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Applied Economic & Financial Research



Sectoral Strategies:

A cluster approach to developing goods and services in Curacao

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Curaçao, 18 April 2013

Outline

- Evidence of growth-based structural transformations
- Clusters and Product Spaces
- Recommended policies and approaches for Curacao

Economics of Structural Transformation

- Standard trade theory: changing comparative advantages
- H-O-S changing relative factor intensities caused by factor accumulation

But...

- Every product involves specific inputs such as knowledge, physical assets, intermediary inputs, technology, service providers, labour training requirements; and
- Regulatory requirements, IP and other public goods

How firms can move to new products?

- Firms venturing into new products find it more difficult to obtain required inputs
 - e.g. find skilled workers, get inputs, get service activities,.. Cold storage chains, SPS permits, etc..
- Firms adapt existing inputs for new products.
- Degree of transferability of inputs depends on business in question
- Probability of a country being good at producing any particular new good is related to installed capabilities it can draw on from similar (nearby) products

Drivers of Structural Transformation

- Countries move to new economic activities which are more productive and of increasing value
- Countries which can upgrade their exports by developing new activities tend to grow faster
- Degree of sophistication embodied in exports matters for growth and stability
- Caribbean has low levels of sophistication in exports and below those expected for levels of development

Role of Regional Integration in promoting Structural Transformation

If CARICOM was a single fully integrated country:

- Higher levels of export sophistication
- Reduced transaction costs
- Size effects
- Institutional effects
- Predictability and non-reversibility

 Levels of sophistication and opportunities for innovation in a REC is higher than the sum of its parts

What is a Cluster?

Dense network (usually geographic concentration) of firms, suppliers, support services, specialised infrastructure, producers of related products and specialised institutions. Clusters usually involve mix of industries and services.

Differ from Sectors (e.g. services; manufacturing) and industries (e.g. tyres or restaurant)

Network of interrelated firms arising from externalities and spillover across firms

Characteristics of a Cluster?

Clusters drive innovation and productivity

- ⇒ Firms transact more easily with each other
- ⇒ Share technologies and knowledge more readily
- ⇒ Operate more flexibly
- ⇒ Start businesses more easily
- ⇒ Perceive and implement innovations more rapidly
- ⇒ Access public goods more easily:
 - ⇒ Skilled employees
 - ⇒ Specialized infrastructure
 - ⇒ Technological knowledge,
 - ⇒ Research programmes, etc..

Spillovers and externalities?

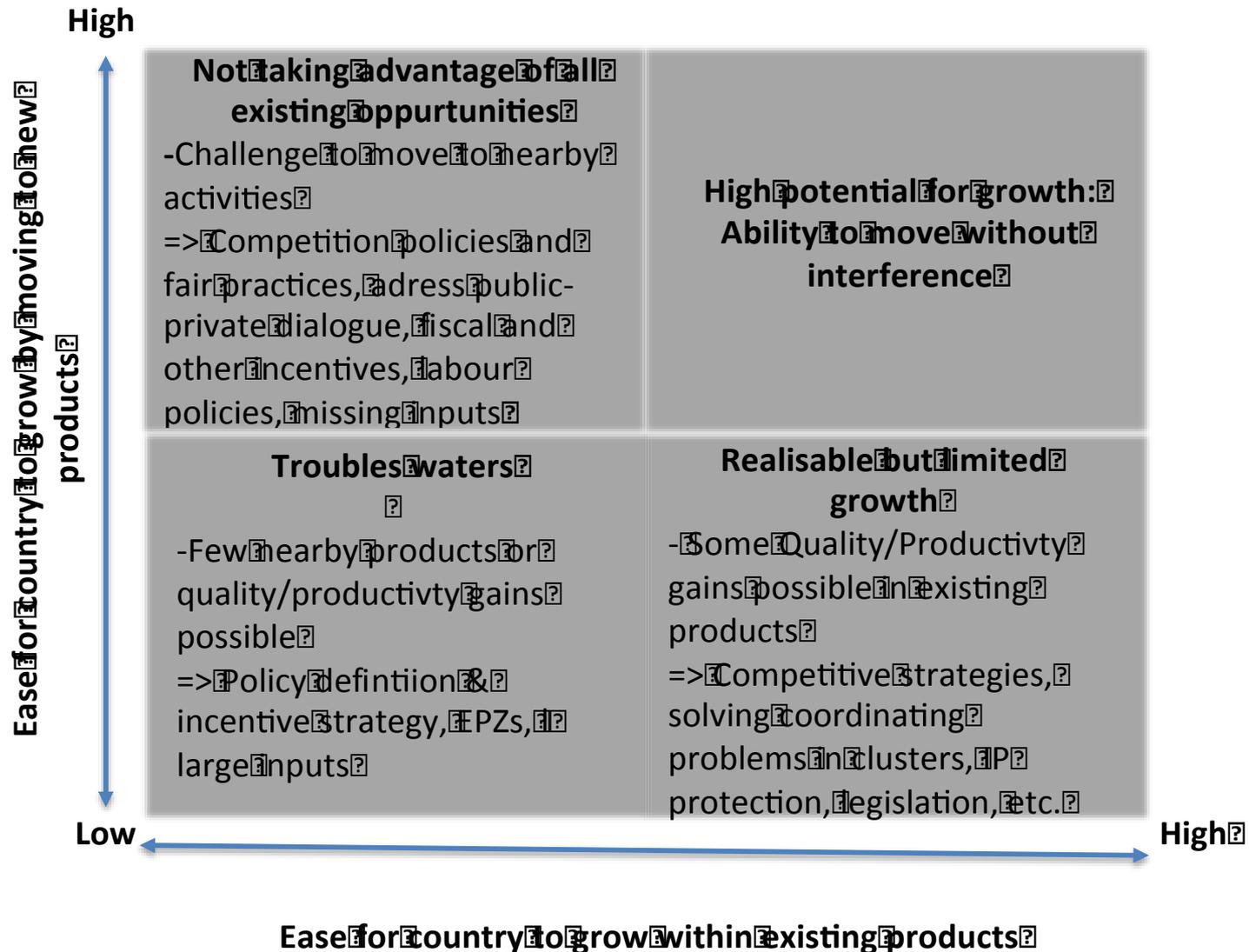
Entrepreneurs investing in new products provide valuable effects for prospective entrants:

- Train workers who can be employed in other firms
- Generate technological learning which cannot be fully appropriated
- Provide demand for their products through marketing
- Provide inputs for their products which may not have otherwise existed

 Social value of investment exceeds private value

Policy Implications

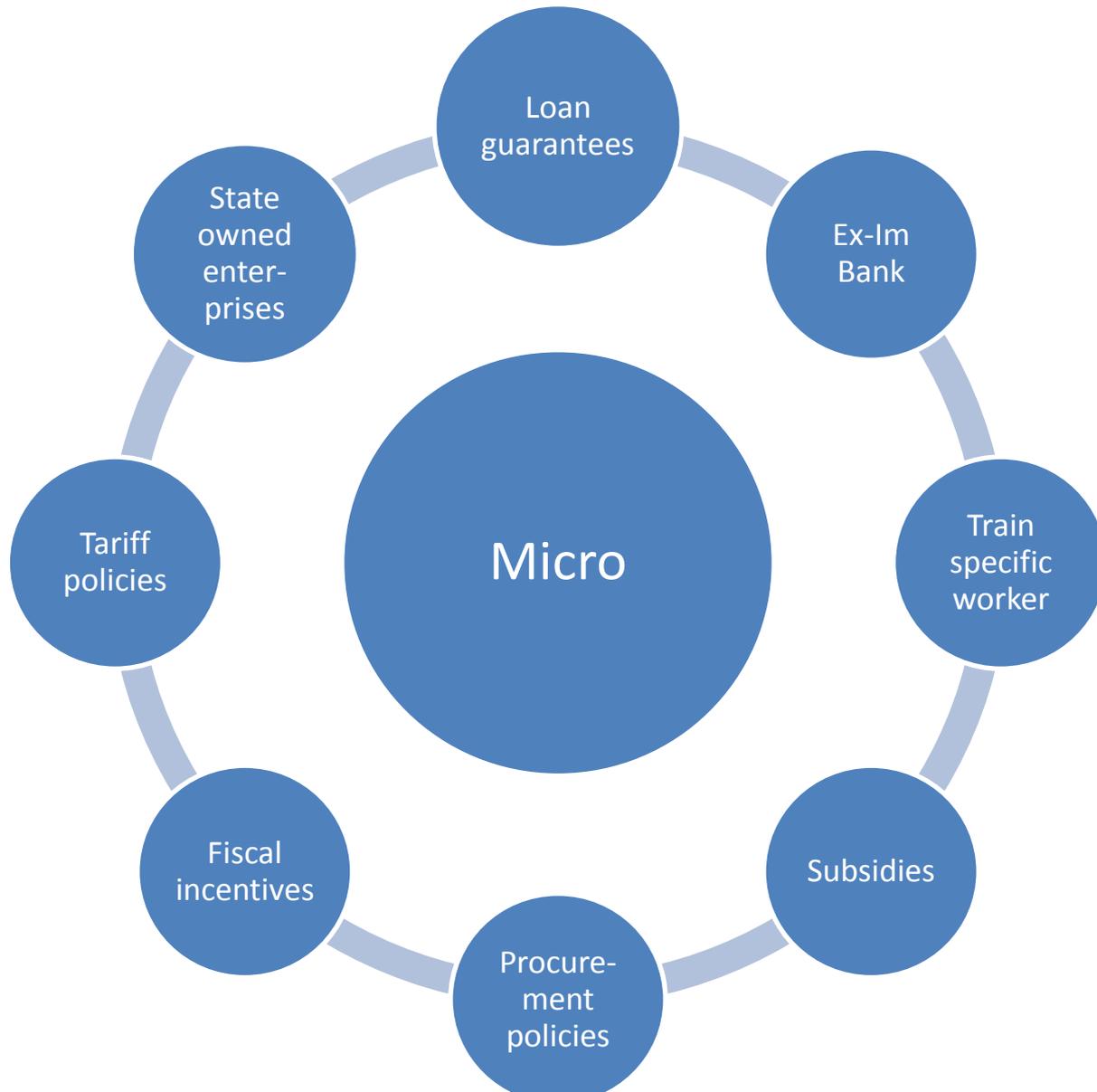
Designing policies to accelerate structural transformation



Macro policies to support competitiveness



Micro policies to support competitiveness



Meso approach to clusters

- Address **market failures**:
 - ⇒ Infrastructure
 - ⇒ Education and labour training
 - ⇒ Certification services
- Provide **public goods**:
 - ⇒ Property Rights
 - ⇒ Regulation
 - ⇒ Security
 - ⇒ Certification & quality rules
 - ⇒ Trade Facilitation measures
 - ⇒ Coordination for articulating and resolving public policies that do not enable the competitiveness

General Principles of Public Private Dialogue

- Private sector to coalesce and self-organise and allow new interests to engage with public sector
- Transparent process, esp. regarding requests to limit rent-seeking and increase legitimacy of decisions taken
- Interventions to focus on increasing sector productivity (not profitability)
- Private sector to invest own funds. Co-financing can be considered
- Venture funds can facilitate jumps & reveal information on obstacles and lead to policy solutions
- Interventions to have clear criteria of success.

General remark on Public Policy for Clusters

- Industrial Policy is not about “picking winners” and subsidizing them through a range of instruments (directed credits, subsidies, protection, tax incentives etc.). This rarely succeeds!
 - ⇒ Often governments have insufficient knowledge and too much vested political interest
- Industrial policy is a “process” of private and public diagnosis of obstacles to success and growth and proposing solutions that benefit incumbents and potential new entrants
- Cluster Policy need not imply large capital investment but improving the effectiveness of existing public institutions to make better policy choices

Some recommendations from the report

- Reduce cost of doing business
 - Accountancy regulations
 - Simplification of taxes
 - Financial intermediation, trade finance, venture capital fund
 - Labour policies
 - Predictability of economic policy
 - Customs and trade facilitation measures
- Reduce the costs for Entrants
 - Increase dispute settlement capacity of the local judiciary
 - Competition policy
 - Utility prices
 - Simplify formalities for establishing businesses, permits etc.
 - Trade policies

Sector focus

- Cultural and creative industries
- Tourism
- Financial services
- Maritime, transport, airport, logistics and vessel registration services
- Back office services, IT, computer software and high tech services
- Clean energy services

Further Reading

- Delgado, M., M.E. Porter & S. Stern (2010) Clusters and Entrepreneurship, in *Journal of Economic Geography*, 10(4), July
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- Porter, M. E. (1990) The Competitive Advantage of Nations, New York: The Free Press
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