Economic Growth in Rural Regions: SMEs, Productivity and Entrepreneurship

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Objective

- Provide a context for subsequent presentations that set out case studies on rural economic growth.
- Key questions:
  1. How should we measure growth – employment, GDP, output per worker?
  2. What causes growth – resource endowments, innovation, population growth, trade, policies?
  3. Does growth opportunity vary by size and type of region?

The Historical Problem of Rural Regions

- An excess supply of labor that led to:
    - Selective outmigration – youth and most skilled
    - Underinvestment in skills
    - Low wages and low productivity
- Truncated economies that had a high dependence on resource extraction and first stage processing
    - Price takers
    - Reliance on subsidies
    - Resource depletion common
    - External ownership and decision-making
- Weak social and governmental institutions, and distinct rural society

The Modern Rural Development Context

- Growing labor shortages reflecting:
  - Lower fertility rates
  - Aging workforce
  - Limited in-migration
  - Continued youth migration, particularly females
- Increased importance of workforce skills but limited skills available and limited training
- Greater integration of rural and urban society – social media, television, better transport links
- Lower government subsidies and more pressure to be self-sustaining

Hypothesis

- While rural and urban society are now tightly coupled they remain different, so development opportunities, constraints and capacities differ between urban and rural requiring a distinct approach to improving rural economic growth.
  - Examples: few large firms, no innovation systems, small home markets, limited opportunities to capture scale economies, weak local supply chains, higher transport costs, limited local competition, no agglomeration effects

Growth Models

Urban

- Standard Endogenous Growth Model reflecting
  - Returns to scale
  - Large home market that demands variety
  - Innovation from scientific experiments
  - Dense networks
  - Strong competition effects

Rural

- Mixed Growth Model with 2 components
  - Exogenous growth driven by
    - Urban demand for resources, including tourism and environmental services
    - Inflow of new technologies from urban
  - Distinct rural endogenous growth process

Rural Endogenous Growth Process

- Small scale innovation – local entrepreneurs finding solutions to own problems – user innovation
- Local monopoly power – not variety, allows firms to start-up and survive
- Growth comes through finding export markets not from home market
- High productivity vital for growth since exporter has to absorb transport costs
- Attributes of specific firms (management capacity, marketing skills) determine regional growth, not characteristics of the local economy

Measuring Growth Capacity

- Employment growth should not be the focus – mainly small firms with few employees
- New firm formation rates and GDP per worker better measures – reflect ability to identify market niches
- Distinguish between productive (opportunity) and unproductive (necessity) entrepreneurs (Baumol, 1990)

Policy Responses

- Create an environment that encourages productive entrepreneurship, not rent-seeking behavior – build social capital.
- Strengthen support for exports – finance, marketing information, web site development.
- Improve connectivity – internet; road and rail; package delivery.
- Recognize that economic growth is possible in rural regions, but that it will be different than urban growth.