6

Agenda for Enhancing Competitiveness

A coherent and supportive policy agenda is essential for small states to adjust to globalisation. The new manufacturing context under globalisation exposes enterprises to more intense international competition than ever before, while simultaneously providing access to new markets and global resources (technologies, skills, information and capital). Enterprises face the significant challenge of improving their export capabilities and reaping the benefits of new global markets and resources, while coping with the rigours of open market conditions. The extent of factor market development, as well as past public policies and institutional support, strongly influence the process of capability building at firm level. There are usually both positive and negative aspects to each of these elements and a new policy agenda can help to overcome constraints. This chapter sets out some of the principles which should underlie a competitiveness policy agenda in small states, provides an illustrative agenda and road map for its implementation, and outlines the necessary conditions for success.

6.1 Principles Underlying an Agenda

It is common practice in development economics to draw on available theory and empirical evidence to derive insights for other economies. Building on the analytical framework set out in Chapter 2 and the experiences of Mauritius and Trinidad and Tobago, some broad principles can be put forward to guide the development of an effective long-term competitiveness agenda in small states. Six such principles are suggested:

- Focus on evolving comparative advantage;
- Tailor to national circumstances;
- Link with regional markets and institutions;
- Combine incentives and supply-side measures;
- Involve all major stakeholders; and
- Prioritise interventions and actions.

6.1.1 Focus on Evolving Comparative Advantage

The law of comparative advantage should guide agendas for enhancing competitiveness in small states. For policy purposes it is useful to make a distinction between current and near future comparative advantage. Current comparative advantage suggests specialisa-

tion in the production and export of goods in which a country has a relative cost advantage over others. Near future comparative advantage refers to the export of new goods within a realistic time framework (3–5 years) through the development of new competitive advantages.

The experience of successful small states suggests that radical shifts from one industry to another within a short time span are the exception rather than the rule. Typically, comparative advantage gradually changes over time and supportive competitiveness policies can help this process of evolution. Successful small states have tended initially to concentrate on activities arising from natural resource advantages (for example fish processing, other food products, beverages, tourism related industries, petroleum and related industries) and labour cost advantages (for example textiles and clothing). Once the export momentum is sustained in a core industry (such as textiles and clothing in Mauritius), emphasis shifts to new activities that have a realistic chance of becoming competitive in the near future. Other natural resource based or labour cost based industries may be appropriate at this stage of export development. Over time, industries based on skill and technological advantage may come within the reach of some of the more industrially advanced small states. While it is impossible to predict future patterns of structural change with certainty, it is likely that these patterns will be repeated in other industrial late-comers.

6.1.2 Tailor to National Circumstances

The experiences of more advanced small states and developing countries can offer useful lessons on what works and what does not, and so inform the design of a late-comer's strategy. However, wholesale copying of another country's strategy or relying on a generic one-size-fits-all approach is likely to have a limited effect on improving competitiveness in a given small state. Instead, a competitiveness agenda must be tailored to the circumstances of individual small states and enterprises within them. In particular, it should take into account factors such as geographical location, stage of economic development, macroeconomic and political conditions, the intensity of liberalisation and policy reform, the size and dynamism of the enterprise base, quality of entrepreneurship and industrial skills, and the government's ability to implement policy. Such tailoring is particularly appropriate for micro-states, which may face even more particular circumstances and restricted resources and capabilities than their larger small state neighbours.

6.1.3 Link With Regional Markets and Institutions

Small states' competitiveness agendas should link with regional markets where possible. Regional markets in other developing countries or small states are likely to be less demanding (in their price, quality and delivery requirements) than international markets in developed countries. By focusing on regional markets to begin with, new

exporters from small states can accumulate valuable experience of producing for export and then gradually attempt to break into more demanding international markets. Furthermore, such markets may offer other synergies such as foreign direct investment, technology transfer and information. Of course, established exporters, which are already exporting to more demanding international markets, should be encouraged to improve their market penetration and move on to new markets.

Similarly, because they lack their own institutions and resources, small states should take advantage of regional institutions to enhance their competitiveness. Of particular relevance to competitiveness are development banks to provide finance for enterprise development; standards institutions to provide testing, metrology and quality management services; universities to supply tertiary-level technical, managerial and professional skills; and trade negotiation organisations to provide negotiation capabilities to ensure market access. Again, this is particularly true for micro-states, which cannot afford to duplicate all the necessary institutions themselves.

6.1.4 Combine Incentives and Supply-side Measures

The details of the proposed agenda will be set out in Section 6.2. Suffice it to say here that in the past efforts to foster enterprise development were often rather narrowly defined in terms of ensuring macroeconomic stability, open markets and *ad hoc* initiatives to help SMEs, such as establishing an industrial estate or a concessionary credit window. Development experience suggests that this limited approach was insufficient to foster internationally competitive enterprises in small states. It is certainly inadequate to stimulate the start-up and expansion of export-oriented enterprises under today's open and demanding international trading conditions. Thus, a much more complex strategy is required to support export development – involving a mix of incentive policies, supply-side measures and cluster policies – to address the different adjustment needs of enterprises.

6.1.5 Involve All Major Stakeholders

Several stakeholders should be closely involved in formulating an agenda for improving competitiveness. At a minimum, five stakeholder categories should be involved in a competitiveness strategy: enterprises, business associations, trade unions, government and international aid donors. The importance of inclusiveness is largely self-explanatory. The successful preparation of any set of economic policies, including competitiveness strategy, needs a consensus on challenges, goal and broad policy direction among the key social partners affected by those policies.

Each of the five stakeholder groups has valuable inputs – information, experience, finance and mandate – to contribute to competitiveness strategy:

- Enterprises have first-hand experience of the problems affecting business start-up, operation and exporting, and viewpoints on their desired policy and support needs in

regard to export incentives, finance and non-financial support services.

- Business associations can offer additional insights on these issues in relation to particular industrial and service sectors, as well as articulate the special needs of vulnerable groups of enterprises (for example gender, ethnic minorities or young people).
- Trade unions represent the interest of labour and help with awareness raising and skills upgrading during enterprise restructuring.
- It is usually the responsibility of government to design and implement a strategy for improving competitiveness in consultation with other actors.
- Donor agencies can support these initiatives by providing technical assistance, best practice experience and foreign aid.

6.1.6 Prioritise Interventions and Actions

Given the limited resources available to many small states, it is vital that the implementation of any competitiveness strategy is properly prioritised to ensure maximum returns and to prevent reform fatigue setting in before crucial changes are made. This should be done in line with the particular circumstances of the country involved, taking into account both political and economic characteristics and the realities on the ground. Guidance for such prioritisation should come from the type of diagnostic study set out in Section 6.3 below.

6.2 An Illustrative Agenda

Using the six principles set out in Section 6.1, an illustrative long-term competitiveness agenda can be formulated for a typical small state.[34] This task may appear difficult at first because of a myriad of possible policy instruments and support measures that are available at national, sector and firm level to address the competitiveness challenge.

6.2.1 Types of Policy Instrument and Support Measures

To aid analysis, the various policy instruments and support measures can be grouped under three distinct headings:[35]

Incentive policies that seek to remove economic distortions created by past government policies which discouraged enterprise growth and competitiveness. Incentive policies are often equated with liberalisation and stabilisation measures proposed by international financial institutions and associated with economic reform programmes. Measures for controlling inflation and ensuring macroeconomic stability, elimination of quantitative restrictions, tariff reform, tax incentives, a competitive real exchange rate, export incentives and promotion, streamlining of bureaucratic procedures on enterprise activity and exporting and privatisation of public enterprises all fall under this heading.

Supply-side policies geared to overcome systems failures, which impede collective learning processes and the creation of new competitive advantages by enterprises. These include a variety of support for enterprises including investments in human resources, fostering small and medium enterprises, technological support, attracting foreign investment and facilitating technology transfer from abroad, promotion of e-commerce, ensuring access to industrial finance, strengthening private sector associations and improving infrastructure. This heading involves largely non-sector specific measures.

Cluster policies, which emphasise detailed actions to improve the competitiveness of specific industrial clusters (involving SMEs and other firms) in a small state. Intervention is directed towards acquiring technological capabilities, promoting upgrading and improving links between different parts of the cluster. Policies might range from industry-specific tax measures to the provision of specialised institutional support facilities for a particular cluster. Joint actions (for example setting up a specialised training school) between a business association in the cluster and an aid donor or a government agency are also commonplace.

The design and implementation of effective cluster policies requires sophisticated government capabilities to collect information, design appropriate micro-level interventions, work closely with the private sector to implement such policies, and monitor and evaluate the results. Small states, which often lack these government capabilities due to their small size, face a high risk of government failure in the sense of poorly designed and implemented cluster policies. Given this risk of wasting limited resources, until such time as government capabilities have been built up to appropriate levels, cluster policies should be used sparingly in small states and the focus of intervention should be on incentive and supply-side measures.

6.2.2 Example Agenda

Table 6.1 contains a policy agenda for small states which sets out key objectives and illustrative examples of incentive policies and supply-side measures. Many of these measures have been adapted to the economic needs of small states. For instance, emphasis is given to promotion of e-commerce and the development of infrastructure to remedy the geographical isolation of some small states from overseas markets. The development of linkages with regional institutions (for example trade negotiations, education and standards) is highlighted to maximise regional synergies and externalities. Significant attention is given to the promotion of small and medium enterprises, which form the industrial backbone of many small states. Human development is fundamental, as an educated and creative labour force is the main resource of small states and their enterprises. Attracting foreign investment and providing adequate technological support are essential in a world of rapidly changing technologies. Strong private sector associations and regular public–private sector dialogues assist the formulation of policies geared to private

sector needs and long-run policy coherence.

All the suggestions for the policy agenda set out in Table 6.1 are consistent with a broad outward-oriented, market-friendly development strategy. It is worth underlining that it is the *interaction* of incentive and supply-side measures (as well as cluster policies) that determine competitiveness in small states, rather than a single category of measures. It should also be noted that the policy agenda is only illustrative and will not be appropriate for the specific situation of every small state. Section 6.3 details how the agenda can be developed to fit the circumstances and needs of a given small state.

6.3 An Implementation Road Map

Clearly all the measures contained in the illustrative agenda in Table 6.1 are not applicable to the specific situation of every small state. For instance, some small states may have already implemented some of these measures, some measures may not be relevant to some small states and new measures may be required which are not shown in the table. Hence, there is a need to develop an agenda that fits the circumstances and needs of a given small state. This requirement will be particularly pertinent for micro-states, which may have even more specific needs and constraints.

This process of tailoring competitiveness strategy to the individual small state can be guided by a simple road map. The road map set out in Figure 6.1 is made up of four phases, each building on previous efforts: inception review, assessing competitiveness, designing strategy and sustaining competitiveness. These steps and the issue of a co-ordinating department are discussed further below:

Inception: In order to fully understand the specific challenges and problems likely to be encountered in the exercise, it is necessary to undertake several inception tasks. These include a preliminary stocktaking of past reports and policy initiatives; undertaking consultations with relevant stakeholders (for example key government departments, private sector organisations, trade unions and aid donors); allocating finance and setting a budget for the project; developing detailed terms of reference for activities; assigning responsibilities; engaging consultants as required; assigning government counterparts; and developing a timetable for implementation. The output of this phase will be a short inception study. A workshop of key stakeholders should be held to discuss the report and chart the way forward.

Assessing competitiveness: The basis for designing an overarching competitiveness agenda for improving performance in a given small state is a comprehensive assessment of competitiveness patterns and policies. The assessment would make use of existing studies, as well as commissioned enterprise surveys, institutional reviews and policy analysis.

Table 6.1: A Policy Matrix for Small States

Objectives	Policy Options
1. Maintain credible macroeconomic policies and exchange rate flexibility.	• Fine-tune fiscal and monetary policy to provide reasonably predictable low inflation and steady growth in the macroeconomic environment. • Rationalise public expenditure by limiting the growth of the wage bill, reducing government employment and privatising poorly performing state enterprises. • Extend the tax base, rationalise taxes and reduce economically inefficient subsidies. • Adopt a proactive approach to exchange rate management to ensure a competitive real exchange rate.
2. Persist with outward-oriented trade policies.	• Eliminate quantitative restrictions and reduce import tariffs in a pre-announced, phased manner to achieve low uniform effective protection across activities. • Improve access to imported inputs by making customs procedures more efficient. • Establish a well-resourced trade and investment promotion agency (with private sector board) with a mandate to develop and implement an export promotion strategy. • Provide part grants for export-ready SMEs to develop websites and to participate in overseas trade fairs and buyer-seller meets. • Establish a network of shops for tourists as joint ventures between SME associations and the trade and investment promotion organisation. • Integrate national trade negotiations capacity with regional negotiating machinery to maximise available resources, economic and legal skills and information.
3. Foster small business start-up and growth.	• Set a low corporation tax rate and, where feasible and economically viable, extend tax coverage to all businesses, including SMEs. • Streamline procedures affecting business start-up (for example registration) and operation to reduce transactions costs on business • Improve access to credit by improving collateral procedures (for example a debt tribunal separate from the court system), starting-up credit registries to improve lending quality and quantity and a micro-finance scheme. • Explore the establishment of a regional credit guarantee scheme to facilitate commercial bank lending to small businesses. • Lobby for significant increase in regional development bank concessionary lending for small business. • Establish an SME agency (with a private sector board) to provide business advisory services, entrepreneur training, information services and common facilities. • Develop a common definition of SMEs (for example the number of employees) and collect and monitor information on SME performance.

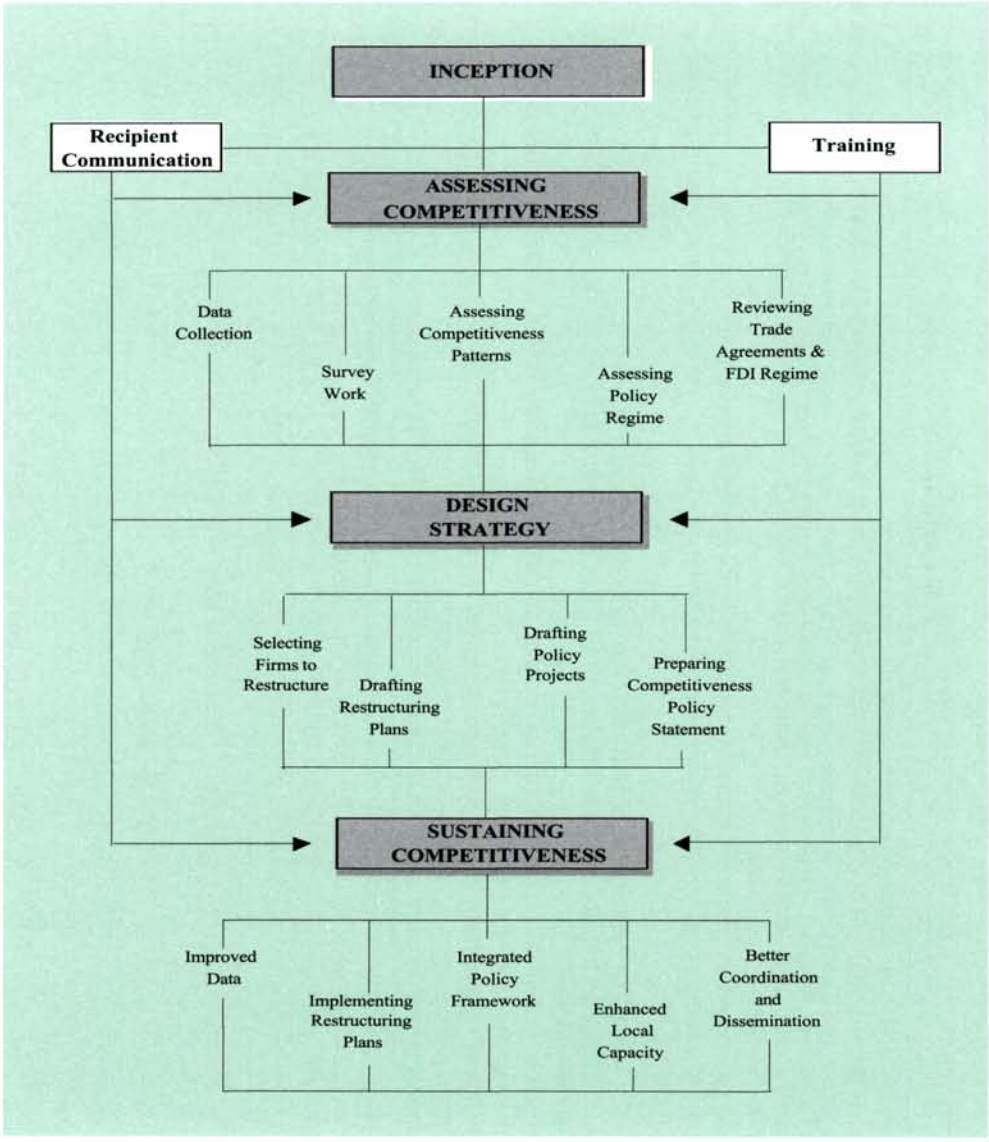
Table 6.1 (continued)

Objectives	Policy Options
4. Invest in human resources	• Improve quality of secondary schools by allocating funds based on enrolments; give special grants to schools with large needs (for example a large proportion of students reading below grade); create incentives for attracting qualified teachers to teach in schools with below average school results; make school results public; and give more emphasis to maths, science, IT and business education in the school curriculum. • Upgrade vocational training facilities and gear up courses to industrial needs. • Encourage training in SMEs through a public information campaign to make them aware of skill gaps for competitiveness and provide subsidised consultancy services for in-plant training. • Start a programme to improve work ethics and reduce absenteeism in skilled and unskilled labour. • Introduce incentives to attract back professionally qualified nationals from overseas. • Streamline the work permit system to enable easier entry of professional and technical manpower and certain categories of skilled workers.
5. Ensure adequate technological support	• Set up a scheme to part finance the cost of consultancy services for ISO 9000 and 14000 certification for SMEs. • Upgrade the capacity of the national standards bureau to provide testing, metrology, quality management, productivity and other technical services to international standards. Formally link national standards bureau to regional standards organisation (or an international standards organisation) to facilitate continuous technology and skill transfer. Aggressively market technical services to SMEs. • Provide information services to permit ready access to specialist regional and international technical consultants as required. • Promote awareness among SMEs of the need to upgrade their technological capabilities and invest in new equipment.
6. Encourage and increase inflows of foreign direct investment	• Provide the trade and investment promotion agency with a mandate to develop and implement a targeted investment promotion strategy. • Develop a new investment incentive package based on low corporation tax rates for established activities and limited tax holidays for new activities (for example 5–10 years). • Streamline foreign investment approvals by creating a single-stage approval process and setting a rapid target for normal approvals (for example two weeks). • Liberalise and overhaul work permit regulations for entrepreneurs, technical and professional manpower, and selected categories of skilled workers. • Lobby international financial institutions to create an international investment guarantee scheme to reduce risks of inward investment in small states.

Table 6.1 (continued)

Objectives	Policy Options
7. Improve private sector associations.	• Encourage SMEs to establish associations in leading export sectors. • Promote the establishment of a federation of SME export associations to hold a dialogue with government on economic policy issues and provide some support services to members, for example training and market information.
8. Strengthen public–private sector dialogue and partnerships.	• Initiate annual consultations between government ministers and business leaders on economic policy questions, for example pre-budget consultations. • Involve private sector representatives in trade negotiations and investment promotion. • Set up a secondment programme for experienced private sector managers to work in government departments for up to one year.
9. Promote e-commerce and e-government.	• Liberalise local telecommunications industry to reduce costs and increase efficiency. • Expand bandwidth on local and international backbone; develop interoperability standards; and administer a top-level domain country code. • Develop a programme to encourage universal adoption of internet-linked computers in homes and businesses. • Overhaul relevant legislation to permit e-commerce. • Formulate an e-government strategy with clear objectives and phased measures. • Facilitate on-line payments for all government services. • Upgrade IT systems in government departments and conduct training for civil services.
10. Improve quality and coverage of infrastructure.	• Explore the feasibility of increasing air flights and cargo capacity from regional and international carriers. • Improve roads and water services by levying and increasing tolls and user fees. • Upgrade port facilities including container handling and refrigeration facilities to the best regional standards.

Figure 6.1: Competitiveness Strategy Implementation – A Road Map



A variety of quantitative and qualitative techniques should be employed to analyse the information. The assessment would attempt to do the following:

- Identify trends in industrial competitiveness at sector and product level;
- Map out in key sectors firm-level technological, marketing and other export capabilities relative to international and developing country best practice;

- The stability of the macroeconomic environment,, including growth, inflation and the real exchange rate;
- Assess policy and regulatory impacts including simulation analysis;
- Evaluate trade agreements and patterns of foreign investment;
- The availability and quality of human resources, particularly skill gaps, and labour market conditions, including wages and productivity;
- Sources, terms and access to industrial finance;
- The adequacy of services and support provided by technology institutions;
- The quality and cost competitiveness of physical infrastructure;
- The capacity of the lead ministry to undertake policy co-ordination.

The output of this phase will be a detailed competitiveness study which should contain broad policy suggestions. Another workshop of key stakeholders should be conducted to analyse the current situation, debate policy options and formulate an agreed agenda.

Designing strategy: Drawing on the analytical phases of the work described above and with further consultations with relevant stakeholders, a series of tailored policy projects will be developed. These policy projects should address generic and specific competitiveness issues that affect enterprises and the business environment. Examples are given in Table 6.1. A useful way of consolidating these projects would be to present them in the form of an overarching document – a competitiveness policy statement. Apart from presenting detailed policy suggestions, the statement should also contain headline budgets for activities, a timetable for implementation, milestones and indicators to assess progress, and responsibilities for implementing activities to given institutions (and officers within them). More complex and detailed competitiveness strategies sometimes also provide for restructuring plans for selected enterprises, particularly for public enterprises. Where this is the case, headline information on these plans could be included in the competitiveness policy statement. Widespread consultations with stakeholders will assist in building a national consensus on the objectives of the statement and the policy projects.

Sustaining competitiveness: Next comes the challenge of taking forward the agreed policy statement, requiring determination, hard work and political will. A wide range of activities will be involved in this phase, including:

- Implementing restructuring plans and policy projects;
- Integrating policy initiatives so that they are complementary;

- Proposing and drafting legislation to enact policy changes;
- Training and capacity building in both the government and private sector;
- Co-ordination and dissemination of findings; and
- Continuous monitoring and evaluation of progress and adapting initiatives as required.

Co-ordinating department: Designing and implementing a competitiveness strategy requires closely integrated actions by a number of government departments and agencies. It is essential that a single department is entrusted with co-ordinating the process of competitiveness strategy development and implementation. Without some co-ordination there is a risk that the process may lose momentum. Possible candidates for this co-ordinating role include:

- The Ministry of Trade and Industry;
- The Ministry of Finance;
- The Prime Minister's office.

With its mandate to formulate trade and industrial policies, specialised expertise and close links with the business community, the Ministry of Trade and Industry would be the obvious choice. However, it may require enhanced functions, more resources and capacity building to undertake this role. Where a separate Ministry of Trade and Industry does not exist (or is deemed to be too weak to be effective), the Ministry of Finance may be more appropriate. In some rare circumstances, the Prime Minister's office may be the best candidate.

6.4 Conditions for Success

A coherent competitiveness strategy, along with a good implementation plan, is a necessary but not sufficient condition for long-run export success in small states. The economic development record of small states suggests that other factors are required to support even the best-designed competitiveness strategies. Some of these factors are illustrated in Figure 6.2.

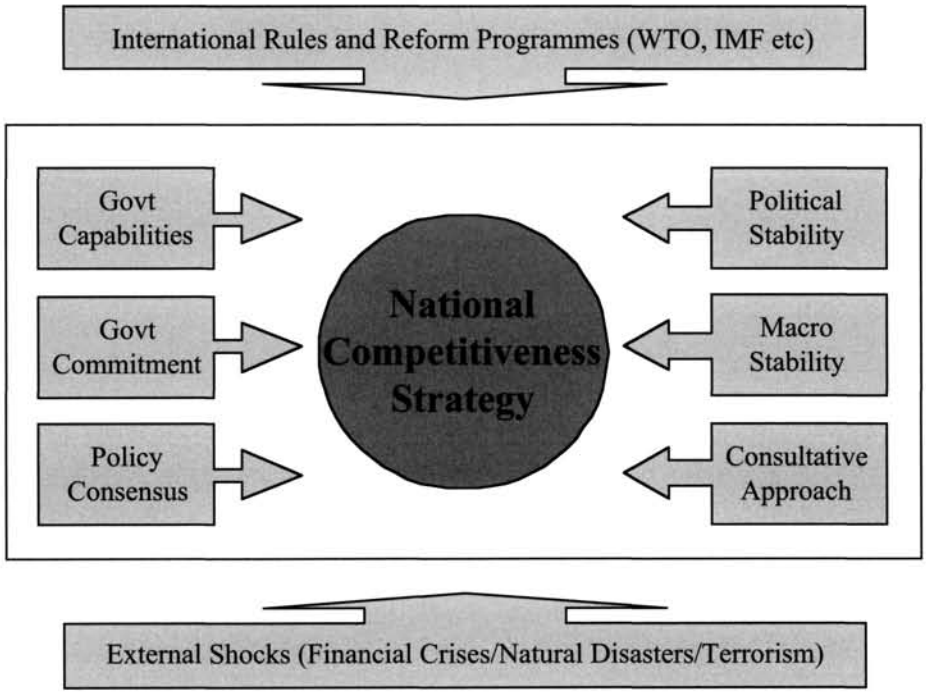
They fall into two categories.

- The first are external factors that originate outside an economy. External factors can have a significant impact on the outcome of a competitiveness strategy in a small state, but are often outside the direct scope of national policy-making. They could include shocks such as financial crises, natural disasters and terrorism. They could also include international rules and obligations under organisations such as the WTO or the IMF. While such agreements and rules can be positive or negative

depending on the circumstances, they reduce the available policy space and restrict government's ability to determine policy and influence the outcome of a competitiveness strategy.

- The second are factors that are internal to a small economy and within the scope of the influence of national policy-making. Many of these issues fall within the heading of governance, which is a separate topic that requires further analysis for small states. Whilst a full examination of governance is beyond the scope of this study, some of the issues are discussed briefly below.

Figure 6.2: Conditions for Success



Political stability: Civil conflict, domestic political violence and international disputes significantly reduce a government's capacity to undertake competitiveness strategies. Defence expenditure is often increased at the expense of foreign investment, export promotion and technology support budgets. Key policy-makers are sometimes switched from economic management to crisis management. Negotiations with arms dealers and aid donors can assume a higher priority than a dialogue with the private sector over competitiveness strategy or a focus on policy implementation and monitoring. Moreover, the

country's reputation suffers as a destination for foreign investment and foreign buyers may seek out more reliable suppliers. Country reputations and international goodwill are 'a scarce national resource' and can take many decades and many millions of dollars in promotion campaigns to rebuild.

Sound macroeconomic performance: Good macroeconomic conditions assist the implementation of national competitiveness strategies while macroeconomic crises are a hindrance. Difficulties in containing inflation, sudden exchange rate devaluation or domestic recession often contribute to reversals in certain aspects of competitiveness policies after their implementation, including the reimposition of exchange controls or import controls and cuts in expenditure on education and training.

Strong government capabilities: While there is a theoretical case for public action to enhance competitiveness, in practice governments may lack the requisite skills and information to formulate, implement and monitor such strategies. Undertaking detailed national competitiveness strategies (involving carefully designed foreign investment targeting, export contests, training programmes and technology development schemes) demands a host of economic, management engineering and information technology skills that are in short supply in many developing country civil services. In part this may be due to civil service recruitment practices and compensation schemes which typically focus on recruiting generalists and giving them on-the-job training rather than hiring specialists with relevant private sector experience.

Sustained government commitment: Owing in part to their concern with structural issues (for example skills, technology and institutional reforms) competitiveness policies can take time to show results. Inadequate commitment by government has often limited the seriousness of policy implementation and backsliding has sometimes affected sustainability. Changing governments and leaders, and internal opposition to changes within government, have frequently led to policy reversals.

Consultative approach and policy consensus: Successful implementation of a competitiveness strategy will require the government to adopt a consultative approach and maintain good relations with the private sector, trade unions and wider civil society. The political and economic history of a country can hinder the success of such an approach and may have to be worked at to ensure that an inclusive approach is adopted and that policy consensus is reached. For example, a government with a 'socialist overhang' is likely to regard the private sector with suspicion, particularly multinational affiliates, and may not seek their advice on economic policy matters and implementation issues. Similarly, countries that have had a long period of inward-looking policies may be characterised by a tiny private sector with limited industrial experience. Such an 'infant private sector' is unlikely to have the requisite technological and marketing capabilities to respond quickly to changes in incentive policies or to have the relevant international

exposure to advise government on good competitiveness policies.

6.5 A Last Word

Small states face significant challenges in an ever more open and globalised world, especially given that they are potentially more vulnerable than other states. However, as has been shown throughout this report, there are success stories among the small states, and rather than concentrating purely on vulnerability many would benefit from a more proactive approach to improving competitiveness through concerted policy action. There are no magic wands in economic development, and achieving success will take years of hard work, but small states that tackle the constraints identified, and design and implement a coherent competitiveness strategy will have the best chance of long-term success.

Notes

1 Detailed competitiveness studies on individual small states include: World Bank (1994) on Mauritius; Harris (1997) on Jamaica; Lall and Wignaraja (1998) on Mauritius; and Malta Ministry of Economic Services (1999) on Malta.

2 An exception is Easterly and Kraay (2001). Using cross-country regression analysis, they test whether small states are any different from large states in terms of their income, growth and volatility outcomes. They find that small states have significantly higher per capita incomes than others and that there is no significant difference in the growth performance between large and small states. Although conceding that small states suffer from greater growth volatility and terms of trade shocks due to openness, they argue that the net benefits of openness are positive. They conclude that small states are no different from large states and so should not receive different policy advice.

3 See, for instance, CBD/CAIC (2002) for a range of popular views on competitiveness in the Caribbean.

4 For academic variants of these popular views see Harris (1997) and Wint (2003).

5 For recent surveys of this literature see Kim and Nelson (2000) and Wignaraja (2003).

6 Lall (1992); Bell and Pavitt (1993); Wignaraja (1998); Radosevic (1999); Mytelka (1999); Levy, Berry and Nugent (1999).

7 A firm's technology strategy will vary according to its own stage of technological development. Mytelka (1999) distinguishes between three strategies: catch-up strategy, keep-up strategy and get-ahead strategy, which correspond to the late-comer stage, quick-follower stage and front-runner stage of a technological learning approach. She argues that the three different strategies, each with different objectives, require different types of knowledge for upgrading and different sources of such knowledge. This suggests that is important for a learning SME to be able to assess its own technological capability objectively and adopt a phased approach to technological development.

8 For more on NIS see the classic work by Lundvall (1992). See also Metcalfe (2003).

9 The UNCTAD/WTO International Trade Centre also produces a Trade Performance Index, which benchmarks across developing countries at an industry/product level (ITC, 2000). Whilst it is not discussed here due to our focus on national-level competitiveness, for policy-makers interested in such detail it can be a useful tool.

10 Technology intensive exports include electronics, petrochemicals and chemicals, iron and steel, engineering and plastics.

11 Swaziland's large share of manufacturing in GDP seems due to the following: (a) 26 garment factories established by Taiwanese investors to take advantage of the African Growth and Opportunities Act which provides ready access to the American market; (b) the presence of one of Coca Cola's five plants worldwide which produces cola concentrate; (c) various sugar pulp factories; and (d) other light industries established by South African investors to take advantage of the South African Customs Union market.

12 Calculations were also done including Singapore, Taiwan and Costa Rica, in order to check the robustness of the theory, and to give a context to the SSMECI figures. Not surprisingly, these countries came out at the top of the index.

13 Of the 47 small states in our definition, seven countries could not be included in the final MECI for data reasons; five of these were in the Pacific. As a result, the sample for the Pacific is not complete and may be biased. However, lack of data is often correlated to poor performance, and it is unlikely that inclusion of these countries, if data was available, would significantly improve overall regional performance.

14 Attempts at statistical analysis of the factors affecting competitiveness in developing countries include Ul Haque (1995); James and Romijn (1997); Wignaraja (1999); Wignaraja and Taylor (2003); and Wint (2003).

15 An important qualification about the testing procedure should be noted. The simple *t*-test shows significantly different means between two samples for individual variables. However, it does not indicate causality, and is thus less powerful than full econometric analysis. That said, it does provide insights into those underlying factors correlated with competitive success in comparisons of strong and weak national performance.

16 'Classification of Economies by Size', in B. Jalan (1987).

17 With regression analysis, one can analyse how a single dependent variable is affected by the values of one or more independent variables – for example, how a small state's performance is affected by such factors as country size, export orientation and FDI inflows. Shares in the performance measure can be apportioned to each of these three factors, based on a set of performance data. Simple linear regression was used in Table 3.10 rather than multiple regression due to the likelihood of pervasive multicolinearity problems between the independent variables.

18 The Human Development Index is produced annually by the UNDP. It uses a weighted sum of three indices

representing life expectancy, educational attainment and adjusted GDP per capita. For each country, each of the three variables is indexed to a value between 0 and 1, and then the three indices are combined with equal weights to form the HDI.

19 For recent accounts see World Bank (1994); Lall and Wignaraja (1998); ILO (1999); UNCTAD (2000); Subramanian and Roy (2001); Treebhoohun (2001); and Wignaraja (2002).

20 See UNIDO (2003) and Wignaraja and Taylor (2003) for examinations of Africa's industrial competitiveness record in a comparative perspective. The best performances include Tunisia, Morocco, South Africa and Mauritius.

21 See Subramanian and Roy (2001) p. 6.

22 For an account of the growth of the sugar and tourism sectors in Mauritius see Woldekidan (1994) and Government of Mauritius (1997).

23 See Woldekidan (1994); World Bank (1994); Lall and Wignaraja (1998); Teal (1999); and Durbarry (2001).

24 Data on inflation (Consumer Price Index) confirms Mauritius' record in macroeconomic management. Inflation rates averaged 7.7 per cent per year in the period 1980–2001. The period average masks more recent success. Inflation rates fell from 13 per cent per year in 1974–1984 to 7.4 per cent in 1985–1994 and further to 6.2 per cent per year in 1995–2002. Source: World Bank, *World Development Indicators*.

25 Apart from the organisations listed here, there is also the Mauritius Standards Bureau which provides metrology, standards and quality services; the National Computer Board which provides support to the IT industry; the University of Mauritius which conducts tertiary-level education; and the National Productivity and Competitiveness Council which is engaged in awareness raising about productivity issues.

26 A recent study found that annual wages in Mauritius manufacturing went up threefold from US$1063 to US$2998 between 1985 and 1993. The country's 1993 wages were four times higher than Sri Lanka's and China's, three times higher than Bangladesh's and twice those of India and Indonesia. The enterprise survey in the same study reported that 61 per cent of firms felt that the decline in labour productivity was a negative constraint on competitiveness. See Lall and Wignaraja (1998).

27 The negative effects of over-reliance on natural resources has been named 'Dutch Disease' following The Netherlands' experience with North Sea gas. For a fuller explanation of this see Corden (1984).

28 In constant 1995 US$.

29 Caricom Secretariat Online Statistics Database – Selected Economic Statistics.

30 See *www.tradetnt.com* for more details.

31 In Trinidad and Tobago, medium-sized enterprises are defined as those employing 26–50 people, with assets of TT$1.5–5 million (US$0.25–0.8 million) and with sales of TT$5–10 million (US$0.8–1.6 million).

32 A small enterprise is defined as a company which employs 6–25 persons, with assets valued between TT$250,000–1.5 million (US$40,000–250,000) and sales worth TT$250,000–5 million (US$40,000–0.8 million).

33 Micro-enterprises are defined as employing one to five persons, with less than TT$250,000 (US$40,000) in assets and less than TT$250,000 (US$40,000) in sales.

34 Recent examples include Trinidad and Tobago Ministry of Enterprise Development and Foreign Affairs (2001); Malta Ministry of Economic Services (1999); Lall and Wignaraja (1998) for Mauritius; World Bank (2003) for Jamaica.

35 For more discussion of these concepts, see Wignaraja (2003a).