Economy, Industry and Entrepreneurship: Battling with the "Two Curves Problem"

ISED Monograph Series

by

P.M.Mathew

ISED Small Enterprise Observatory

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About ISED Monograph Series

The purpose of ISED Monograph Series, brought out by the ISED Small Enterprise Observatory, is to present the output of primary research and original scholarship ascertaining reliable credibility to the required recipient.ISED publications seek to provide evidence and analysis that matters for entrepreneurial people and the planet.

Preface

Under globalisation, where technology and economic growth are increasingly space-neutral, the opportunities of SMEs are likely to be more complex. While SMEs, by nature, are space bound rather than space neutral, the disruption associated with Covid 19, the Pandemic, and the so called "two-curves problem", leaves them with mixed opportunities. However, the subject today is discussed more in a space-bound manner, leaving behind the unbridled belief in global value chains.

Under the India MSME Communication Programme(IMCP), theObservatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency,leading to a unique 'Development Report'. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy , and of the MSME developments in specific,I hope it will contribute to wider discussions in the subject area.

As this title come out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.

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October 10, 2020

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Abstract

Under globalisation, where technology and economic growth are increasingly space-neutral, the opportunities of SMEs are likely to be more complex. While SMEs, by nature, are space bound rather than space neutral, the disruption associated with Covid 19, the Pandemic, and the so called "two-curves problem", leaves them with mixed opportunities. However, the subject today is discussed more in a space-bound manner, leaving behind the unbridled belief in global value chains.

Key Words: Covid 19, entrepreneurship, two-curve problem.

1.0 Introduction

In most discussions on small and medium enterprises (SMEs)[1], the nation state appears as the focal point. This is essentially for the reason that, the role of these enterprises has traditionally been perceived in terms of employment promotion at home and local economic development. While the traditional perception on economic growth considers SMEs only as a growth spill-over, it has now come to the centre stage of academic and policy debates. This is for the reason that, the global reality of growth has substantially changed over time. Once accepted as a dictum, today, it has been generally accepted that the spill over approach of growth is not much realistic. Of late, the whole paradigm has further changed, under globalisation, where, economic growth has become largely space-neutral. In a space-neutral pattern of economic growth, the opportunities of SMEs are likely to be more complex . This is because, SMEs by nature, are more space bound rather than space neutral. Today, as Covid 19, the Pandemic, has completely disrupted social and economic life around the world, economic activities have been increasingly discussed in a space-bound manner, leaving behind the unbridled belief in global value chains. Hence, it is most appropriate that the United Nations has dedicated an 'International Day of MSMEs'.

2.0. The Changing Scene of the Economy

An' economy' is an area of production, distribution and trade, as well as consumption of goods and services by different agents .It is constituted by several economic agents. Economic agents can be individuals, businesses, organizations, or governments. Analytically speaking, these various agents belong to two categories, viz., households and firms. Households are consuming units, whereas firms are producing units.

The above simple definition of an 'economy' is fast changing. The concept today embodies different sub systems, relating to technology, economic space, legal system, and social-cultural aspects. The multi dimensionality of the world 'economic system' can be brought down in terms of the following sub systems:

2.1 Technological Sub system

Technological sub system involves some basic parameters, such as the nature of data processing and information transmission technologies, research intensity, resource saving technology, and natural processes. It is access to these parameters that take a particular country to the level of a world class efficiency, productivity, quality and novelty of products, as also modern management practices. Since 'technology' is a space neutral concept, the implementation of these requirements cannot remain country- specific.

2.2 Economic Sub system

The 'economic subsystem' involves a defined space which is common for free movement of goods and services, capital and labour, and the free exchange of national currencies. It is uniform standards relating to trade, investment and monetary affairs, that define an 'economic' subsystem.

Box No: 1

Economy as a Complex Web

The text bookish definition of an 'economy' is of a set of inter-related production and consumption activities that aid in determining how scarce resources are allocated. It is also based on a simple model involving 'households' and 'firms'. This simple model is fast changing into an intricate web. The concept today embodies different sub systems, relating to technology, economic space, legal system, and socio-cultural aspects. The multi dimensionality of the world 'economic system' can be brought down in terms of these sub systems.

2.3 Legal Subsystem

The legal subsystem involves the general rules of business law, and the norms of business behaviour. It covers rules relating to, private, international and civil an d patent law.

2.4 Socio-cultural Subsystem

The socio-cultural subsystem emerges through the cultural and traditional values, and the practices built upon that. Based on this, 'ethics' of business emerge, as also the practices of conflict resolution. The socio cultural subsystem also offers space for social innovations and approaches for social policy.

3.0. Changes in the Economic System

As noted above, the economic system is multi dimensional. Each subsystem offers a particular dimension. These systems have their own logic of development. However, they have to function under some common supernatural world economic space.

The world 'economic system' has two levels: 1) the word 'economy' as an aggregation of national economies; and 2)its role as a super-regional and transnational umbrella. Though the relationships mostly remain subtle, often times, it gets reflected through international conventions, treaties and protocols.

Today, the world is treading through the Fourth Industrial Revolution, with unprecedented. changes such as, digitalisation. The word 'digitalisation' implies that, human intellect, rather than human beings per se, are the motive force of change, and the driver of the economy. The world has passed through several ages of civilisation. The mechanical era goes back to the days when the 'wheel' was invented. From craft production, the mechanical era moved to the era of full- fledged mechanisation, that gave birth to the economic form called the 'corporation'.

The 'Industrial Revolution', now also known as the 'First Industrial Revolution', was the transition to new manufacturing processes in Europe and the United States. From about 1760 to sometime between 1820 and 1840,it transformed economies that had been based on agriculture and handicrafts, into focus on large-scale industry, mechanized manufacturing, and the factory system. New machines, new power sources, and new ways of organizing work made existing industries more productive and efficient. Economic historians have identified several triggers of the Industrial Revolution, including: the emergence of capitalism, European imperialism, efforts to mine coal, and the effects of the Agricultural Revolution. Capitalism was a central component necessary for the rise of industrialization. This economic transformation changed the organisation of production, but it also altered how people related both to one another, and to the planet at large. This wholesale change in societal organization continues today, and it has produced several effects that have rippled throughout Earth's political, ecological, and cultural spheres.

The era of new sources of energy, ie., electricity, coal and gas, was the hallmark of the next important phase, the Second Industrial Revolution. In 1831, Michael Faraday discovered that if an electric current is able to produce a magnetic field, the reverse is also possible: thus by moving a magnetic field, an electric current can be created. Following these discoveries, the dynamo was invented by the Belgian Zénobe Gramme in 1868. Eleven years later, Thomas Edison's incandescent light bulb brought a new way of producing light. In the same year, the first hydroelectric power station went into operation in Switzerland.

Electricity transmission emerged as a major facilitator, as the first power line was set up in 1883. Following this, the first high voltage line, built in 1891,by the end of the 19th century, industrial production of electricity became possible. The result of this revolution was the creation of the internal combustion engine that started to reach its full potential. The first technical applications came into being: electric lighting, telegraph and telephone. Other important points of the second industrial revolution were, the development for steel demand and chemical synthesis . The inventions of the automobile and the aircraft at the beginning of the 20th century were landmarks in the history of mobility. It also witnessed the emergence of yet another source of hitherto untapped, source of energy, ie., nuclear energy.

The 'Third Revolution' began in the second half of the 20th century. It was a concept and vision outlined by Jeremy Rifkin, and endorsed by the European Parliament, in a formal declaration passed in June 2007. It brought forth the rise of electronics, telecommunications and computers. Throughout history, economic transformations occur when new communication technology converges with new energy systems. The new forms of communication become the medium for organizing and managing the more complex civilizations made possible by the new sources of energy. The conjoining of internet communication technology and renewable energies in the 21st century, is giving rise to the Third Industrial Revolution. The information and communication era that followed, contributed to speed and space neutral operation.

Through the new technologies, the Third Industrial Revolution opened the doors to space expeditions,