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## Arthur lewis industrialization by invitation

Alicia Nicholls The COVID-19 shock inflicted on Caribbean economies and societies is both deep and multi-sectoral. The shockwaves will be palpable for years to come. Stimulating resilience-based economic and social recovery will require large injections of capital which cannot come solely from public coffers. Moreover, heavy borrowing is unsustainable given the already high debt burdens many fiscally-constrained Caribbean economies carry, narrowing revenue bases and the limited access to concessional financing. Caribbean countries must step up current investment facilitation and promotion efforts to increase private investment by local, foreign and diaspora investors to assist their recovery efforts. In this blog piece, I rely conceptually on Sir W. Arthur Lewis’ Industrialisation by Invitation model and apply it to the present-day COVID-19 conundrum. I ultimately posit that efforts at facilitating and promoting greater private domestic and foreign investment flows must be informed by a sound development strategy, with clear measurable targets and built-in monitoring mechanisms if they are to achieve the desired development outcomes. The Lewisian Model of Industrialisation by Invitation Caribbean countries generally have very liberal and open investment regimes offering investors a wide suite of fiscal and other incentives as inducements to invest. In large part, our countries followed the ‘Industrialisation by Invitation’ model proposed by St. Lucian-born Nobel Prize Laureate in economics, the venerable Sir W. Arthur Lewis. Lewis’ model, outlined in his magnum opus ‘Industrialisation of the British West Indies’ of 1950, was informed by the development model he observed in the United States (US) Commonwealth of Puerto Rico. The Puerto Rico government lured foreign investors to the island’s shores by means of various fiscal incentives to assist in the development of industry in that territory. Lewis based his case for industrialization of the BWI on the overpopulation then experienced in the agrarian-based economies of the BWI. Technology, he argued, was causing a reduction in the amount of labour agriculture could absorb and this was exacerbated by population increases. Industrialisation would provide jobs for this surplus labour. His case for attracting foreign capital for industrialization was based on two major premises. First, financing industrialization was an expensive task for governments. Second, the local private sector at the time lacked expertise in manufacturing. He further noted that the involvement of foreign capital was less risky in manufacturing than in agriculture or mining. Moreover, while he recommended ‘inducements to foreign capital’, that is, incentives, he cautioned that “a sense of proportion” is required. Lewis recommended the creation of an industrial development corporation which would have three main roles, including to prospect the market and decide what types of industry to encourage, to advise the government on the types of assistance to offer and to interest manufacturers in coming into the area. He based this on several development agency examples he observed across the world, and these functions are fulfilled, in varying degrees, these form the blueprint of our contemporary investment promotion agencies. Today, all Caribbean countries have at least one agency charged with the promotion of investment. Why is investment facilitation even more critical now? Since the start of the COVID-19 pandemic, various multilateral institutions have provided sobering reports of the damage inflicted by the pandemic on Caribbean economies and societies. Pienknagura, Roldos & Werner (2020) in an International Monetary Fund (IMF) blog post of October 2020 noted that although the region had been relatively successful at managing the virus spread, our countries were the hardest hit economically because of their heavy dependence on tourism for economic activity and employment. The authors likened the sudden stop in tourist arrivals and local lockdowns to ‘a cardiac arrest to their economies’. The IDB has also noted the high social costs of the pandemic, which has led to job losses and increases in inequality. In short, the pandemic has reversed many of the development gains the region has realized. In order to rebuild for resilience post-COVID-19, domestic and foreign private foreign capital inflows must supplement increasingly constrained public revenue sources. Rising unemployment and a growing informal sector have caused a declining tax base. In Barbados, whose GDP contracted nearly 18% in 2020, personal and corporate tax receipts declined over the review period, according to the latest Central Bank of Barbados Report. This means that Governments are further unlikely to be able to finance capital works projects and spending on social and economic recovery programmes through taxes alone. Barbados is currently in an IMF-sponsored homegrown Barbados Economic Recovery and Transformation (BERT) programme which has unlocked some multilateral financing it otherwise would not have been able to access. However, what about those countries which lack this option? Borrowing is also not a particularly attractive option for many fiscally-constrained Caribbean countries. The macroeconomic fundamentals of many of our countries, including the high debt to GDP ratios, make borrowing at preferential rates unrealistic. Borrowing also adds to a country’s debt burden. Every dollar spent on debt-servicing is a dollar that could be spent on social programmes and capital works programmes that benefit the population. This is further compounded by many Caribbean countries’ ineligibility for most concessional financing and official development assistance (ODA) due to their classification as middle income or in some cases, high income countries on an income per capita basis. More recently, the press release for an upcoming Caribbean Development Bank (CDB) report revealed that all, but one (Guyana), of its Bank Member Countries (BMCs) registered double-digit declines in GDP. Moreover, all, except Guyana, saw an increase in their debt to GDP ratios, with the regional debt-to-GDP average rising from 66.5% to 79.5%. Increasing FDI inflows is the more attractive option for stimulating greater capital inflows. However, UNCTAD’s data estimates a 40% decline in global FDI flows, which means there will be increased competition by countries for a smaller pool of capital. The most competitive countries will be those most attractive to investors for their ease of doing business. Jamaica, ranked 71, is presently ranked as the easiest Caribbean country in which to do business and ranks 6th on the ‘Starting a Business’ indicator. While no CARICOM country ranks within the top fifty countries on the World Bank’s Doing Business Index, some small States have done well. Mauritius, for example, ranks 13th, Taiwan (15th), Iceland (26th) and Cyprus (54th). Clearly, therefore, CARICOM countries can do better. Applying Lewis’ model to the COVID-19 conundrum Lewis’ model, though criticized by many, bears much relevance for the current situation facing Caribbean countries today where investment is needed for the stimulation of investment activity, jobs and foreign exchange. However, there are some important differences. First, given the region’s sizable diaspora, the focus should not just be on attracting and facilitating foreign investors (those without ties to the region) but also diaspora investors. Caribbean IPAs have already made diaspora FDI targeting part of their promotion efforts. Second, the domestic private sector has become much more sophisticated since the days of Lewis and has a key role to play as investors and source of private capital flows. While some private sector entities have been impacted by the pandemic, the extent of impact differs and some have evinced an appetite to invest despite the current economic climate. Third, competition for investors cannot be merely on tax rate or incentives alone, but on their value proposition to investors, through things such as market potential, ease of establishment, access to finance, and other factors which investors consider in their decisions. Fourth, Lewis was focused at the time on inducing investment for building manufacturing capacity. These days, however, the focus should be on attracting and facilitating investment in high-technology and other high value-added sectors of strategic importance to the region, such as FinTech, medicinal cannabis, research & development, the creative industries, as examples. The aim is to attract investment which is development-friendly, sustainable and inclusive. Therefore, screening of proposed investments to prevent environmental degradation, as well as monitoring to ensure compliance with environmental and labour laws will ensure such investments are sustainable. Fifth, for this reason, investment facilitation reforms must not be ad hoc. They must instead form part of a wider investment strategy, which coheres with the country’s industrial and trade policies, all of which are rooted to the country’s development strategy. Sixth, monitoring the effectiveness of investment facilitation and promotion policies is needed and requires better data collection. Limited disaggregated data on investment type, source or sector makes it difficult to empirically assess the effectiveness of investment promotion and facilitation strategies. Moreover, investors often rely on such data in making their decisions on whether to invest or reinvest. As such, a concerted approach to improving the quality, timeliness and availability of data should be a key component of the region’s efforts. In summary, it has been argued, using Lewis’ Industrialisation by Invitation Model as applied to the COVID-19 conundrum, that facilitating investment by local, foreign and diaspora investors will be critical to assisting Caribbean countries in their economic and social recovery efforts. It can do so by stimulating economic activity, foreign exchange inflows and job creation. However, these benefits are not automatic and must be informed by a sound development strategy and monitored if they are to achieve the desired results. Alicia Nicholls, B.Sc., M.Sc., LL.B is an international trade and development specialist. Read more of her commentaries here or follow her on Twitter @lcylaw. All views expressed herein are her personal views and do not necessarily reflect the views of any institution or entity with which she may from time to time be affiliated. Saint Lucian economist and Nobel laureate SirW. Arthur LewisSir William Arthur Lewis, official Nobel Prize photoBornWilliam Arthur Lewis(1915-01-23)23 January 1915Castries, Saint Lucia, British Windward IslandsDied15 June 1991(1991-06-15) (aged 76)Bridgetown, Saint Michael, BarbadosNationality Saint Lucian British Alma materLondon School of EconomicsKnown for Development economics Dual-sector model Lewis turning point Industrial structure History of the world economy Spouses(s)Gladys Jacobs Lewis (m. 1947)Children(2)1AwardsNobel Memorial Prize in Economic Sciences (1979)Scientific careerFieldsEconomicInstitutions London School of Economics (1938–48) University of Manchester (1948–58) University of West Indies (1959–63) Princeton University (1963–91) Thesis The Economics of Loyalty Contracts (1940)Doctoral advisorSir Arnold Plant Sir William Arthur Lewis (23 January 1915 – 15 June 1991) was a Saint Lucian economist and the James Madison Professor of Political Economy at Princeton University.[2] Lewis was known for his contributions in the field of economic development. In 1979 he was awarded the Nobel Memorial Prize in Economic Sciences. Biography Arthur Lewis was born in Saint Lucia, then still part of the British Windward Islands federal colony, the fourth of the five sons of George and Ida Lewis (the others being Stanley, Earl, Allen and Victor).[3] His parents had migrated from Antigua shortly after the turn of the century.[4] George Lewis died when Arthur was seven years old and his brothers aged from five to 17, leaving Ida to raise her five children alone.[5] Arthur was a gifted student and was promoted two classes ahead of his age.[6] After finishing school when he was 14 years old, Lewis worked as a clerk, while waiting to be old enough to sit the examination for a government scholarship to a British university, which would be in 1932.[5] During this time he became friends with Eric Williams, the future first prime minister of Trinidad and Tobago, and the two remained lifelong friends.[7] Lewis's initial career choice was to become an engineer, "but this seemed pointless since neither the government nor the white firms would employ a black engineer," as he later said: "Eventually I decided to study business administration, planning to return to St. Lucia for a job in the municipal service or in private trade. I would simultaneously study law to fall back on if nothing administrative turned up." [5] At the age of 18, he earned the government scholarship to attend the London School of Economics (LSE), becoming the first black individual to gain acceptance there. While enrolled to study for a Bachelor of Commerce degree ("which offered accounting, business management, commercial law and a little economics and statistics") in 1933,[5] he would achieve similar success as he did at grade school. Lewis's academic superiority was noticed and admired by his peers and professors. While at LSE, he had the opportunity to study under the likes of John Hicks, Arnold Plant, Lionel Robbins, and Friedrich Hayek. After Lewis graduated in 1937 with first-class honours, LSE gave him a scholarship to do a Ph.D. in Industrial Economics,[5] under the supervision of Arnold Plant.[8] Lewis would become the first black faculty member at LSE.[9] In 1938 he was given a teaching appointment, and in 1939 was made an Assistant Lecturer,[5] continuing to work as a member of the LSE staff until 1948.[10] In 1947, Lewis married Gladys Jacobs, and they had two daughters together. That year he was selected as a lecturer at the Victoria University of Manchester, and moved there with his family, becoming Britain's first black lecturer. In 1948, at the age of 33, he was made a full professor.[5] He taught at Manchester until 1957.[11] During this period, he developed some of his most important concepts about the patterns of capital and wages in developing countries. He particularly became known for his contributions to development economics, of great interest as former colonies began to gain independence from their European colonizers.[citation needed] Lewis served as an economic advisor to numerous African and Caribbean governments, including Nigeria, Ghana, Trinidad and Tobago, Jamaica, and Barbados. When Ghana (where in 1929 his eldest brother Stanley had settled)[12] gained independence in 1957, Lewis was appointed as the country's first economic advisor. He helped draw up its first Five-Year Development Plan (1959-1963).[13] In 1959 Lewis returned to the Caribbean region when appointed Vice Chancellor of the University of the West Indies. In 1963 he was knighted by the British government for his achievements and for his contributions to economics. That year, he was also appointed a University Professor at Princeton University – the first black instructor to be given a full professorship[9] – and moved to the United States. Lewis worked at Princeton for the next two decades, teaching generations of students until his retirement in 1983. In 1970 Lewis also was selected as the first president of the Caribbean Development Bank, serving in that capacity until 1973.[14] Lewis received the Nobel prize in Economics in 1979, sharing it with Theodore Schultz, "for their pioneering research into economic development research with particular consideration of the problems of developing countries"[4] Lewis died on 15 June 1991 in Bridgetown, Barbados. He was buried in the grounds of the St. Lucian community college named in his honour.[15] Key works Labour in the West Indies: The Birth of a Workers' Movement (1939) Labour in the West Indies: The Birth of a Worker's Movement, first published by the Fabian Society in 1939, was an account of the 1930s labour movement in the Caribbean. It remained the only work published on the Caribbean-wide movement and the Labour Rebellions in the English-speaking Caribbean for decades. The book was republished by John La Rose and Sarah White at New Beacon Books in February 1978.[16] Lewis is now characterised as "among the earliest proponents of Reparations for the former West Indies for Britain's colonial wrongs" because of the ideas he put forward in this work.[17] The "Lewis model" See also: Dual sector model and Lewis turning point Lewis published in 1954 what was to be his most influential development economics article, "Economic Development with Unlimited Supplies of Labour" (Manchester School).[18] In this publication, he introduced what came to be called the dual sector model, or the "Lewis model".[19] Lewis combined an analysis of the historical experience of developed countries with the central ideas of the classical economists to produce a broad picture of the development process. In his theory, a "capitalist" sector develops by taking labour from a non-capitalist backward "subsistence" sector. The subsistence sector is governed by informal institutions and social norms so that producers do not maximize profits and workers can be paid above their marginal product. At an early stage of development, the "unlimited" supply of labour from the subsistence economy means that the capitalist sector can expand for some time without the need to raise wages. This results in higher returns to capital, which are reinvested in capital accumulation. In turn, the increase in the capital stock leads the "capitalists" to expand employment by drawing further labour from the subsistence sector. Given the assumptions of the model (for example, that the profits are reinvested and that capital accumulation does not substitute for skilled labour in production), the process becomes self-sustaining and leads to modernization and economic development.[20][21] The point at which the excess labour in the subsistence sector is fully absorbed into the modern sector, and where further capital accumulation begins to increase wages, is sometimes called the Lewisian turning point. It has recently been widely discussed in the context of economic development in China.[22] The Theory of Economic Growth (1955) In his 1955 book, The Theory of Economic Growth, Lewis sought to "provide an appropriate framework for studying economic development", driven by a combination of "curiosity and of practical need." [21][23] During the Industrial Revolution, England was experiencing the worst economic turmoil of its time. It would not be until an economic enlightenment took place that cities began to shift towards factories and labour-intensive methods of production as they experienced giant shifts in the labour and agriculture markets, thus, eventually leading to higher production, and higher income. Lewis theorized if England could turn its misfortune around, the same could be done for developing countries around the world. His theories proved true for some countries such as Nigeria and Barbados, as they would see some economic development.[citation needed] Legacy and honours Portrait of Arthur Lewis on the East Caribbean dollar \$100 bill The Sir Arthur Lewis Community College, St. Lucia, was named in his honour.[24] The Arthur Lewis Building (opened in 2007) at the University of Manchester was named for him, as he had lectured there for several years before entering government positions.[11] The Arthur Lewis Lectures are held annually at the University of Manchester, having begun in 2015, the centenary of his birth.[25] He is commemorated by the Sir Arthur Lewis Institute of Social and Economic Studies (SALISES) on the three campuses of the The University of the West Indies.[26] Sir Arthur Lewis's portrait appears on the Eastern Caribbean 100-dollar bill.[27] Arthur Lewis Auditorium, the main auditorium of Robertson Hall, home of the Princeton School of Public and International Affairs at Princeton University, was named after him.[28] On 10 December 2020, the 41st anniversary of his receiving the Nobel Prize, Google celebrated the late Sir Arthur Lewis with a Google Doodle.[29][30][31] See also Black Nobel Prize laureates References Citations ^ "Lewis, W. 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