

Making the Case for Indigenous Business Development


To a large extent, directly and indirectly, the region has grown dependent on foreign firms for investment, employment, government revenue and growth.

The business landscape of the Caribbean is characterized by (i) large, foreign-owned companies (ii) sizeable governments across many sectors from tourism to energy and (iii) an indigenous business sector, which with few exceptions is still very small. In circumstances in which Caribbean governments are fiscally strained and multinational firms are finding it difficult to raise finance for investment, might a larger indigenous business sector not be useful in helping to cushion the external shock stemming from the global downturn? We suggest it can be. A strong regional indigenous private sector can assist not only to help provide protection against external shocks but to boost domestic wealth creation.

To a large extent, directly and indirectly, the region has grown dependent on foreign firms for investment, employment, government revenue and growth. This is not surprising given the size of such investments as might be gleaned from Table 1. The financial crisis and weak external markets however are making it difficult for some foreign multinational companies to raise funding and to invest in the Caribbean at this time.

In the case of governments, many are finding it difficult to make ends meet and this is also having adverse effects on the economies and societies as unemployment rises.

Table 1
Foreign Direct Investment and Gov't. Exp. (2008)



Country	FDI (%GDP)	Gov't Exp. (%GDP)
Guyana	15.4	47.7
Jamaica	9.7	34.3
Bahamas	11.1	20.2
Trinidad & Tobago	7.2	23.9

Source: IDB

The argument presented here, by no means asserts that a well-developed, indigenous private sector could replace the functions of government or the multi-national companies. Rather, the argument is that indigenous businesses can play a stronger role in complementing the other two sectors in ensuring more sustainable growth.

In many countries in the region, governments play a very active role. Partly because the indigenous business sector has traditionally been weak, governments are forced to maintain a very strong presence in the market. Public utilities were usually the target, but many regional governments are involved in other lines of



business including airlines and sugar refineries. Regional governments are still compelled to provide fiscal support to the economy on regular occasions. The development of a robust domestic business sector could help reduce this burden on state resources and free significant portions of state financing for infrastructural and other purposes.

Throughout the region the private sector is led by multi-national corporations through their subsidiaries and branches. Multi-nationals generally have access to greater capital flows than the average Caribbean firm. This allows them to invest in large projects that are at times beyond the means of domestic companies. Even though the bulk of their profits are repatriated, multinationals (directly and indirectly) employ large portions of the region's labour force and contribute significantly to regional growth. In unfavourable economic times however, multi-nationals may be forced to rationalize their global operations. This can result in adverse consequences for the region as they may reduce their investment spending and labour force in the region. With a vibrant indigenous business sector, the region will likely generate a greater percentage of its own growth. This could ease the reliance on foreign-based companies and governments for domestic economic growth.

Additionally, successful development of indigenous business could bring to market new goods and services, likely creating a springboard for the formation of new industries. In a supportive environment, entrepreneurs and investors would be encouraged to develop and invest in new ideas and innovations. The business ideas that prove viable would induce more new firms to enter the market, while also creating opportunities for providers of ancillary services, resulting eventually in the development of new industries. In addition to creating greater choice, this would create more sources of income for the region.

Building Caribbean enterprise is by no means a simple undertaking. It requires the investment of considerable thought, effort and resources. A few companies have already shown the way. However, if the region is willing to make some change in the way it does business, the benefits are likely to more than compensate for the costs.

It is important to note that such a push would require a multi-sectoral approach. Government policy must encourage the business fraternity to explore opportunities within the non-traditional sectors. This would involve some incentives being made available to promote investment in specific sectors or could also entail the use of targeted stimulus packages to fledgling industries. Thorough analysis must be performed to ensure that the competencies and resources of a country can support, over the long term, the sectors that are tagged for development. Failure to do so can have disastrous effects as notable amounts of scarce resources are at stake. Multilateral

institutions and organisations, such as the International Finance Corporation (IFC), European Union (EU), Caribbean Development Bank (CDB), to name a few, also have a role to play in supporting activities that have greater private sector participation than hitherto.

Small and medium-size enterprises (SMEs) must be nurtured and encouraged to grow, since they are the likely source of future large-sized firms. SMEs account for over 90 percent of all businesses globally and in most countries they employ a large percentage of the labour force, operate across many sectors and contribute significantly to economic growth. Of vital importance though, is the wealth of new ideas and innovations they create, which provide fertile ground from which high-performing firms can grow. Unfortunately, less than half of all start-ups survive beyond five years, while only a fraction of them is able to develop into large firms.

The importance of SMEs dictates that the Caribbean seek to improve their success rate by ensuring that promising projects are adequately financed, and have access to appropriate technology. The aim should be to transform small companies into national companies and to transform national companies into regional and international companies.

The global economic downturn is providing a grim reminder of the region's vulnerability and its dependence on North America and Europe for investments, markets and for its growth. In the face of this harsh reality the region has the chance to initiate a process of significant change to its economies. The development of the domestic business sector cannot be reasonably expected to totally replace the role played by the government and multi-national companies, but can be a strong third pillar in support of overall economic development. Vibrant domestic enterprises would not be totally immune to external shocks but they can be

expected to act as a buffer when shocks occur, by maintaining some level of economic activity and slowing the rise of unemployment. This initiative should be placed at the top of the agenda of Caribbean policy makers.



Read this Newsletter on our website at: <http://www.republictt.com/1asp/ren.asp>

Material herein may be reprinted provided that acknowledgement of source is made. This release is issued as a matter of information and interest only and should not be construed as specific counsel. Subscriptions, enquiries and other correspondence should be addressed to: The Senior Economist, Republic Bank Limited, P.O. Box 1153, Head Office, 9-17 Park Street, Port of Spain, Trinidad and Tobago. Tel: 868 623 1056, Fax: 868 624 1323, E-mail: email@republictt.com