Introduction

The Caribbean Single Market and Economy (CSME) will have implications for the operation and organisation of all businesses in the Caribbean. The effects will however be more threatening and pronounced in small business enterprises (SBEs). As these economic units are important as engines of development, providers of goods not suitable for large-scale production, innovation, job creation, and provide a much-needed social safety net, it is important to understand how they are likely to be affected by the changes the CSME will bring about. Understanding these effects will be important for policy development in this area, for as Smallbone et al. (1999) states, in relation to Small to Medium-Sized Enterprises (SMES) and the formation of the Single European Market (SEM):

“…policy development must integrate the impact of SMEs on trade markets… SMEs are likely to be affected by a series of size-related disadvantages when exposed to increased competition with larger firms in a unified internal market… which are likely to affect their ability to identify, cope with and respond to new sources of threat and opportunity.” (pp. 51, 52, 53)

In endeavouring to understand the effects of the CSME on the SBE, this paper will highlight the main changes the CSME will bring about and the role it can play in enhancing the development of SBEs.

It is proposed here that due to the heterogeneous roles played by SBEs that effects will be both spatially and sectorally differentiated (Smallbone et al, 1999). This heterogeneity is due to several factors related to the external and internal contingent environments within which SBEs operate, contextually related to the differing structural foundations of the individual economies of CARICOM States. These differing structural foundations are related to the differences in culture, historical development, and location, related to the “rules of society” that are place, time, and culture specific.

In altering these environments the CSME will affect the performance of the SBE in several ways. The reduction and elimination of barriers to the free movement of goods, capital movement and certain sections of the labour market will present many threats to their survival as well as the potential to exploit many opportunities. The nine protocols for the establishment of the CSME will have varying effects on business in general, presenting a greater threat to SBEs than to larger enterprises.

Overall the implementation of a single market changes the overall operating environment of businesses by providing opportunities with a larger market to exploit, reducing costs
with cheaper imports as barriers are eliminated, providing for easier exporting with truly
free movement of goods, as well as the possibility of establishing facilities in any
member state with the ease of movement of capital. In addition the CSME will also
provide for a greater pool of labour to select from. However this will be the situation for
all businesses, so it can be expected that one of the greatest threats to survival for the
SBE will be increased competition.

In essence, to help reduce the potential adverse effects on the SBE by the formation of
the CSME, the organs of the community will need to explicitly and strategically address
the SBEs needs in terms of training, finance, technical assistance and advocacy. This
will be essential if the SBEs in the region are to retain their ability to act as engines of
development, providers of goods not suitable for large-scale production, innovation, job
creation, and the provision of a much-needed social safety net.

In seeking to address these issues the rest of the paper will be structured as follows.
Initially a brief outline of the conceptual framework of the research is outlined, followed
by a review of the main elements of the Protocols for the formation of the CSME and
their main relevance to the SBE. This is followed by a brief on SBE research to emerge
from the European Union. These elements of the research are used to inform the
discussion that follows regarding the main policy issues that CARICOM will need to
address if the SBE is to achieve any level of success in the region.

**Conceptual Framework**

“Realism connotes any viewpoint that accords to the objects of man’s knowledge an
existence that is independent of whether he is perceiving or thinking about them”
(Encyclopaedia Britannica, 1998).

The conceptual framework used here is based on critical realism, an approach used
elsewhere to explain and understand the behaviour of enterprises by investigating their
surrounding environment in context (Dunham & Healy, 1996; Lashley, 2002). The
underlying philosophical reasoning behind the adoption of a critical realist framework is
beyond the scope of this paper, however the framework is useful for explaining and
understanding event outcomes. This understanding is based on appreciating the context
within which these enterprises operate. This context is believed to include underlying
structures, the external contingent environment, and the internal contingent environment.
There exists more than just what we observe, there exists underlying structures that
influence our actions. These structures interact with the surrounding contingent
environment to produce observable outcomes. A critical realist approach attempts to
investigate what can be observed, the actual environment that surrounds us, and through
this identify the underlying structures of importance, structures that cannot be observed.
Underlying structures are used here to describe sets of internally related objects or
practices (Sayer, 1984) which guide and influence human behaviour.

In essence a critical realist approach is explanatory of the interplay between structure at
one level, and contingent circumstance, both internal and external at another. Critical
realism explains the role of structure and how structural effects come into play under
certain contingent circumstances to produce outcomes/events.
Critical realism therefore provides a framework through which the effects on SBE behaviour can be differentiated according to the level on which they operate. The main elements of the analysis are therefore at the structural level, the external contingent level and the internal contingent level. These elements and their interaction is shown in the figure below, based on original work by Dunham *et al.* (1996) to explain service procurement decisions by enterprises in Coventry, UK.

As relates to the framework in Figure 1 below, the related structural and contingent environments in the context used here, relate to the SBE and the CSME. The outcomes that ensue from their interaction will relate to the SBE responses to the formation of the CSME. These outcomes may include whether these firms survive, prosper or die. In relation to the CSME itself, the outcomes may relate to trade creation, trade diversion or trade erosion.

A similar study on the effect of regional integration on small enterprises was conducted by Smallbone *et al.* (1999), investigating the effect of the Single European Market (SEM) on Small- to Medium-Sized Enterprises (SMEs) in the UK and Portugal. A similar implicit approach to critical realism is used there, where the effects of regional integration on the small business enterprises is believed to “…reflect the internal characteristics of the firm itself; interacting with characteristics of the firm’s external environment, including the sectoral and spatial context within which it operates” (p.54).
Figure 1: Dunham et al.'s (1996) Conceptual Framework for Manufacturing-Service Linkages: A Realist Approach
The CSME and the Protocols for Implementation

The Caribbean nations of CARICOM are attempting to integrate their markets deeper to form a Caribbean Single Market and Economy (CSME). In doing this, the Treaty Establishing the Caribbean Community, signed at Chaguaramas, Trinidad, which came into effect in 1973, has been amended to promote deeper integration among the member states\(^1\). Nine Protocols have been established to provide the legal framework for the establishment of the CSME that are summarised in the table below. The Protocols relevant to the SBE are outlined in detail below.

Table 1: The Nine Protocols Amending the Treaty of Chaguaramas

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Protocol I: Restructuring the Organs of the Community

The restructuring of the Community will encompass the formation of four separate councils, overseen by the Conference of Heads of Government, assisted by the Community Council of Ministers. These four councils will be headed by designated Ministers from Member States. The two councils of relevance to the SBE and their responsibilities include:

- Council for Finance and Planning (COFAP): COFAP will have responsibility for economic policy co-ordination among Members. Economic policy co-ordination will include measures relating to convergence of national macroeconomic policies and harmonisation of foreign investment policy; fiscal and monetary co-operation; arrangement for the free convertibility of Member’s currencies; and promote integration of capital markets.

- Council for Trade and Development (COTED): COTED is responsible for the promotion of trade and economic development within the Community. The

\(^1\) The Member States of CARICOM include Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Surinam and Trinidad & Tobago.
Council will endeavour to enhance production, quality control and marketing of Community products to increase international competitiveness; encourage sustainable structural diversification of production region-wide; promote the development and marketing of services; facilitate a more efficient transport infrastructure; promote research and development; promotion of environmental awareness and sustainable development; and enhance external economic and trade relationships. COTED’s remit is wide and will therefore be one of the main drivers of integration in the region.

The reform of the organs of the community will provide an administrative structure to encourage the efficient operation of the CSME. From the outline of the Councils and their responsibilities, COTED is the Council most responsible for ensuring the economic benefits to be gained from the implementation of the CSME are realised.

Protocol II: Right of Establishment, Provision of Services and Movement of Capital

Protocol II provides for the free movement of services and capital within the Community. In addition to this, citizens of the Community with selected skills will also be allowed to move freely between Member states. These selected skills include managerial, technical and supervisory skills. The right of establishment allows CARICOM nationals to set-up business in any Member state.

The principles of the Protocol are centred on non-discrimination, no restriction on access to land, buildings or property (restriction is only imposed when access is “for speculative purposes or for a purpose potentially destabilising to the economy” (Berry, 2000: p.47)), and the establishment and recognition of common educational standards. The Protocol addresses several issues that are discussed below.

Removal of restrictions on banking, insurance and other financial services: Businesses will benefit here due to an increase in competition in this sector. With the increase in competition in this sector there are several benefits to small enterprises, depending on the competitive strategy chosen by these providers of financial services. If the focus of competition is price, then enterprises will benefit by a reduction in their costs. On the other hand, if providers of financial services decide to compete on quality, then enterprises will again benefit from being able to secure better quality financial services than previous to the formation of the CSME. Increased competition in the sector may also lead to greater risk-taking by notoriously risk-averse institutions.

COTED will provide certain measures for the facilitation of the right of establishment, and the free movement of services and capital: COTED has been given responsibility to adopt certain measures to facilitate this process which include:

- Establishing a framework for the implementation of market intelligence and information systems within the CSME
- Harmonising legal and administrative structures for the operation of business entities
- Free convertibility of currencies and removal of exchange controls within the CSME
- Establishing an integrated capital market
• Macro-economic convergence of Member states by the harmonisation of monetary and fiscal policies, especially interest rates, exchange rates, tax structures, and national budget deficits

• Establishing economic and efficient transport and communication services

The facilitation of integration process by COTED is intended to allow Caribbean businesses to compete on a level playing field among themselves as well as provide a base from which to attain global competitiveness. Protocol II will have a profound effect on Caribbean businesses. The Protocol will present many threats and opportunities for which businesses will have to prepare by drawing on their strengths and minimising inefficiencies.

**Protocol III: Industrial Policy**

Protocol III provides the nexus for realising the true economic benefits of the Single Market Programme. Article 39: The Objectives of the Community Industrial Policy states:

“The goal of the Community Industrial Policy shall be market-led, internationally competitive and sustainable production of goods and services for the promotion of the Region’s economic and social development.” (Berry, 2000: p.56)

Article 39 goes on to deal with the objectives to be pursued. These objectives are outlined below.

• The cross-border use of resources (human, natural), capital and technology to produce goods and services on a sustainable basis

• The promotion of sector and enterprise linkages

• Supra-national Caribbean enterprises to take advantage of economies of scale to become competitive on both regional and international markets

• “a viable micro and small economic enterprise sector” (Berry, 2000: p.56). This objective will need to be closely linked to the previous two objectives

• Diversification of production of both goods and services for domestic consumption and exporting

• Public-private collaboration

• Environmentally sound production

• Stable industrial relations

• Appreciation of the special needs of the lesser developed countries, regions and sectors

As a means to achieve these objectives, Protocol III promotes the co-ordination of national industrial policies, the creation of an investor friendly environment, diversification of products and markets, the development of factor markets, and the advancement of production integration, a factor which should assist the development of smaller business enterprises. In addition to this the Protocol makes specific mention of
the need to develop an appropriate environment and infrastructure for the development of the micro and small enterprise sector. Important areas for development will be the institutional, legal, technical, financial, and administrative support framework for these enterprises if they are to survive in the new economic environment.

Under Protocol III, COTED shall be responsible for assisting Member States in designing policies to assist their industries in such areas as export promotion, financing, technology and incentives.

Protocol III also seeks to develop non-traditional markets and encourage production integration within the region, including co-operation in purchasing, marketing and R&D between enterprises in the region.

Under Protocol III, Article 40 deals specifically with Micro and Small Economic Enterprise Development. The Article reads as follows:

“1. The Community shall adopt appropriate policy measures to encourage the development of competitive micro and small economic enterprises in Member States.

2. Without prejudice to the generality of the foregoing, the competent organ shall encourage policy initiatives and the establishment of effective programmes to foster a facilitative legal, economic, and administrative framework in Member States to enhance micro and small economic enterprise development, and shall promote:

(a) the development of the capacities of national and regional support agencies for micro and small economic enterprises, including the creation of entrepreneurial centres, by organising technical assistance inclusive of planning, delivery and evaluation of support services to the sector;

(b) access to, improvement in the quality of, and opportunities for training and education in areas such as technical skills, entrepreneurial competence and business management for micro and small entrepreneurs;

(c) access by micro and small economic enterprises to the technical assistance provided by the support agencies;

(d) the establishment, development or modernising, as the case may require, of financial institutions to provide, to micro and small enterprises, services by way of appropriate and innovative instruments;

(e) innovation within the micro and small business sector; and the creation of, and access to, trade and technological information networks.” (Berry, 2000:p.58)

Article 40 is broad in its recommendations, lacking any real insightful recommendations for the support of the micro and small enterprise sector. However, entrepreneurs should at least be appreciative of their recognition.

Protocol III also makes specific reference to the development of the service sector, where COTED is responsible for facilitating measures to increase investment in the service sector, and increase the range, competitiveness and export of services.

Another of COTED’s vast mandate is to develop a standardisation program, with the objectives of facilitating trade, improving efficiency and quality, and protecting the
consumer and the environment. It is however noted that the formation of these standards are however not to be used by Member States as a barrier to trade.

**Protocol IV: Trade Policy**

Protocol IV outlines the framework for the operation of the free trade area. The Protocol specifically deals with:

- Rules of origin
- The establishment of a regime for the free movement of goods
- The operation of the Common External Tariff (CET)
- Guidelines for co-operation in customs administration
- Safeguard provisions
- Restrictions on unilateral agreements with third states
- Elimination of protection for certain products
- Export Promotion
- General Provisions for Trade Liberalisation

Protocol IV aims to maintain the freedom of movement of goods within the Community and directs Member States to refrain from policies that are inconsistent with free trade such as: import duties on CARICOM goods, export duties, export drawbacks, quantity restrictions, discriminatory internal taxes and other fiscal charges. The Protocol however still provides Member States with the right to safeguard industries or sectors that are “injured” as a result of the importation of substitutes from other Member States.

The Protocol also provides for the following:

- Export promotion of CARICOM goods that are internationally competitive
- Co-ordination of trade policies among Member States
- The possible suspension of the CET where the good is not being produced, or insufficiently produced (quantity or quality), within the Community

More specifically, selected Articles of the Protocol are outlined below:

- **Article 17: Community Rules of Origin.** Goods will be considered of Community origin if they have been wholly produced within the Community, or partially produced within the Community from imported materials which are substantially transformed so that they are categorised under a different tariff heading. There is however provision within the Article for changes in the Rules of Origin when supply is scarce within the Community.

- **Article 18: Export Promotion.** COTED will establish trade information systems and services, implement trade facilitation programmes (including missions and market research) and co-ordinate participation in international trade for among Member States.
• Article 19: General Provisions on Trade Liberalisation. “Each Member state shall refrain from trade policies and practices, the object or effect of which is to distort competition, frustrate free movement of goods, or otherwise nullify or impair benefits to which other Member States are entitled under this Treaty” (Berry, 2000: p.32).

In addition to these measures to promote freer trade, the Protocol also makes provision for exemptions, where Member states are free to impose restrictions if:

• Importation of a product from another Member State directly results in a significant decrease in demand for domestic production

These restrictions must however be progressively relaxed as conditions improve. COTED will again be responsible for monitoring this situation.

In the area of restrictive business practices, Article 30 prohibits the abuse of dominant positions and collusion among enterprises which result in distorting competition.

Overall the Protocol provides for the opening up of Member State’s markets, promoting competition with the aim of improving production efficiency and an efficient allocation of resources within the Community.

Protocol VII: Disadvantaged Countries, Regions and Sectors

Protocol VII has two broad objectives aimed at lesser-developed countries, regions and sectors that are at a disadvantage due to their small size, economic structure, and level of vulnerability. Because of these disadvantages, they are not expected to be able to meet the requirements of the new regulations. The two broad objectives of the Protocol are therefore:

• To provide temporary measures to protect these countries, regions and sectors as they adjust to the demands of increased competition

• To enable the disadvantaged to become economically viable and competitive through support programs

These support programs are in terms of financial and technical support, transitional arrangements, programs to attract investment and develop an economy with a variety of products and services, and programs for physical development and structural diversification.

The safeguards that are allowed within the Protocol include the introduction of temporary tariff and non-tariff barriers when sensitive industries or sectors experience decreases in internal demand for a domestic product, when such decreases in demand can be directly linked to increased imports from another Member State. Sensitive industries or sectors include those that make a significant contribution to GDP, employment or foreign exchange earnings.

Overall the effect of this Protocol is to assist the development of these lesser developed regions, it however also has the effect of unbalancing the competitive situation in the region as a whole, where enterprises are not competing on a level playing field. The Protocol may however have the effect of allowing these nations to attract investment to
assist in development if they have more protection than other Member States but equal access to the rest of the market.

**Protocol VIII: Competition Policy, Consumer Protection, Dumping and Subsidies**

The purpose of the Protocol is to ensure “healthy” competition and consumer welfare and includes articles that prohibit the operation of cartels and other forms of collusive behaviour, as well as the use of subsidies by governments. In addition to this the Protocol restricts the abuse of dominant positions, as well as dumping and subsidisation. On a more positive note the Protocol seeks to promote technological development and transfer. Protocol IX is mainly a regulatory Protocol that reinforces the Articles set out in Protocols II and IV.

The implications of the Protocol are as follows:

- Penalties for anti-competitive acts
- The formation of institutional measures to enforce the aims of the Protocol
- The harmonisation of anti-dumping legislation
- The adoption of a proactive approach to the formation of standards

Anti-competitive acts are used here to describe the fixing of prices, limitation of production, the artificial segmentation of markets, predatory pricing, and bid-rigging. In addition to this, under the section on the abuse of a dominant position, anti-competitive behaviour is used to describe such acts that restrict the entry of enterprises into the market place, the removal of such enterprises from the market place, engages in other restrictive practices or limits production to the prejudice of consumers. However, as with other Protocols, there are some important exemptions, which include that, an organisation shall not be considered to be abusing a dominant position if:

- Such behaviour increases efficiency or promotes technical progress and consumers receive a share of such benefit
- The organisation is enforcing a right which exists under copyright, trademark patent, or other such rights
- Such behaviour is the result of a superior competitive position by the organisation concerned

In addition to these elements of the Protocol, dumping is also prohibited. Dumping refers to the act of “introducing” a product into another nation’s economy below its market value with the intention of increasing market share and forcing out competition.

**Protocol IX: Dispute Settlement**

The Protocol is set out to increase the ability of business and society in general to operate under a condition of reduced legal uncertainty. This will be achieved by the appointment of persons to deal with issues arising from disputes regarding measures inconsistent with the ideals of the CSME. The Protocol deals with specific legal issues which the intention of providing a coherent and consistent environment for the operation of the CSME.
Summary of Main Effects of the Protocols

The above protocols will have various effects on the SBE in the region. However, effects will be differentiated due to the heterogeneous nature of the SBE. This heterogenic nature is related to the environments in which the firms operate as it relates to the structure of the industry they are in as well as the personal causal powers and liabilities of the decision-makers in such firms.

In reviewing the main effects of the Protocols of the CSME the below highlights the main areas of interest to the SBE.

I. Restructuring of the Organs of the Community

COFAP- Economic policy coordination will provide an important base from which to launch an explicit and strategic industrial policy framework for CARICOM

COTED- Trade and economic development reform has the potential to enhance production; provide technical assistance on quality control to increase international competitiveness; promote sustainable structural diversification; promote research and development.

COFAP and COTED provide avenues through which support for the SBE can be provided in the form of advocacy and technical assistance. Although the organs may not provide direct technical assistance, policy coordination and the development of a strategic framework can be established in all member states.

II. Free Movement of Services and Capital

The freedom of movement of capital has the potential to enhance competition in the market for banking, insurance and other financial services, providing the opportunity for SBEs to obtain these and other services at a more competitive rate. However, the harmonisation of legal and administrative structures for business may cause problems for the SBE due to lack of adequate resources. Any harmonisation will need to take this into account to provide a smooth transition for the SBE.

III. Industrial Policy

The promotion of sector and enterprise linkages, the development of supra-national enterprises to take advantage of economies of scale, and the promotion of the small enterprise sector are the main elements of the Protocol. To meet these objectives the relevant organ of the Community will need to promote small to large company linkages, as well as small to small networking to assist in the development of sufficient economic space in which to compete, as well as a means of advocacy for the sector.

In relation to the issues of training and finance, the implementation of the Protocol will need to be explicit in terms of strategies for success.

IV. Trade Policy

SBEs will be the most affected sector in this process, for as markets open up and industrial restructuring takes place, in the short-run, smaller enterprises will be the means by which adjustment takes place. This is especially where SBEs act as a form of release valve for the economy. In other words when the economy is expanding, smaller firms
will benefit, as they are better able to expand production in the short-run than larger firms. In times of contracting demand, due to their size, smaller firms will be the first to feel the effect, as they will find their market share more difficult to preserve than larger firms due to a lack of resources. As these smaller firms are likely to suffer the brunt of the supply and demand shocks that follow deeper integration, it is important that policymakers are aware of the likely threats to SBE survival and provide an appropriate framework in terms of training, finance, technical assistance, and the facilitation of advocacy channels.

VIII. Competition Policy

This is one of the most important areas for attention as regards the survival and progression of the SBE. The Protocol provides for penalties for anti-competitive behaviour and through this provides an important safety net for SBEs suffering from any uncompetitive behaviour by larger firms.

Lessons from the European Union Single Market

Although the formation of the Single European Market in 1992 involved enterprises that are considered small by European standards and would be considered large by Caribbean standards, it is still important to understand the effects of integration on these enterprises at the lower end of the size spectrum. Several studies and initiatives have been put in place to enhance the operation of the small enterprise in Europe, all directed towards analysing or enhancing the effect of integration on international competitiveness. The following section provides a brief review of some of the studies to emerge since integration.

Overall there is evidence that cross border trade has reduced since the development of the SEM (BBC May 2002), where entry costs appear to be very high, and the legal system acting as the biggest barrier. The SEM has undoubtedly increased competition, and this has resulted in some firms going out of business. This result is however spatially and sectorally differentiated, and failure has as much to do with the supply chains in which enterprises were involved as it had to do with location. As relates to the issue of the supply chain, the spate of mergers and takeovers during the period surrounding integration has had an adverse effect on smaller enterprises. When a small enterprise’s main purchaser is taken over, or leaves the market through increased competition, then the smaller enterprise has suffered.

As relates to the views of the small enterprise decision-maker, the Single Market scoreboard (1997) indicated that 40% of SMEs considered the Single Market to have been beneficial to their business. Over half (55%) of SMEs still reported that they encountered one barrier to trade and on average there were three barriers. The main barriers were:

- VAT: heavy complex rules
- Testing, certification regulations
- National specifications requiring modifications
- Different labour or social legislation across the union
As these barriers experienced in Europe demonstrate, many of the problems experienced are due to changes in regulations and procedures. One of the main lessons here for the CSME is that the SBE will need support in coming to terms with these issues, and understand how they will affect the production process. This level of technical support will be important for enabling SBEs in the Caribbean to take full advantage of the opportunities presented by the formation of the CSME.

Perhaps the CSME can learn from these problems experienced by the SEM and produce a more successful regional integration project, for as noted by BBC (2002) in asking the question as to whether the SEM has led to increased exporting, the answer for SMEs between 1993 and 2002 appears to be no.

Other lessons from studies to emerge from the EU that the Caribbean can draw on relate to the manner in which the way SMEs might respond to the formation of a single market can be linked to intentions models, such as that by Krueger (1993) based upon the work of Shapero (1975, 1982). These models see that the impact on SMEs and their move to increase or initiate internationalisation is related to:

- The strategic action of the entrepreneur
- The profit margin of the firm (lack of funds/financial constraints)
- Potential for Sales growth
- Level of overseas contact
- Risk attitudes
- Age of the entrepreneur
- Size of the company

These issues will need to be closely considered in any policy on the development of the SBE in the Caribbean. Most important is the issue of the strategic action of the entrepreneur, as this will have spillovers into the other elements of the model. This is the reason why CARICOM will need to engender a truly entrepreneurial spirit into the small business community if there is any real commitment to the success of the sector. There needs to be a cognisance that price competition is not the only option for achieving success, as firstly, this will be difficult to achieve in the context of the Caribbean with the noted problem of size in constraining the ability to achieve economies of scale. It needs to be noted what the benefits of small size are, and put in place plans to exploit such competitive advantages; the concept of smallness will need to be destigmatised. The potential avenues through which the small enterprise can compete regionally and internationally, as it relates to strategic orientation relate to marketing leadership, quality leadership, product specialisation, and manufacturing leadership. The issue of cost
leadership is another strategic orientation, but given the difficulties in achieving economies of scale, this is not considered relevant to the Caribbean SBE.

What is being referred to here as regards strategic orientation is the “…fundamental pattern of present and planned resource deployments and environmental interactions that indicates how the organisation will achieve its objectives” (Hofer and Schendel, 1978:25). The objective, or goal, here is also an important point to note, as no strategy can be actualised if there is no end objective. As relates to the avenues for strategic action, these are outlined below:

- Marketing leadership: Innovative marketing, sales force strength
- Quality leadership: Superior quality to enhance market share
- Product specialisation: Niche markets, high prices
- Manufacturing leadership: Process innovation, efficient production

These are all areas that the SBE can utilise to compete on a regional or international stage. Technical assistance, training and funding will all be crucial support frameworks for the successful implementation of such strategies. This is due to the fact that, as Maggina (1992) suggests, that for SMEs to survive they must strengthen their business capabilities (Ulrich and Cole, 1987) and adjust to a market that has no protective measures. This is an area where the actions of COTED will be integral to success.

The SEM also bought in a standardisation of regulations and this can be burdensome for SMEs where their compliance costs may be disproportionately higher. Also SMEs have traditionally faced issues such as financial constraints making the costs of borrowing higher for them.

The problems for the SBE is exacerbated for non-exporting SMEs. This is due to the fact that despite operating in the domestic market, there is still a need to meet the cost of compliance with any new regulations. However they do not receive the benefits from increased access to export markets. These disadvantaged sectors will need to be assisted by CARICOM.

The degree to which the CSME will impact upon the SME sector in the Caribbean will depend on the level of co-operation that is included in any CSME. It is unlikely to have gone as far as the EU. Moreover, there are unlikely to be many large firms in the Caribbean space and therefore the supply-chain links may be different. In addition, the overall impact of the CSME will be different because of the different sector focus of SMEs in the region compared with those that exist in the EU. However, the SEM in Europe can still provide some important warnings as to were problems might be encountered in implementing the CSME.

**Main Policy Issues to Emerge**

In order to establish the policy implications for SBEs by the establishment of the CSME, the characteristics of the sector will need to be appreciated before any other steps can be taken. The characteristics of the sector relate to its size, structure, industrial orientation, and its support framework. This support framework relates to the existence of policies, programs, and networks that exist to provide training, finance, technical support and
advocacy for the sector. However, before examining these issues, it is important to understand what the perception of self-employment in the region is. The cultural orientation towards entrepreneurship will determine the success of any policy directed towards it and therefore an appreciation of this orientation is crucial to success. Although there are different cultural orientations in the Caribbean, it has been noted that there is a general stigmatization against self-employment in the Caribbean (Lashley, 2004). Rather that a career choice, self-employment is seen by many as a last resort. Boxill (2003:36) attributes this among blacks in the Caribbean to historical antecedents of “...betrayal by the state; hostility from the traditional white business class; problems within the black family and ‘community’; and psychological problems due to slavery and colonialism”.

With this in mind, the development of any ‘industrial policy’ to promote, not just support, the SBE will need to embrace the concept of entrepreneurship as a viable career choice and promote its image among Caribbean youth in particular (Lashley, 2004). This is perhaps best engendered at a young age (primary/pre-secondary), not at the post-secondary level where young men and women first become aware of self-employment, mostly as a survival rather than a personal development option. This awareness is usually spurred through government policies and programs aimed at reducing the high levels of youth unemployment in the Caribbean.

Despite this stigmatisation of self-employment as a career option, the SBE sector in the Caribbean is large, mostly through the development of enterprises as a last resort. The International Labour Organisation (ILO) (2000) estimates that the small business sector, enterprises with less than 25 employees, account for between 70% and 85% of all businesses. The 15% range here is due to a lack of consistent and reliable data for the sector in the Caribbean. If the CSME is to be effective, and policies implemented to support SBEs, greater dedication to the collection of this data will be crucial to success.

If the structure and conduct of the sector is not fully understood, policies and programs implemented may have unforeseen adverse effects. Despite the lack of data, ILO (2000) identified the following sub-sectors as the main sphere of activity for the SBE:

- Food and Agro-processing
- Marine and Fishing
- Woodwork and Furniture
- Light Engineering and Electronics
- Garments
- Handicrafts
- Tourism and Service-related Activities
- Emerging Technologies

The characteristics of these sectors will need to be determined before the implementation of any policy to promote their success. This is an important area for future research.

In terms of the support framework for the SBE, the main needs of the sector revolve around the following.
• The need for business training as an employer not just an employee, which is not the nature of many programs in the Caribbean
• The need for finance (access, different products)
• Technical Assistance
• Advocacy

In addressing these issues there is a need to understand the current operating environment of SBEs in the region and how this will be affected by the full implementation of the CSME. ILO (2000) identifies the main characteristics of the SBE operating environment as:

**A small and limited domestic market.** The CSME provides the opportunity for easier access to the other countries of the Caribbean. This provides opportunities for expansion on both the demand and supply side. However it also introduces increased competition.

**Non-availability or high cost of principle raw materials.** This may improve depending on the industry in which the SBE is operating, as well as the supply chain strategies employed by SBEs.

**Lack of hands-on technical support.** This is an area that the organs of the CSME will need to address in a strategic manner in order to provide for the efficient use of resources. Demand needs to be assessed and addressed.

**High financial and labour costs resulting in uncompetitive pricing.** This is one of the main areas the SBE stands to benefit from in the creation of the CSME as increased competition in the financial sector and the labour market, with the freedom of right of establishment and the freedom of movement of some skilled labour will both lead to cost reductions for SBEs in terms of cost of finance and cost of labour, and depending on the nature of the competition, greater financial product diversification. One of the primary problems in terms of finance for SBEs is the risk-averse nature of the commercial banking system. Perhaps with increased competition the nature of the sector will be forced to accept greater risk to the benefit of the SBE in terms of access.

**Lack of coordination among organisations which were established to assist.** This is a problem extremely prevalent in the Caribbean, where support organisations protect their ‘territory’ in what has been noted as due to a ‘parochial’ nature (Lashley, 2004). This lack of cooperation and dissemination of information has also led to a duplication of services and a lack of development of clients, leading to both a waste of resources and potential.

**Non-existence of information indicating new opportunities for investment.** In addition to the provision of technical support, the organs of the CSME will need to enhance information dissemination in terms of markets, support networks, and process innovation opportunities.

With these issues in mind, it needs to be established what is the role of CARICOM in supporting the SBE sector in the new CSME environment. In highlighting the main policy issues to emerge, the following discourse addresses the four (4) main areas for attention: training; finance; technical assistance; and advocacy. This is in an effort to enhance the competitiveness of the SBE sector and preserve the scope for the fulfilment
of their potential to act as engines of development, employment generators and innovators.

To begin with, the issue of training is a vital and integral step before the other issues can be examined. Firstly all training will not only need to be relevant, it will also need to be timely. Timely in terms of engendering in the population that self-employment is a viable career option, not only a survival tool. Therefore, training will need to begin with a dynamic sensitisation of the population, and especially the youth. Following this, practical business training as an employer is essential if businesses are not only to survive, but grow. Although not all persons trained in this area will become successful employers, by training in these skills they can also become better employees, the intrapreneur.

Finance or lack of access to it is another serious problems experienced by SBEs. Techniques for financing SBEs have been developed worldwide, especially in the area of microenterprises. However, many of these models are inadequate for the Caribbean. Small business persons experience lack of access to finance for several reasons. In the external contingent environment, the commercial banking sector is risk-averse. They also seldom lend to start-ups, and usually require large amounts of collateral. With this market failure in finance provision, governments have implemented schemes to address this. However, this has further exacerbated the problem in the industry with distorted interest rates and political motivations for loan approvals, both individually and spatially. Overall, the Caribbean microfinance industry is a different creature to those found in other regions. This is due to a series of situationally specific issues as outlined below:

- **Small size:** to alleviate this problem one of the potential paths is regional co-ordination to achieve economies of scale perhaps through the use of an apex institution in conjunction with community banks.
- **Inefficient MFIs:** need to train managers and staff to increase efficiency and increase the number of loans per loan officer to reduce costs
- **Lack of Savings-led Strategies:** need to reform the financial environment to take advantage the benefits of savings-led approaches- source of cheap capital and the provision of a natural client pool
- **Bias towards small enterprises:** need a change in mind-set to realise the poverty alleviation and employment generation potential of microenterprises
- **Heavy reliance on subsidies/government intervention:** shift towards the creation of efficient NGOs where hard budget constraints can maintain efficiency if subsidies still utilised

**Technical Assistance** is the other area that will need to be addressed by the restructured organs of the Community. Specifically, the legal and regulatory changes as it relates directly to the SBE, will require changes at the level of the firm. The lack of resources in the SBE, both financial and human, will require that support is provided for them to cope with these changes. Although not directly, the organs of the Community must provide for such technical assistance. In addition, in expanding in the areas of research and development and engendering an export orientation, CARICOM will need to provide
Community-wide support to actualise these objectives. The effects on non-exporters will also need to be noted and addressed.

In terms of advocacy, it would appear that the small business associations in several of the member states provide a perfect opportunity through which the sector can be represented at the Community level. This will need to be encouraged by CARICOM to keep the relevant organisations informed as to the dynamics of the sector. In addition, the promotion of research into the sector can also act as an important advocacy channel.

**Conclusion**

In examining the conceptual framework as outlined in Figure 2 below, it can be seen that the issues to be addresses by the organs of the Community are numerous and complicated. However, there is a significant role for the Community to play if the objective to support the SBE is a serious one. The dynamic effects of any ‘industrial policy’ are important areas for consideration, and this dynamic activity is important to understand. When the contingent circumstance changes, policy should be flexible enough to cope. The conceptual framework for such a situation is as outlined in Figure 2. As Figure 2 demonstrates, in illustrating the relevant issues in the Caribbean, it can be seen that the interactions are guided, not predetermined, from the structural level, that level which cannot be directly observed and including such issues as culture, history, and the level of social capital (the level of interconnectivity of the population).

The important areas to be considered in the context of the current paper relate to, in the external contingent environment, three levels, the international level, the regional level, and the domestic level. CARICOM has a role to play at all of these levels, may it be at the international level by negotiating for a more conducive environment for the SBE in WTO, FTAA, and EU arrangements. At the regional level, strategic interventions will be important to instigate a sound base from which regional businesses can exploit the international market. At the domestic level the organs of the Community must work to engender a strategic framework to support and promote the SBE through the provision of training, finance, technical assistance and advocacy channels. As Figure 2 demonstrates, the important influences in the external contingent environment include the concentration of the industry the SBE is operating in, the orientation of the industry as it relates to internationalisation, the skills of the workforce, and the state of the support framework for industry. All of these elements will affect the performance of the SBE and are external to the firm.

At the internal contingent environment level, the areas of importance as they affect firm performance (or survival) are as outlined above in the work of Krueger (1993). Krueger (1993) outlines that the strategic action of the entrepreneur, the profit margin of the firm (whether it is sufficient to allow internal financing), the level of overseas contacts/experience, attitudes towards risk, and the age of the entrepreneur will all influence the performance of the SBE in a new single market environment. Although most of these issues relate to the individual decision-maker’s person causal powers and liabilities, the organs of the Community still have a crucial role to play in the education of the decision-maker through the dissemination of relevant information and a demystification of the single market process.
As noted above, the success of the SBE will be guided from a level below that of the observable, at the level of structure. Negative attitudes towards entrepreneurship, a lack of interconnectivity of the population that has led to a lack of networking and alliances to overcome individual shortcomings, are due to historical antecedents that have influenced the business culture which operates in the Caribbean.

The preceding discussion has highlighted the main issues for consideration by policymakers in the formation of programs to enhance the success of the SBE in the Caribbean. However, the issue of ‘success’ is yet to be defined. It has been noted that the SBE has an essential role to play in any economy, and especially in the Caribbean, with estimates of their number as high as 85% of all businesses in the region. This essential role is due to the ability of such enterprises to act as engines of growth, providers of goods not suitable for large-scale production, innovation, job creation, and provide a much-needed social safety net. However, how success is defined will affect how the objectives of the Protocols are realised; the objectives of enterprise linkages, supra-national corporations, and a viable micro and small business sector. To facilitate the strategy of the Community a number of support services to the SBE will need to be provided, especially addressing the areas of training, financing, technical assistance, and advocacy channels. Many of these support services are mentioned in Article 40 of the revised treaty, Micro and Small Enterprise Development. However, the definition of the development of the sector (what is success?) is not addressed, and this will be crucial to the development of strategy in this regard. A strategy is a plan to achieve an objective, and with no explicit objective for the sector, there can be no strategy. The objective here relates to the primary goal of the policy, not the spillover effects. Potential primary objectives would include provision of niche market goods not suitable for large-scale production, innovation, employment generation, poverty alleviation, foreign exchange earning among others. Once the primary objective is chosen the other issues become spillovers. This is why the issue of defining success is important. Depending on what CARICOM envisages as success of the sector, the primary objective, this will affect what the structure of support programs are and how they are implemented. Training facilities to enhance innovation, will be different to those needed for providing self-employment opportunities for the poor. As would financing arrangements for a SBE seeking to exploit an export market as opposed to one seeking to purchase stock for retail sale domestically. This is why it is crucial that the organs of the community, in consultation with advocacy bodies, outline explicitly the form of support to be provided to the sector in terms of training, finance, technical assistance, and advocacy channels. Without such targeted support, ‘success’ will not be achieved.
Figure 2: Conceptual Framework for the SBE in a CSME Environment

**STRUCTURAL ENVIRONMENT**

- Structures
  - Necessary relations (e.g., supply chain, business culture, history)
  - Emergent causal powers and liabilities
  - Causal mechanisms

**EXTERNAL CONTINGENT ENVIRONMENT**

- Prevailing international/local situation
- Internal contingent environment (firm/establishment)
  - Individual decision-maker
  - Personal causal powers and liabilities
  - Nature of Firm International Orientation

*(INTER)*

**NATIONAL:**
- International trade agreements

**LOCAL:**
- Availability of support services
- Skills of labour force
- Industry concentration
- International orientation of industry

**OUTCOMES (Firm Performance/Success)**
References


