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Does the entrepreneurial state crowd out entrepreneurship?

Entrepreneurship ignites economic growth. But what if, by boldly taking entrepreneurship decisions and risks upon themselves, states inadvertently smothered diverse spontaneous entrepreneurial sparks among ordinary citizens? New research** on Singapore warns of just this paradox for “entrepreneurial states”.

Singapore is the little country that could. One of the world’s poorest nations at independence in 1965, its standard of living now ranks among the highest. Credit for much of the “East Asian miracle” of economic growth that caught Singapore, Taiwan, South Korea and Japan up to the West goes to their being entrepreneurial states: successive governments set an explicit vision and assumed the risks of leading innovation in industries and technologies they chose.

Singapore’s entrepreneurial state is still going strong. But for over a decade the aim has been to transition to an “entrepreneurial society”, where locals imbibe the entrepreneurial spirit and take risks in diverse fields by creating small to medium-sized enterprises (SMEs). While top-20 global rankings for Singapore’s startup ecosystem may suggest success, this new research finds the state is paradoxically obstructing, or crowding out, grassroots entrepreneurship.

The government has not weaned grassroots Singaporean entrepreneurs off state sources of capital, knowledge for R&D, and human capital. Capital still clusters around large foreign multinationals, “government-led companies”, and, increasingly, high-tech startups. The side-effect of de-risking targeted areas like high tech is suppressing investment in home-grown SMEs in other areas.

National R&D remains low, and entrepreneurs still rely on knowledge spilling over from those multinationals and foreign talent, not Singapore’s own more recent public research institutions. Finally, as to human capital, Singaporeans deem private sector entrepreneurship to be low-status and too risky. The best graduates flock to the safe, respectable, lucrative civil service.

The researchers explain the paradox by the “knowledge filter”. Entrepreneurship means perceiving, accessing and commercializing opportunities from new knowledge. A thick societal knowledge filter strains out opportunities from would-be private entrepreneurs’ perception. Singapore’s strong

entrepreneurial vision and policy mix has formidably thickened its filter. Worse, this entrepreneurial state shows no signs of retreat. And while it can adjust incentives caused by filters, it will struggle to budge perceptions. Has the entrepreneurial city state painted itself forever into a corner, a victim of its own success?

Based at least on Singapore then, entrepreneurial states may stifle entrepreneurial societies, not foster them as now often thought. Policymakers should beware. They ought to consider knowledge filters and reconsider the advantages of an enabling, not directing, Silicon Valley-style approach.

Overall, while the entrepreneurial state might successfully foster innovation and economic growth within selected industries, it can create a barrier for transitioning to an inclusive entrepreneurial society.

** The full study results are available in an article authored by David Audretsch and Antje Fiedler: “Does the entrepreneurial state crowd out entrepreneurship?”. *Small Business Economics*, published online 23 February 2022, doi.org/10.1007/s11187-022-00604-x

