



SEMINAR PRESENTATION

on

ENTREPRENEURSHIP AND ECONOMIC GROWTH

by

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I. INTRODUCTION

It is a long time since I have been in a classroom. Times have changed since then, but the essence of intellectual exchange remains the same: statements of ideas, facts and viewpoints, and responses and debates emanating from them. Discourse from the time of Socrates to now is essential to progress in human knowledge.

It is in that spirit that I present some ideas on the subject of entrepreneurship and economic growth in the Caribbean.

II. CHALLENGES TO ECONOMIC GROWTH AND DEVELOPMENT

I start by outlining some challenges to economic growth and development.

First, there are the challenges arising from the erosion of trade preferences. Caribbean commodity exports were built upon the foundation of imperial, later European and North American, trade preferences which in the main persisted until the first decade of the present century. These preferences shielded Caribbean exporters of bananas, sugar, rice and rum from the full force of export price competition from lower cost producers in other regions of the world. Trade dispute panel rulings by the World Trade Organisation have effectively removed the protective shield. The consequences include production and income declines in the banana industry and the sugar industry. There are also attempts at rationalisation and restructuring in the sugar, rice and rum industries in the hope of sufficient productivity improvement to achieve international price competitiveness and product differentiation to assure meaningful market share.

Second, trade reciprocity is becoming a feature of international trading relations between Caribbean countries and not only their metropolitan partners, but also their partners in Latin

America. Reciprocity is built into the Economic Partnership Agreements and into the bilateral trade agreements recently completed or under negotiation. One direct consequence is that domestic markets in the Caribbean are more open to competition from imported goods and services.

Third, there is a more diffused trend towards trade liberalisation through tariff reductions and elimination of non-tariff barriers. The key difference between trade liberalisation and bilateral trade agreements is that trade liberalisation obviates the necessity of negotiated access to another country's market.

Preference erosion, trade reciprocity and trade liberalisation each separately and combined expose Caribbean producers to unequal trade competition from countries which by virtue of their much larger economic size are able to accrue cost advantages of economies of scale and economies of scope.

Fourth, the Caribbean has to contend with a diminishing inflow of foreign aid from bilateral and multilateral sources. Bilateral aid has shifted to countries and regions where the incidence of poverty is greater or where geopolitical interests are stronger. The flow of multilateral aid has also been restricted by the growth of Caribbean countries from the ranks of low income countries and by the graduation of a few countries from access to World Bank financial resources.

Fifth, many governments now have reduced access to private international capital markets mainly because of current high levels of indebtedness which have lowered their creditworthiness and because the global economic and financial crisis has increased the risk aversion of private investors.

III. REQUIRED CARIBBEAN RESPONSE

The Caribbean countries must respond to the challenges enumerated along at least five complementary lines. One line of response is the development of new tradable products capable of withstanding international competition in both price and quality dimensions. This includes the development of products aimed at niche markets in Europe and North America as well as in Latin America, Eastern Europe, Asia and Africa. Additionally, and this is the second line of response, there has to be an active programme for geographical market diversification to lessen the dependence on traditional export and import markets. This programme could require the negotiation and implementation of trade agreements. It would certainly require identification of market opportunities and their active pursuit by the business community.

Third, Caribbean productivity levels must be raised. The cost disadvantage which currently obtains with respect to foreign competitors is not a consequence solely of the handicap of being small scale producers. In many instances, it is also the effect of low labour productivity as several empirical studies have shown.

Fourth, productivity improvements should be complemented, and supported, by enhancement of efficiency in other, non-directly productive areas, especially public administration and judicial services. The annual cost of Doing Business Reports provide ample evidence of areas in which efficiency losses, and diminished productivity arise from operations in the public administration and judicial administration sectors. All of them are remediable.

Fifth, the Caribbean must employ new ways of accessing international capital. This in effect means not attempting to innovating in the type of financial instruments used but approaching new bilateral official sources, making greater recourse to private lenders and

investors, and more recourse to the international capital market by Caribbean enterprises. The latter two types of initiatives, i.e. accessing the private market, are not going to be easy to execute given the increased risk aversion in the global capital market and the small sizes of potential demand by the Caribbean private sector.

IV. IMPORTANCE OF ENTREPRENEURSHIP

With good technical reason, it is conventional to emphasize the role of capital accumulation in economic growth. However, economic growth depends on many other factors, some of them economic, some political, some social and yet others cultural and psychological as Arthur Lewis convincingly argues in his ‘The Theory of Economic Growth published in 1955.’

Among the factors in entrepreneurship, Leibenstein states this well:

“Capital accumulation by itself is hardly sufficient to determine the rate of economic growth. The type of entrepreneur that marshalls the capital and type of firm activities generated by entrepreneurs, are significant determining factors.” (Leibenstein 1977, page 299).

Leibenstein in his 1977 paper and in an earlier paper (Leibenstein 1968) distinguishes between “conventional” entrepreneurship and “innovating” entrepreneurship, the shift from the former to the latter contributing more to increasing the rate of economic growth. According to Leibenstein “conventional” entrepreneurship engage in activities similar to those already in the industry, or they enter well-established markets, or they use well-known techniques of production and distribution. ‘Innovate’ entrepreneurs, in contrast, adopt new techniques, overcome gaps in markets, and overcome market imperfections and other obstacles.

The way in which Leibenstein defines the innovating entrepreneur accords with the classic definition of entrepreneurship by Joseph Schumpeter (1936) as introduction of new products, changing the quality of products, establishing new sources of inputs, introducing new methods of production or introducing new organisation of industry. Each of these can foster or generate economic growth.

V. SOME EXAMPLES OF CARIBBEAN ENTREPRENEURSHIP

There are many examples of Caribbean entrepreneurship within each of the categories identified. As examples of new product development, one can point to the all-inclusive product in the hotel industry by Jamaican enterprises and the development of the solar panel industry in the Caribbean by Barbadian enterprises. In the category of new markets, outstanding examples are the penetration of the Latin American airline catering market by a Guyanese enterprise, the Mexican labelling market by a Trinidadian enterprise, and Central American financial markets by Caribbean banks. An example of changes in the quality of product is the switch from bulk rum exports to export of bottled, aged rum currently in an early stage of development. No doubt, examples can be found in the other entrepreneurial categories.

VI. KNOWLEDGE AND TECHNOLOGY TRANSFER

It is important to recognise the importance of knowledge and technology transfer as a means of introducing new methods of production and organisation. Technology adoption or imitation is a valuable entrepreneurial activity from the perspective of economic growth.

“The essential factis that no industrial nation has failed to benefit from the transfer of technology from elsewhere. Moreover, there is reason to believe that the search and seizure of opportunities for such transfer is among the most valuable contribution of the entrepreneur to the productivity of the economy.” (Baumol et al, 2000, page 272).

VII. SUPPLY OF ENTREPRENEURSHIP

Much has been written and said about the supply of entrepreneurs. Explanation for its scarcity or its abundance in various countries have identified cultural traditions, religious beliefs, psychological propensities, social climate, family background, and ethnicity. Whatever the explanation, innovative entrepreneurship is a scarce factor in the Caribbean. Its scarcity has motivated governments to directly provide entrepreneurial leadership where conventional entrepreneurs feared to venture and to seek by a variety of measures to foster and promote a cadre of innovative entrepreneurs. There have been successes, e.g. the petro-chemical industry in Trinidad and Tobago, the tourism industry in many Caribbean countries. Overtime, government intervention has become less necessary.

Not all private entrepreneurial activity will contribute to productivity and development. To quote Baumol et al (2000, pages 273-274) again:

“Successful productive innovation is very much an entrepreneurial act, but it is by no means the only option open for pursuit of profit, power and position. For many entrepreneurs, the productive contribution of their activities, if any, is only an incidental by-product of pursuit of their ultimate profit objective...If other

avenues that are less beneficial to the economy bring the entrepreneur more quickly towards the profit goal, then the entrepreneur may have no qualms about pursuing those avenues.”

Entrepreneurs are not unique in this respect, for as Baumol et al 2000, (page 274) state:

“The capacity of humans to convince themselves that whatever serves their own purpose also contributes to virtue seems unlimited, and in this the entrepreneur is no different from the professor, the lawyer or the doctor.”

The possibility of divergence between entrepreneurial activity and economic growth leads to consideration of how to structure a system of incentives and rewards so as to encourage innovative entrepreneurship in preference to conventional entrepreneurial activities. There could be recourse to fiscal and other public expenditure policy which direct tax reliefs, subsidies and other expenditure support to the preferred activities and human resource development. Other public policy measures could include credit facilities at financial institutions and encouragement and sponsorship of capital market institutions such as venture capital and stock markets. There is also scope for support through an efficient public governance institutional framework. Public policy itself needs to be innovative and flexible, changing the composition and direction of policy measures in accordance with the needs of the time.

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