0	198,000	47,561.0
Bank of America	45,372.0	143,000	660,458.0
JP Morgan Cgase & Co.	43,372.0	4,000	758,800.0
SBC Communications	43,138.0	98,000	95,057.0
Berkshire Hathaway	42,353.0	69,000	169,544.0
Procter & Gamble	41,870.0	204,000	42,442.0
Freddie Mac	40,159.0	62,000	721,739.0
Johnson & Johnson	36,298.0	106,000	40,556.0
Morgan Stanley	32,415.0	4,000	529,499.0

Caribbean

Company	Revenue	# Empl.	Assets
Cable & Wireless Jamaica	442.6		133.1
Grace Kennedy	412.8		557.2
NCB Jamaica	208.0		2,431.0
Lascelles de Mercado	202.0		211.1
Trinidad Cement Limited**	188.6		395.1
BNS Jamaica	180.1		1,914.8
Desnoes and Geddes	115.4		43.2
Jamaica Broilers Group	114.5		40.0
Jamaica Money Market Brokers	100.2		831.5
Courts Jamaica Ltd.	92.4		30.5
Carreras Group	82.8		210.0
Caribbean Cement Company	65.8		68.1
Capital and Credit Merchant Bank	62.3		409.8
Seprod Ltd.	47.6		58.3
Guardian Holdings Ltd.	47.1		192.8
Hardware & Lumber Ltd.	44.0		29.8
Pan Caribbean Financial Services	43.6		305.6
RBTT Financial Holdings Ltd.	37.5		488.9
Dyoll Group	22.9		21.7
Berger Paints	16.9		11.0

Latin America

Company	Revenue	# Empl.	Assets
Petrobas (Brazil)	33,138.1		47,153.0
Wal-Mart (Mexico)	10,729.2		5,843.1
Telmex (Mexico)	10,399.4		16,532.8
Telecom (Mexico)	10,390.4		16,952.6
America Tel (Mexico)	7,648.7		13,588.9
Cemex (Mexico)	7,166.9		16,021.5
Repsol-YPF (Argentina)	7,152.7		11,255.7
Femsa (Mexico)	6,754.3		9,285.7
CVRD (Brazil)	6,729.3		12,837.9
Eletrobas (Brazil)	6,705.5		41,110.8
Bunge Bras (Brazil)	5,910.3		3,874.0
Ipiranga Distrib (Brazil)	5,889.6		1,006.1
Grupo Cars (Mexico)	5,045.0		5,869.3
Ipiranga Petrol (Brazil)	4,955.5		812.9
Tele Norte (Brazil)	4,846.6		10,073.4
Telemar (Brazil)	4,736.7		8,757.4
Gerdau (Brazil)	4,626.5		4,931.0
Antarchile (Chile)	4,495.7		7,550.8
Copec (Chile)	4,491.0		7,325.6
Alfa (Mexico)	4,164.1		7,174.8

* Data for the Caribbean includes publicly listed companies only   ** Data year = 2002

Sources: Forbes 500s Ranking - Forbes Magazine March 27, 2003, Latin Trade, Bloomberg Financial Markets, FT Interactive Data, Jamaica Stock Exchange, Trinidad and Tobago Stock Exchange

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