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Entrepreneurship and Economic Growth in a Global Economy

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Introduction

Globalization refers to the integration of the economies of the world. This integration can take place through four major channels viz. trade, finance or capital flows, technology transfer and labour movements. The justification for globalization comes from the argument that it ensures efficient allocation of resources across the world, thereby enhancing the total output of the world. Since the developed economies stand to gain more from the first two channels, the present world economic order strives to achieve greater integration through these two channels only. Whether globalization or not, all nations aim at higher economic growth as economic growth is a necessary condition for development. In a global economy two questions become pertinent: First, how does globalization affect the growth prospects of a nation? Second, what should be the strategy for growth of a nation in a global economy? The chapter tries to answer these questions and to figure out the role of an entrepreneur in a global economy.

Relative Competitiveness and Economic Growth

Globalization not only offers immense opportunities for economic growth but also creates enormous challenges in the path for economic growth. These opportunities and challenges emanate respectively from the vast markets that globalization opens up and the competitive environment that it creates. On one hand, a nation's growth is not constrained by its domestic market while, on the other, the producers have to compete not only among themselves but also with the foreign players, even in their own markets, leave aside the foreign markets. Therefore, only the nations which are relatively competitive stand to gain from globalization. The 'relative competitiveness' of a nation in the global economy is the reflected by the health of the Current Account in its balance of payments. The balance of payments is a record of the economic transactions of a

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nation with the rest of the world on account of the first two channels of globalization. The current account consists of the merchandise account which covers transactions related to goods and the invisible account which covers services, income and payments related transactions. The value of imports and exports of a nation can be safely used as an indicator of the 'relative competitiveness' of the nation. A nation with a consistent surplus on the current account can, on the whole, be considered as 'relatively competitive'. Let us now have a look at India's balance of payments. Since the inception of planning India has had a surplus on the current account only for five years, namely, 1976-77, 1977-78, 2001-02,2002-03,2003-04. This surplus too, was meager and had arisen because the surplus on the invisibles account exceeded the deficit on the merchandise account. India, thus, has never seen a surplus on the merchandise account till date. For, the merchandise account deals with the trade in goods, this points towards the lack of competitiveness of the Indian products (on the whole) in the international as well as domestic markets. This is clearly evident from the fact that almost the entire mobile phone market, the toy market, the market for decoration and festival items, and many other markets in India have been captured by foreign products and that too largely by Chinese products. Though India itself is a big market, but in an open economy the economic progress of a nation is neither constrained nor guaranteed by the size of the domestic market and it's growth. It depends on the share of the nation in the domestic as well as the international markets and on the 'increases' in these shares. So in a global economy a nation has to aim at increasing its share in the foreign markets as well as domestic markets not only for greater economic growth but also for the sustenance of its economic independence and a nation cannot achieve this without making its products competitive in the market.

Determinants of Economic Growth and Relative Competitiveness

Since the economic growth experienced by a nation in a global economy depends on the 'relative competitiveness' of the nation vis-à-vis other nations it now becomes essential to know the determinants of economic growth and of 'relative competitiveness.' It is widely accepted that the important determinants of economic growth are growth in the labour force, capital accumulation and technical progress and the important determinants of growth in GDP per capita are technical progress and capital accumulation. Given the stock of labour and capital it is technical progress that contributes to economic growth by increasing the productivity of the factors of production. Now let us examine the relative importance of the determinants of economic growth by looking at the findings of a study by Robert Solow in which he examined the economic growth of United States of America in the period 1909-1949. He found out that the average annual growth of total GDP was 2.9 per cent per year. Of this the shares of capital accumulation, increase in labour force and technical progress were 0.32 percent, 1.09 percent and 1.49 percent respectively. The per capita output grew at 1.81 per year during the period and the contribution of technical progress to this was 1.49 per cent.

Therefore, it would not be incorrect to conclude that technical progress is the most important factor determining economic growth. It is also the source of relative competitiveness through increased productivity. In a globalised world, of the two nations, completely identical in terms of stock of labour and capital, the one which is more technologically advanced would experience greater growth. Moreover, technological progress is the source of the dynamic comparative advantage acquired by a nation which uses new technology to introduce new products and new production processes, as explained by the technological gap and the product cycle models of international trade. This comparative advantage of the technically advanced nation is temporary in the sense that it remains as long as the product or the process is not imitated by others. Subsequently, through imitation and product standardization, the followers may gain a comparative advantage because of cheaper labour. The advanced nations can therefore survive and continue growing only on the basis of the comparative advantage that result from advancement in technology, as labour is not so cheap in these nations. This explains the reluctance of the developed countries to transfer technology, the third channel through global integration takes place and also the concentration of all the R&D activities by the multinational companies in their home country. For the developing nations indigenous technological improvements are a source of prolonged comparative advantage because it will not be easy for the followers to shift the comparative advantage in their favour using cheaper labour, even if they succeed in imitating the technology. Therefore the gains for the developing nations arise from imitation of technology of the advanced nations as well as from indigenous technological improvements. Technological progress fosters economic growth by augmenting production on one hand and affects the demand side by making the products more competitive and hence increasing their demand in the global economy. It can therefore be safely concluded that technology is a significant determinant of a nation's 'relative competitiveness' and hence it's economic growth in the globalised scenario.

Technical Progress and Innovation

The most literal interpretation of the term technical progress is improvements in the art of production, more specifically, improvements in the design, sophistication and performance of plant and machinery. Such improvements are an outcome of four major economic activities namely research, invention, development and innovation. Research and invention are the activities that create knowledge and development and innovation are the activities that apply new knowledge to the task of production[1]. Inventions come from research and are the foundation of innovations. It is innovation that directly affects production in a nation and hence is the immediate factor determining economic growth. Innovation literally means the 'introduction of something new' generally contrary to what is established. Schumpeter, in his book, 'The Theory of Economic Development' unfolds the following dimensions of innovation:

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[1] A.P. Thirwall, Growth and Development with Special Reference to Developing Economies, 2006.

- The introduction of a new product- that is one with which the consumers are not yet familiar or of a new quality of a good,
- The introduction of a new method of production-that is one not yet tested by experience in the branch of manufacture concerned which need by no means be founded upon a discovery scientifically new, and can also exist in a new way of handling a commodity commercially.
- Opening up of a new market- that is a market in which a particular branch of the manufacture of the country in question has not previously entered, whether or not that market has existed before.
- The conquest of a new source of supply of raw materials or semi-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
- The carrying out of new organization of any industry like creation of monopoly or the breaking up of a monopoly position[1].

Though he uses only one dimension of innovation, that is the ‘introduction of a new product’ to explain the process of development, but each form of innovation mentioned by him is capable of generating economic growth. Another form of innovation that is often noticed in a global economy, which perhaps, was also not unknown to Schumpeter and is probably implicit in (3) above, is the creation of a new market by creating new tastes and preferences. This involves purposive alterations in the psychology of the users or consumers through selling activities like advertisements. The popular modes of communication such as television and internet are principal instruments used in such innovations. Two examples of this kind of innovation in India are: (1) the developing of a preference and creating of a market for ‘Maggi’ in India, where it never existed, by changing the food habits of the people through advertisements highlighting the ‘two minute cook’ characteristic of the product. However, it may have taken years and huge costs for nestle to create this market, which only an MNC can do. (2) the systematic destruction of the market for ‘traditional Indian sweets’ by Cadbury’s Dairy Milk chocolates through advertisements with taglines such as “kuch mittha ho jaye”, “Risthon ki mithas” etc. So, now Dairy Milk seems to have become a substitute for the traditional Indian Sweets and every Indian festival, every celebration and every relationship seems to be incomplete without a Dairy Milk Celebration pack. This affects the income and employment of the ‘mithaiwalas’ and people employed by them in their shops and the culture of making sweets at home is also gradually vanishing. But this is an excellent innovation and innovations can do wonders. Therefore one who innovates is important for the economy.

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[1] J.A. Schumpeter, The Theory of Economic Growth and Development, 1949.

Entrepreneurship in a Global Economy

In the traditional capitalist society the function of ‘innovation’ was considered to be the task of entrepreneur. It was separated from research and invention which were carried out by other specialist agents with or without the direct involvement of state. Since the entrepreneur transformed knowledge into economic growth and prosperity through his act of innovating he occupied the central position in the society. Schumpeter was the first person to separate an entrepreneur from a capitalist. According to Schumpeter an entrepreneur is not an ordinary man; he may or may not come from amongst the capitalists; he may not own funds but is capable of commanding their use. To him anyone who innovates and is motivated by: (1) The desire to found a private commercial kingdom, (2) The will to conquer and prove his superiority, (3) The joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity[1], is an entrepreneur. In the era of globalization, an entrepreneur ought to be motivated by an additional factor, if the nation wishes to experience consistent growth. This motivation is the desire of an entrepreneur to see his nation ahead of other nations - that is his nationalism. This is particularly important for the developing countries who may find it difficult to compete with the developed nations without such a motivation as they face resource constraints.

Many, feel, just as predicted by Schumpeter, that in the global economy, with the rise of the modern corporations (national and multinational), the entrepreneurial function has got diluted, for, the ownership of a firm is vested in the shareholders, the managerial function is performed by a number of specialists and decisions are taken by the board of directors in sharp contrast to a traditional enterprise in which these functions were performed by the entrepreneur himself, whose property was always at stake as he was the sole risk bearer. It is true that the institutional framework of private enterprise has changed and risk has been distributed among the numerous shareholders but the dilution of the entrepreneurial function which seems apparent is not a reality. Of the many individuals associated with a modern corporation anyone who has foresight, initiative, authority; is ready to take risk and has capability to convince others to support his venture is an entrepreneur. He may be motivated by the same factors that motivated the traditional entrepreneur. He may be the promoter, the chairman of the board of directors, any director, a top level manager, the majority stakeholder who has the vision to see new opportunities ahead of others or to create opportunities and is either a decision maker in the matters of the company or has the power to convinces others for the realization of his vision and takes the help of specialists to do everything possible to materialize that opportunity and benefit from it. He is definitely more than the traditional entrepreneur as in addition to being a visionary, a risk taker and an innovator he is also a leader with great personnel skills which are essential for ensuring consensus in decision making.

[1] J.A. Schumpeter, The Theory of Economic Development, 1949.

Conclusion

In a global economy economic growth depends on the relative competitiveness of a nation vis-a vis other nations which in turn depends on technical progress. The activity in technical progress that has an immediate effect on economic growth is innovation and innovations are carried out entrepreneurs. The role and functioning of entrepreneur may have changed in the era of globalization but the significance of entrepreneur has not declined in any way.

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