

2018

The 21st Century Maritime Silk Road

Islands Economic Cooperation Forum

ANNUAL REPORT ON GLOBAL ISLANDS

2018



Foreign Affairs Office of Hainan Province, P.R. China

Institute of Island Studies at the University of Prince Edward Island, Canada

The 21st Century Maritime Silk Road
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Goddess of Mercy statue at the seaside in Nanshan Temple—a famous tourist destination in Sanya, Hainan Province, China

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Island Studies Press at UPEI
University of Prince Edward Island
Charlottetown, Prince Edward Island, Canada C1A 4P3
upei.ca/isp iis@upei.ca

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Fishing boats in the harbour of Los Cristianos,
Canary Island Tenerife, Spain

7

A primer on

Building successful business environments on islands *

ABSTRACT

The creation of successful business environments is an important prerequisite for durable and sustainable competitiveness.

This chapter documents the type of constraints that may hinder business success as well as the policy approaches that may create operating environments conducive to business success in small island contexts. Surrounding influences and circumstances are well known to make considerable difference for business—both on a national and global level. The defining characteristics of small island economies themselves have also been explored and

* THIS CHAPTER IS NOT PEER-REVIEWED.

MARIE
BRIGUGLIO



GORDON
CORDINA



& STEFANO
MONCADA



University of Malta

documented in what is now a considerable body of research. Less well known is the manner in which conditions in small island contexts may make a difference to business. The contribution of this chapter lies in juxtaposing knowledge on the type of contextual conditions that may result in business success against situational considerations applicable in small island contexts. The chapter reviews the kind of market and regulatory failures that may hinder business success and then proceeds to examine a number of good-practice examples in the domains of connectivity, sector-led initiatives, innovation, place-based approaches, sustainable tourism, circular economics, and climate change. Drawing lessons from islands that have managed to actively capitalize on their geographic specificities and succeeded in attaining higher levels of competitiveness, the chapter provides a synthesis of factors that create the right environment for business to develop and flourish in small island contexts, and that boost marine island economy competitiveness. Today's marine economy is, however, dependent upon onshore infrastructure; labour; expertise; and healthy and stable ecological, social, and political environments, none of which can simply be taken for granted. The very factors that make islands ideal for hosting marine activities—such as an extensive land-sea interface and density-facilitated agglomeration economies—may be placed at risk by marine economy-oriented island development.

It is thus that economic activities on the land-sea interface—whether port services or coastal tourism—can reduce islanders' access to the sea as well as lead to environmental degradation that threatens the continued viability of the economic activities in question. Those pursuing island development should take care to balance short-term and long-term objectives while leveraging the very real competitive advantages that arise from island spatialities.

INTRODUCTION

Fostering durable competitiveness is essential for any economy operating in a globalized free trade context. Competitiveness refers to the ability of an economy to achieve productivity that allows it to withstand competitive pressures from other economies. It may be said to be durable if it is based on assets that are less imitable by competitors, thereby leading to sustained returns (Lawless & Fisher, 1990). In turn, its fruits may be said to be sustainable if they contribute to the broader goals of quality of life in the present and future (Hart, 1995). One way to foster durable and sustainable competitiveness is to create successful business environments (Porter & Van der Linde, 1995). This chapter documents the type of constraints that may hinder business success as well as the policy approaches that may create operating environments that can be conducive to business success in small island contexts.

Surrounding influences and circumstances are well known to make considerable difference to business competitiveness (Trivikram, 2016; Ward et al., 1994). Forbes (2017), for instance, compared countries on their attractiveness for business on the following fifteen factors: property rights, innovation, taxes, technology, corruption, infrastructure, market size, political risk, quality of life, workforce, freedom (personal, trade, and monetary), red tape, and investor protection. The World Bank's measure of Doing Business uses regulations regarding eleven important areas for a business (World Bank Group, 2018). These include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and labour market regulation (World Bank Group, 2018). The macro-economic context is of considerable importance for a business—both on a national and global level. Amongst others, organizations depend on a country's labour force, wage levels, infrastructures, and ease of doing business in order to thrive. Likewise the regulatory environment can have huge implications on the industries in the country (Trivikram, 2016).

The defining characteristics of small island economies themselves have also been documented and explored in many publications (Briguglio, 1995; Cordina, 2004) and typically refer to the size of the domestic market and the lack of critical mass, which pose restrictions on the capacity of islands to exploit economies of scale, scope, and diversification. The small size of the market also gives rise to a high dependence on international trade which makes islands susceptible to exogenous economic conditions. The remoteness from urban centres and the low accessibility to international markets translates into higher transport costs which further erodes the external competitiveness of islands. These inherent characteristics are often a source of difficulties for businesses in islands. In spite of these territorial constraints, some small states have been performing remarkably well. In fact, Easterly and Kraay (2000) explain that while small states experience greater GDP volatility due to a higher degree of openness, any growth disadvantages of this greater volatility are more than outweighed by the growth benefits of trade openness reaped by small states. On the other hand, Briguglio and Cordina (2004) argue that the economic success of some small states resulted in spite of and not because of their size. Success stories in small states tend to resonate with policies that strengthen economic governance and regional integration (Briguglio, 2018).

THE DEFINING CHARACTERISTICS of small island economies . . . typically refer to the size of the domestic market and the lack of critical mass, which pose restrictions on the capacity of islands to exploit economies of scale, scope, and diversification. The small size of the market also gives rise to a high dependence on international trade which makes islands susceptible to exogenous economic conditions. The remoteness from urban centres and the low accessibility to international markets translates into higher transport costs which further erodes the external competitiveness of islands.

Less well known is the manner in which conditions in small island contexts may make a difference to business. Baldacchino and Fairbairn (2006) observe that geographical isolation and remoteness might negatively affect business, while other elements such as family and social ties, and exposure to experience overseas, might foster “savings, know-how, business and client contacts that would prove crucial to the motivation to start, and maintain, a successful business” (Baldacchino & Fairbairn, 2006, p. 336). Indeed, certain conditions often imply substantial difficulties for small islands to attain sufficient levels of competitiveness—at least as measured by the factors in the mainstream literature. On the other hand, the specificities of small islands may offer opportunities for business competitiveness that are not sufficiently encompassed by mainstream competitiveness literature. The contribution of this chapter to the literature, in fact, lies in juxtaposing knowledge on the type of contextual conditions that may result in business success against situational considerations applicable in small island contexts, often arguing that the mainstream paradigm for business competitiveness requires significant restatements for it to be relevant.

The rest of this chapter is structured as follows. The second section identifies the market and regulatory constraints which may hamper economic and social development in islands and which may impinge negatively on the business environment. The third section elaborates on a number of good-practice examples in the domains of connectivity, community-led initiatives, innovation, sustainable tourism, climate change, and environmental protection *inter alia*, drawing lessons from islands which have managed to actively capitalize on their geographic specificities and succeeded in attaining higher levels of competitiveness. The concluding section concludes by synthesizing those factors that create the right environment for business to develop and flourish on small islands.

MARKET AND REGULATORY FAILURES

In any economic context, certain constraints may impinge on economic development generally and on business growth specifically in island economies. Broadly, these may be organized as those pertaining to market failure and those pertaining to regulatory failure—both of which may preclude business in small islands from achieving sufficient competitiveness (Cordina, 2008). By neoclassical economic definitions, a market that fails is one that, if left to operate freely, would fail to achieve allocative efficiency and welfare optimization (Munday, 2000; Pigou, 1920). Such market failure may arise as a result of market dominance, through, for instance, the presence of monopolies, in the presence of externalities such as environmental impacts, and in the absence of the kind of information necessary for the markets to function. As a result of their inherent characteristics, the instances of market failure are often more prevalent in small economies relative to larger ones. But while market failure may justify government action, government intervention is itself known to be beset by the possibility of failure (Krueger,

1990). Governments may stifle private initiative, and give rise to inefficiencies, public-sector deficits, and higher risks of inflationary effects. In turn, these translate into adverse impacts on savings behaviour, resource allocation, and private-sector investment. Failure is not limited to errors of commission, but also of omission, if government refrains from intervening when it should optimally do so (Cordina, 2008).

Market failures

One type of market failure particular to islands relates to the thinness and small size of the domestic market which creates limitations for competition to flourish. A minimum efficient scale of operations would entail a small number of operators who dominate the market, and this may result in monopolistic or oligopolistic market situations which tend to be characterized by a restriction of output in the pursuit of higher profits. Vella (2008) points out that the markets in small states are typically protected by natural barriers to entry, thereby creating difficulties for new businesses to enter the market. Briguglio and Buttigieg (2004) explain that market dominance tends to be more prevalent in small islands: high entry barriers and the higher degree of collusion between suppliers also tend to inhibit the development of a competition culture. But while the enforcement of competition law is critical in addressing these barriers, some argue that the specificities of small states must be considered in the implementation of competition policy. Gal (2009) argues that small economies need a competition policy that is specifically tailored to their markets. For instance, a rule that categorically prohibits mergers or joint ventures would restrict the capacity of firms in small economies to increase their productive and dynamic efficiency and thus overcome the limitations arising from smallness. Given that the market mechanism has a much weaker self-correcting tendency, the need for a structured and efficiently enforced competition policy is greater.

The small size of the market also implies that islands tend to be characterized by the so-called ‘monocultural economies’ with considerable dependence on a small number of unrelated sectors. This allows companies to achieve a number of economies of scale in each sector, while providing for some diversification to counteract risks that may affect any specific sector. However, it also limits the mobility of resources from one sector to another, thereby giving way to sluggish market prices (Cordina, 2008).

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Firms operating in a small economy also often face information disadvantages relative to multinational players that are able to allocate more resources towards the attainment of market information. These information asymmetries, combined with the uncertainties arising from islands' relatively higher exposure to shocks, are key factors that hinder business investment and growth in islands.

Yet another type of market failure results from the reality of operating in geographically constrained and densely populated islands and the resultant competing uses for land. Small islands are, by definition, characterized by limited territory and often natural resources. Furthermore, their insular nature provides them with unique and fragile ecosystems rich in biodiversity. This often exacerbates the difficulties in achieving a sustainable balance between economic development and environmental protection. As a result, the presence of externalities may be higher in small economies compared to larger ones, and market prices may fail to adequately reflect the social costs and benefits (Moncada et al., 2018).

Regulatory failures

Market failures typically provide the justification for regulation and government intervention more generally. But regulatory failure, particularly in small islands themselves, cannot be ignored. The incidence of regulatory failure may be higher in small economies because of the proximity of social and political relationships that induce a degree of clientelism as well as human capital deficiencies which impede the proper implementation of policy measures. Insights from behavioural economics suggest that such inefficiencies may be even stronger than once considered (Briguglio & Spiteri, 2018). For example, gift exchange, favours, and promises are more credible among incumbents and familiar candidates, since their promises are perceived as being more credible (Wantchekon, 2003).

Moreover, Vella (2008) highlights the importance of private-sector development in small states and explains that an overreliance on the public sector could give rise to inefficiencies and underemployment, which in turn could impinge on competitiveness through higher per unit costs. Expenditures on public administration and road networks are by nature fairly indivisible, meaning that the cost per capita of providing these goods should fall as population size increases (Alesina & Spolaore, 2005; Briguglio, 1998). This applies to the provision of public goods and the regulation of spillover effects of one business on another (Briguglio & Bonello, 2018). As a result, small countries are often characterized by relatively large governments with higher per capita public expenditure levels (Natella & O'Sullivan, 2014) and elevated levels of bureaucracy (Brown, 2010).

Cordina (2008) further argues that in small states, a good governance function does not solely contribute to economic development but also renders small states more

resilient against exogenous shocks. In turn, this serves to create higher incentives for business to expand and for new investment to take place.

In short, the type of market and regulatory failures that can limit competitiveness include market dominance, the presence of externalities such as environmental impacts, the absence of information, higher per unit costs of regulation, and other kinds of government failure. More broadly, Roberts and Ibitoye (2012) clearly show an association between population size and progress toward the achievement of the Millennium Development Goals (MDGs), with states under 100,000 in population presenting the poorest performance.

Naturally, public policy that resolves situations of market failure without introducing elements of regulatory failure is key to promoting competitiveness. From the perspective of the factors highlighted in mainstream literature, such intervention would focus on efficiency in wage and price setting, maintaining low costs of doing business, ensuring the provision of public goods necessary for business success, and so on. This consideration acquires an even greater importance in the context of small islands due to the possibilities of even stronger incidence of market failure and regulatory failure.

This, in turn, implies the need for a specific policy approach towards addressing these issues, one that is generally less cumbersome in terms of capacity requirements for implementation; significantly more sensitive to the territorial, economic, social, and environmental specificities giving rise to market and regulatory failures; and which transforms proximity of social relations into an advantage for effective networking. Moreover, as will be discussed throughout this chapter, the policy approach needs not only to consider the general characteristics of small islands, but also be sensitive to the marked heterogeneities between small islands themselves.

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CASES OF GOOD PRACTICE

Despite the potential for market and regulatory failure to be rife in small island contexts, there are a number of good-practice examples which contribute towards higher resilience and the stimulation of sustainable entrepreneurial development. This section provides examples in a number of areas which seek to enhance connectivity, promote sector-led initiatives and innovation, and/or focus on sustainable development or circular economics.

Connectivity

Insularity, which leads to accessibility challenges, is often regarded as the most significant impediment to economic and social development for islands. Connectivity challenges also translate into additional costs, which in turn erode islands' competitiveness. Adequate connectivity between territories does not solely involve good intermodal transport connections but includes access to services such as health care, education, broadband Internet access, reliable connections to energy networks, and strong links between business and research centres (Commission of the European Communities, 2009). In view of the geographic isolation of islands, digital connectivity represents a potential opportunity to overcome challenges

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related to large distances and small population (Burnett & Danson, 2017). Access to the Internet and high-speed ICT networks enable various quality services of general interest (e.g., teleworking, e-health, e-training) and thereby may not only improve connectivity but also alleviate the brain drain from islands and other peripheral areas. The access of small and medium-sized enterprises (SMEs) to knowledge, qualified human capital, professional business services, and innovation may be key for their survival and growth (Love & Roper, 2015).

Insularity challenges are exacerbated by the fact that the private sector is often not materially interested in the provision of transport services due to the small size of the market leading to unprofitable activity. Consequently, governments may intervene through the provision of a Public Service Obligation for transport whereby state aid is provided in the form of subsidies to remove the financial burden undertaken by the private sector for the benefit of the inhabitants. This kind of provision of better transport and infrastructure may be a key factor in boosting business investment and productivity. Improved connectivity serves to facilitate trade, which in turn leads to higher job creation. In the case of multi-islands, improving connectivity through air and sea could also unlock the potential for tourist island hopping and facilitate intra-regional trade (Bardolet & Sheldon, 2008).

In view of these considerations, the concept of Road Equivalent Tariff (RET) has been introduced in some island economies. This is based on the principle that travelling one kilometre on water should not cost more than traveling the same distance on road or rail. To this end, RET involves setting ferry fares on the basis of the cost of travelling an equivalent distance by road, including a fixed element to keep fares sustainable and cover



fixed costs such as infrastructure. RET aims to reduce the economic disadvantage suffered by island communities and support their growth. For example, on the island of Arran in Scotland, the introduction of a RET is considered to have led to a significant increase in the demand for ferry services, which was in part driven by a step-change in the scale of the Arran tourism market (Transport Scotland, 2017). Apart from the positive effect on tourism, this measure is believed to have also contributed to higher social, cultural, and economic opportunities on the island. It is worth noting, however, that Arran residents consider quality of life to have deteriorated since the introduction of reduced fares, mainly as a result of congestion, negative environmental impacts, and increased incidences of antisocial behaviour (Transport Scotland, 2017). This highlights the need to encapsulate connectivity measures into the broader socioeconomic contexts to ensure that enhanced business competitiveness results in genuine welfare improvements.

Sector-led initiatives

Sector-led initiatives provide another kind of measure that may lead to successful business trajectories. Haarich et al. (2017) argue that the capacity of entrepreneurs to interact in a wide network of other actors through formal and tacit rules and habits, traditions, and trust are important determinants of development. Some islands have

built on their strong social ties and community involvement. This opportunity for deeper collaboration provides for a distinct, resourceful environment for the implementation of innovative approaches. Advancements in technology can facilitate networking and business collaboration, such as by connecting businesses in a virtual environment.

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Examples of good practice in sector-led initiatives include Malta, for instance, where sectoral clusters are being developed in the maritime sector, consisting of businesses, industry associations, government departments, and academic and research institutions, both local and foreign. By bringing stakeholders together, clusters lead to access to specialized human resources and suppliers, knowledge spillovers, pressure for improved performance in head-to-head competition, and learning from the close interaction with specialized customers and suppliers (Aziz & Norhashim, 2008). In the Canary Islands, all public institutions that offer support to SME development and entrepreneurship are organized in the Red CIDE, which is a network composed of a variety of institutions and bodies coordinated by the Institute for Technology Canarias (Haarich et al., 2017). This network of institutions aims to promote innovation in new and consolidated companies by facilitating the

access to information on financing sources, innovation support programmes, and providing support for organizations that are developing innovative concepts.

Nevertheless, this collaborative culture is not ingrained in all island communities (Baldacchino, 2013). Even in islands where such collaboration exists, the excessively rapid demographic change experienced by some islands can be a threat to sustaining initiatives geared towards achieving common social goals. To this end, the attraction and retention of necessary human and intellectual capital is an aspect that largely influences the pace of innovation in an island as well as its socioeconomic development.

International networks of collaboration are also important sources for innovative projects to stimulate business creation, entrepreneurship, and start-ups. A case in point is the Smart Islands Initiative which builds on years of collaboration between European islands and seeks to demonstrate that islands can be innovative and host pilot projects leading to knowledge on smart and efficient resource and infrastructure management (Smart Islands Initiative, 2017).

Innovation

Innovation can be another factor promoting successful SME development and growth in islands. Given islands' insular characteristics, island communities tend to exhibit a degree of self-sufficiency which may inspire creativity (Baldacchino, 2007). Furthermore, the small scale of most islands results in a path from 'thought to action' which is relatively short. Against this background, islands may serve as innovative 'test-beds' before innovative concepts are rolled out on a larger scale. In turn, this could potentially attract young, innovative and entrepreneurial people and activities to these islands. In view of the distinctive heritage and cultural assets of many islands, there are also opportunities for islands to serve as safe havens for the conservation of European heritage. Innovation and collaboration can add value to existing traditional artisanal activities. In addition, capitalizing on the cultural assets and new technologies available offers potential for entrepreneurship and SME development.

By way of example, over the last decade, the Canary Islands have been promoting innovation and the modernization of critical sectors by providing extensive support to clusters. This policy approach is also contributing to the creation of companies in new emerging fields such as biotechnology, water management, ICT, design, or renewable energies. Other islands are using place-branding initiatives to turn tourism marketing into a means of diversifying their economies and expanding their innovative capacities. For instance, the North Aegean Islands in Greece have been pushing forward a number of innovative activities in the field of agro-food processing, such as developing



Parga town and port near Syvota in Greece's Ionian Sea

perfumes and cosmetics as well as medicinal products from the Mastiha tree, which grows only on the island of Chios (Galani-Moutafi, 2004).

In order to strengthen research and innovation, it is often argued that more investment should be directed towards ensuring full broadband penetration on islands, completing the digital single market, and investing in research and development by using islands' potential to boost employment and growth (Bohlin & Teppayayon, 2009). In a similar vein, Baldacchino and Fairbairn (2006) advocate business innovation in islands based on place-branding strategies to attain a level of differentiation which makes the firms competitive.

Regulatory innovation itself is another important strategy that is being developed in a number of jurisdictions in order to create the right environment for international

business attraction and growth. A case in point is Malta which is making headway in regulatory innovation in fields such as distributed ledger technology, generic pharma, and, more recently, medical cannabis and artificial intelligence. This builds upon earlier experiences with the regulation of remote gaming services (Littler, 2008). The National Productivity and Competitiveness Council (NPCC) of Mauritius, which was set up in 1999, is considered to have been instrumental in improving the local business environment. More recently, the role of a National Productivity Board has also been recognized in the European fora whereby, in 2016, the Council of the European Union issued a recommendation on the establishment of National Productivity Boards. These boards are to analyze productivity and competitiveness developments, including that which is relative to global competitors, considering national specificities and established practices (Council of the European Union, 2016).

REGULATION THAT FAILS to consider the geographical specificities of and within islands is another aspect of failure that merits particular consideration. Unless the characteristics of the territory, the availability of individual territorial resources, and the institutional capacity to efficiently manage those resources is taken into account, intervention is unlikely to lead to efficient market outcomes.

Place-based approaches

It must also be noted that there is a marked heterogeneity between small islands (Briguglio et al., 2008), which implies the need for context-specific approaches and solutions to challenges and opportunities. Regulation that fails to consider the geographical specificities of and within islands is another aspect of failure that merits particular consideration. Unless the characteristics of the territory, the availability of individual territorial resources, and the institutional capacity to efficiently manage those resources is taken into account, intervention is unlikely to lead to efficient market outcomes. The global trend towards the devolution of decision-making powers to sub-

national governments represents an opportunity for islands to assume greater control over their development trajectories (Rodríguez-Pose & Wilkie, 2017) and suggests the need for empowerment of subnational tiers of governments with the aim of achieving better outcomes by bringing policy formulation and implementation closer to the specific territorial needs. Similarly, the need to focus on the issue of knowledge in policy intervention has been emphasized by Barca et al. (2012) as a key aspect of a place-based approach to policy intervention. These considerations chime closely with the subsidiarity principle.

There can be little doubt that improving the environment for entrepreneurship and business development requires policy to consider the context specificities of islands. In other words, every territory should recognize its strengths and invest in economic sectors or value chains that are of importance to the territory, for instance, through smart specialization. This place-based approach seeks to enhance local socioeconomic and territorial assets (Haarich et al., 2017). Baltina (2014) also emphasizes that territorial resources are to be assessed in light of changes in the external environment. In this manner, the best use of territorial resources can be made in order to achieve and maintain higher levels of competitiveness.

A practical example of this is the extent of development success attained by the islands that can be categorized as city islands. To varying extents, city islands exploit the business advantages created by their historical roles as defence and transport centres, to be later followed by the establishment of seats of government and trading posts, and consequently political and economic elites. These create centres of economic and business activity of regional importance. Land scarcity subsequently leads to urban densification resulting in the formation of island cities (Grydehøj, 2015). Viewed from this perspective, Singapore, Hong Kong, Venice, and Malta are examples of city islands. Today, these historical advantages are typically sustained by competitive regulatory frameworks and innovative approaches to target business, with the imperative to meet the sustainable development challenges of urban densification within small island contexts.

Sustainable development

Sustainable development, defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland, 1987), proposes an alternative, longer-term economic model informed by the realities of population increase, non-renewable resource depletion, and pollution generation (Meadows et al., 1972). In tourism sectors, for instance, islands are seen as territories with a natural attraction for tourists but which present a special challenge to sustainability. Due to their limited size, islands have a relatively lower carrying capacity: that is, a level of tourist visitors beyond which the natural ecosystem will be irreversibly damaged. Therefore, high tourism densities in relation to islands' popula-

tion and land area could erode the sustainability of the tourism sector's own existence (Briguglio & Bonello, 2018; Briguglio & Briguglio, 2002).

Ensuring adequate connectivity by means of airports and seaports implies the take-up of a significant share of land area, thereby giving rise to increased land-use pressure. Higher use of transport also contributes to higher air and sea pollution (Sheldon, 2005). Pursuing product and market diversification could address the seasonality aspect of tourism, which, in turn, leads to more stable employment and an efficient use of tourism infrastructure. Similarly, import substitution policies could reduce the extent of economic leakages and 'buy local' policies to maximize linkages. Environmental management policies, such as those related to conservation management and waste management, should contribute to mitigating the negative impact of tourism on the environment. The Galapagos Islands, as well as the Canary Islands, are examples of islands where limits on tourism numbers were actively pursued as a strategy (Powell & Ham, 2008; Tiago et al., 2016).

Similarly, given the limitations of a linear economic system, the concept of a circular economy has presented a potential solution to keep obtaining economic growth whilst protecting the environment, focusing mainly on resource depletion and the generation of waste. The European Commission, for example, goes to great lengths to promote resource efficiency and the circular economy (European Commission, 2014). Some argue that this creates opportunities for firms as developers of environmentally safer materials and products, as well as firms that specialize in eco-efficiency. Such firms enjoy a competitive advantage and will benefit from a better goodwill that may ultimately translate into higher revenue (International Institute for Sustainable Development, 1992). Performance in sustainability can support business success (Thorpe & Prakash-Mani, 2003), and increased environmental performance can be linked to higher profits (Rennings et al., 2003).

The recognition of such opportunities by business is by no means guaranteed nor automatic (Lieder & Rashid, 2016), especially as small business would need to face the day-to-day challenges offered by the specific constraints of operating in small islands. Time is often a key factor in this regard, as opportunities may be effectively lost by the time that business comes to recognize them. Moreover, the need to build critical mass within and amongst businesses is often key to creating opportunities at the social and sectoral levels. External and internal benefits from such opportunities must therefore be obtained through policies that enable businesses to reap them in a timely manner, through, for example, the provision of implementation capacity and financial resources.

Although small islands are among the lowest contributors to human-induced greenhouse gas emissions (GHGs), they are particularly vulnerable to global climate change, climate variability, and sea-level rise—potentially curtailing access to food, water, land, and energy resources (Nurse et al., 2014). Climate change will also cause significant changes in the quality and availability of water resources, affecting many sectors

including food production (Commission of the European Communities, 2009). Addressing climate change is known to require two types of responses: the reduction of GHGs, i.e., mitigation and adaptations action to deal with the outcomes of climate change. But while vulnerability is inherent, strategies can be put in place to mitigate the risk caused by external shocks arising from climate change. Several islands have notable potential for renewable energy development, chiefly due to their location, an abundance of sunshine that gives rise to wind, and adequate rain and plant life that can be tapped for energy (United Nations Framework Convention Climate Change, 2015)

Future developments could therefore include the increased use of wind, solar, and geothermal power as well as ocean thermal and tidal energy conversion. This would contribute to breaking islands' reliance on fossil fuels (Robertson, 2018). IRENA (2015) documents a number of interesting case studies where renewable energy projects have produced significant business dividends in small island contexts. Nevertheless, the cost of energy produced from renewable sources could be higher in islands that are highly dense due to limited space availability, land and space fragmentation, and the absence of solar rights.

CONCLUSION

In this chapter we have argued that the creation of successful business environments is an important prerequisite for durable and sustainable competitiveness. While circumstances are well known to make considerable difference for business—both on a national and global level—and while defining characteristics of small island economies themselves have also received considerable attention, the juxtaposition of the two is less well explored. Within the context of small islands, we therefore documented some constraints that may hinder business success as well as some policy approaches that may create operating environments conducive to business success.

The chapter reviews the kind of market and regulatory failures which may hinder business success in islands. It also examined a number of good practice examples in the domains of connectivity, sector-led initiatives, innovation, place-based approaches, sustainable tourism, circular economics, and climate change. These kinds of factors are not necessarily congruent with those used in mainstream competitiveness debate. This suggests that the discussion on building business competitiveness in small islands should extend beyond the standard competitiveness framework used in mainstream economics.

Drawing lessons from islands that have managed to actively capitalize on their geographic specificities and succeeded in attaining higher levels of competitiveness, the chapter provides a synthesis of factors that create the right environment for business to develop and flourish in small island contexts.

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