

A Two-Prong Approach to Spike Entrepreneurship in Latin America

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The power of entrepreneurship is universally recognized. New and successful enterprises create jobs, spread wealth, increase social mobility, bring about technological innovations, and overall improve people's living standards. In the past decade, Latin American countries have seen a number of initiatives by their public and private sectors to promote entrepreneurship. Some more successful than others. This essay analyzes some of these initiatives and proposes that these countries foster a healthy, self-sustainable environment for entrepreneurship via a two-prong approach: governmental initiatives and public education.

Let us first steer our attention to a North American neighbor: Silicon Valley, a center of engineering innovations and their subsequent transfers into enterprises. The region's success is partially attributable to the things that the government has and has not done. That is, the government does not completely abstain from all involvements, but instead contributes when necessary. For instance, the US department of defense funded a significant portion of the scientific and engineering research performed at Stanford University, much of which fruited into successful enterprises. When it comes to laying its hands off entrepreneurs, the government imposes low capital gains taxes and minimal requirements for starting a company. Moreover, a robust and liquid stock market has long been established, serving as a motivation for entrepreneurs and their investors as they count on a lucrative exit when their company goes public.

Latin American governments should adopt similar tactics. Research reports show that some governments are already getting their acts together, by establishing communities where academics, industry researchers, business personnel, and investors gather to brainstorm and develop startups. For example, SEBRAE, the Brazilian Service of Support for Micro and Small Enterprises, is an organization established in 1972 by the Brazilian government to create small to medium businesses, and establish professional networks that support the growth of these enterprises. In the past three decades, the organization

has developed and provided technological, financial, and business guidance to many companies in the three pillars of the Brazilian economy: trade and services, industry, and agriculture [1]. An example of a community that sprung to life on its own and not through governmental promotion, however, is Palermo Valley in Buenos Aires, where entrepreneurs-to-be gather to brainstorm on a regular basis. Governments should encourage and support the formation of such communities.

In order to encourage entrepreneurs to build lasting, globally competitive businesses, governments should guide startups by establishing policies that reflect their beliefs about the competitive advantage that their countries hold. Chile is doing a particularly good job in this regard. For instance, grasping that it is the largest exporter of fresh fruit in the Southern Hemisphere, Chile allocates much funding to research and commercialize transgenic techniques (i.e., genetically modify fruit) at University of Chile. Realizing that it is responsible for over a third of the world's copper production, Chile also promotes research and entrepreneurship to develop mining biotechnology to drastically reduce copper production costs and increase the fraction of the country's copper reserves that can be economically exploited. Moreover, to maintain its status as the seventh largest exporter of wine, the Chilean government promotes research in Catholic University to identify, sequence, and characterize various genes on vines that correspond to viral infections [2]. These initiatives effectively demonstrate a government's view on the country's stronghold and hence what may be globally competitive, and encourages entrepreneurs to tap into the corresponding research products and commercialize them.

According to a survey on young entrepreneurs from Argentina, Peru, Bolivia, and a few other Latin American countries, lack of financing is a frequently experienced problem in startups. It causes downsizing and failure of nascent businesses. Indeed, 80 percent of the entrepreneurs surveyed have used personal or family savings as an important source of funding. Less than 40 percent of them had access to banks as a source of startup capital, and less than 5 percent counted on private investors or venture capital [3]. To promote entrepreneurship, governments should leverage their networks to usher in outside investments, in particular, from diaspora in developed countries. Argentina's "redes de talento" initiative serves as an excellent example [4].

One step beyond encouraging foreigners to invest is to encourage them to stay and found companies. Instances of foreign entrepreneurialism are bud-

ding: e.g., two MBA graduates from Indiana University in the US founded the California Burrito Company in downtown Buenos Aires, apparently a big hit for locals and travelers alike [5]. A similar phenomenon on the high-tech side is the establishment of branches by multi-national corporations. Governments should welcome and support such initiatives by foreign companies, and seize them as opportunities to train local talent with foreign resources. Augusto de la Torre, chief economist in the World Bank's Latin American and Caribbean division, for instance, commented on these opportunities that South America as a continent faces. He used Panama as an example: large foreign companies such as Hewlett-Packard and Caterpillar are establishing world-class service hubs in the country. And the country has the potential of becoming a sort of "Singapore for the Americas." [6]

Like other developing countries with reasonably successful startup track records such as China and India, many Latin American countries suffer from rampant corruption. The possibility that bribes must be given to close deals, win contracts, or just maintain a reasonable client flow not only increases transaction cost of doing business, but also leaves many young Latin entrepreneurs stumped over tough choices between achieving short-term business objectives and committing an unethical act. Scandals like the natural-gas pipeline project in Argentina, which may have involved as much as 25 million USD, present unfairness in business regulations and tarnish a government's public image [7].

Having explored the responsibility of governments in promoting entrepreneurship, we now turn to the role of higher-learning institutions. One obvious thing that Latin American universities should do is to strengthen the collaboration in curriculum between engineering and business schools, and tighten ties between academic research and industry needs. One example is Octantis, a Chilean business incubator established in 2003 at the Adolfo Ibanez University in Santiago de Chile. One startup that came out of this incubator is Recycla, an electronic garbage recycling business. This company hires ex-convicts to collect and process electronic waste and sell it for reuse or disposal [8]. This is a case where a joint effort between academic research and industry creates an enterprise that addresses an environmentally pressing issue, e-waste, and at the same time, performs social rehabilitation. There is much that other universities in other Latin American countries can learn from this example.

Increasingly, successful enterprises are driven by technologies. To stay globally competitive, Latin American universities must improve its math and science curriculum, and recruit more students in these subjects. As Andres Oppenheimer, a Pulitzer-Prize-winning Argentine journalist remarked, Latin America has many lawyers, economists, and even physicians, but suffers from an alarming shortage in engineers. He pointed out that out of the 200 best universities in the world, only three are in Latin America. Further, the continent as a whole invests only 1 percent of its GDP in research and innovation, while China, a country big on math and science education, invests 3 percent [6].

One other way in which schools can promote entrepreneurship is by hosting business plan competitions. The beauty of these competitions is that winners start companies by using the proceeds, and the rest try finding other means to realize their entrepreneurial dreams, because they have become excited about startups in the competition process. A few competitions in Argentina serve as excellent examples for the rest of the continent: centro de entrepreneurship hosted by Universidad del Cema, and “Naves” held by Universidad Austral. Last but not least to be addressed by education is culture. According to Rudolph Hommes, Colombia’s former finance secretary, Latin American countries “lack the entrepreneurial spirit that is the lifeblood of the American economy” because “citizens often value a steady job above the risks and rewards of owning a business.” [9] Technological knowledge can be taught and learned quickly, but culture is not something that changes overnight. To instill a sense of independence, greater willingness to stomach risks, and change people’s perception of entrepreneurs, Latin American education system will have to think long and hard about how to restructure their curriculum.

Overall, many initiatives to promote entrepreneurship in Latin America have resulted in fruition. If these countries’ governments continue to carefully tune their roles in constructing a healthy and self-sustainable environment for entrepreneurship, and institutions of higher learning continue to roll out curriculum that produces entrepreneurial engineers, we should expect to see an increasingly competitive Latin America on the global stage in the twenty first century.

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