

**BECOMING A GLOBALLY
COMPETITIVE PLAYER: THE CASE OF
THE MUSIC INDUSTRY IN JAMAICA**

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BECOMING A GLOBALLY COMPETITIVE PLAYER: THE CASE OF THE MUSIC INDUSTRY IN JAMAICA

*Zeljka Kozul-Wright and Lloyd Stanbury **

A central issue in the determinants of competitiveness concerns the decision by firms to make investments relating to technology and innovation. Economists are divided on this issue. On the one hand, main-stream neoclassical analysis sees this as a straightforward decision on the part of firms based on their profit maximizing calculus in response to market signals. On the other hand, the neo-Schumpeterian school interprets innovation as a much more uncertain process guided by a mixture of market and non-market signals and resulting from collective learning and selection processes (Kozul-Wright, 1995).

The concept of a National System of Innovation (NSI) extends the neo-Schumpeterian analysis by linking the enterprises' decisions to innovate to "a network of institutions, public and private whose actions initiate, import, modify and diffuse new technologies" (Nelson, 1993). The NSI approach seeks to explain the determinants of technical change and organizational innovations as endogenous factors in the economic system. It also allows for a comparison of different institutional arrangements which guide the innovative process favourable to economic growth.

This paper uses the NSI approach to examine the prospects for industrial development in Jamaica, a small middle-income developing country. It argues that the present state of the Jamaican NSI is not adequately developed to provide the necessary support to ensure that one of its key emerging industries – the music sector – becomes competitive on global markets. It suggests various policy options aimed at industrial upgrading and better integration with those markets. The type of applied research presented here is highly original and speaks to a wider audience, as it represents a novel attempt to operationalize the concept of NSI in a developing country context, with particular reference to the music and entertainment sector, which is not traditionally treated in the NSI context. This sector, however, has been selected as one of the leading emerging sectors for the Jamaican economy identified in its national industrial policy.

I. NATIONAL SYSTEM OF INNOVATION

There is a growing consensus that the ability of a country to sustain rapid economic growth over the long run is highly dependent on the effectiveness with which its institutions (or clusters of institutions) and policies support the technological progress and innovativeness of its enterprises. Such institutions and policies are already firmly in place in most advanced industrial economies having evolved gradually over the course of this century. Developing countries, whose science and technology institutions are, for the most part, of much more recent vintage, tend to be more fragmented, uncoordinated and poorly adapted to meeting local industry's needs. Consequently, a fresh approach linked to policy reform is needed to enable developing countries to assess their performance in this domain, exchange experiences and make tangible improvements.¹

* From, respectively, the United Nations Conference on Trade and Development (UNCTAD), Geneva, and the Entertainment Industry Advisory Council, Kingston, Jamaica.

¹ For an elaboration of the NSI concept and its application to developing countries, see UNCTAD (1998a).

Adopting an NSI perspective implies a new understanding of innovation as a dynamic process, in which enterprises, in close interaction with one another, play the key role in bringing new products, processes and forms of organization into economic use. But firms do not act in isolation. Other important players in this process interacting with firms are universities, technological institutes, research and development (R&D) centres, other “bridging institutions” (such as technology or innovation centres), technology incubators, industry associations, institutions involved in education and training, as well as those involved in the financing of innovation. This paper underscores the interactive nature of the innovative process in which the complementary practices and capabilities of all agents in NSI exert a direct impact on the ability of firms to compete through innovation.

The concept of innovation in the developing world requires a rather broad interpretation, one which encompasses the processes by which firms master and apply product designs and manufacturing processes that are new to them, or even to the nation, if not to the world. This definition includes *incremental* as well as radical or generic innovations, but tends to focus on the former. *Innovation* thus becomes a process wherein individuals, strategic alliances, supplier networks and organizations take new initiatives which exploit the knowledge-base of their economy (UNCTAD, 1998; Lundvall, 1993).² Innovation represents the commercial application of new knowledge or the combination of old knowledge in radically novel ways. Such activity, whilst disrupting existing economic routines – and the associated firms, practices and factors of production – will improve the competitive position of the firm, or the broader productive unit in which it is introduced, by creating new markets, thereby advancing the technological regime or establishing new linkages between product producers and users (UNCTAD, 1998). As such, innovation is a permanent and endogenous feature of economic development which characterizes “the processes by which firms master and implement the design and production of goods and services that are new to them, irrespective of whether or not they are new to their competitors – domestic or foreign” (Ernst et al., 1998). Although scientific and technological development constitutes one of the key sources of industrial development and competitiveness, most developing countries have a poorly developed technological infrastructure and weak linkages between their R&D systems and the productive sectors of their economies.

In contrast to the traditional supply-oriented approaches to innovation, which adopted an essentially static approach by focusing on the output of science and technology (S&T) institutions (e.g. publications, patents), this study highlights the use and the value of those S&T outputs to other producers. From its perspective, innovation policy, not only aims to build on the importance of user-producer interactions and

² See Nelson (1993) and Lundvall (1992). Our definition of innovation refers directly back to Schumpeter’s, where the sources of competition in capitalist economies do not arise from lower prices for the same product, but from “new consumer goods, new methods of production, or transportation, new markets, new forms of industrial organization that capitalist enterprise creates” (Schumpeter, 1987).

flows, but also is seen as part of a set of complementary policies, whose interaction will affect the larger environment within which firms make innovation decisions.

The objectives of the study are manifold, *inter alia*: (i) to evaluate the innovative performance of the music sector with a view to realizing the export potential of the music industry by reviewing the institutional dynamics based on linkages and interactions between the key agents in the national system of innovation (i.e. the public sector, formal S&T sector, financial sector) and how these interactions impact upon the industry's performance in a dynamic context. A related aim is to explore the institutional links between this sector and the NSI and to explore how these could change over time; (ii) to identify the strengths and weaknesses of this sector's technological performance, in particular of the music product, by identifying factors which could enhance or impede the industry's innovative potential; (iii) to evaluate Jamaica's present technology policy aimed at enhancing innovation-based competitiveness in one of its strategic sectors, namely music and entertainment with a view to the upgrading of Jamaica's manufacturing and exporting capabilities; (iv) to offer suggestions and recommendations aimed at the creation of a congenial environment which would foster the industry's development through the NSI approach, which proposes an alternative institutional design conducive to enterprise-based innovation. This is to be accomplished through development of policy recommendations aimed at upgrading of domestic enterprise-level capabilities.

Our primary data originate from over 100 firm-based interviews and surveys conducted in Jamaica over a one-year period (1996-1997), of the key players in Jamaica's NSI and its music industry. The sample of over 100 industry-wide players included individuals and institutions directly involved with the industry, including the songwriters, musicians, performers, producers, managers, publishers, promoters, broadcasters, merchants, distributors, entertainment attorneys and individuals in the public sector charged with the industry's development, responsible government officials, private sector individuals, members of the financial community, music school personnel, officials in training institutes, and other key individuals involved in the industry. These include interviews with individuals not only in Jamaica but also distributors in the United Kingdom, United States and several European countries.

An assessment of Jamaica's NSI can hardly be attempted without prior consideration of the new policy of economic openness centred on liberalization, deregulation and privatization to Jamaica's development prospects. The opening up of the economy in the 1990s led to a major increase in the competitive pressure of foreign firms on all Jamaican industries. The initial impact on the balance of payments and on employment has been far from positive. However, the objective of the new policy is to take advantage of these competitive pressures and the new trading opportunities to stimulate technological innovation and business capabilities in Jamaican firms and thus enable them to compete in the global market. This has been accompanied by a profound reorientation of the role of government from one based on dirigisme and direct intervention in the economy to a proactive role which favours the

creation of an appropriate institutional framework aimed at enhancing the capabilities of the private sector to compete in the international arena.

Failures in inputs markets, such as skills and other dimensions of education and training, are widely acknowledged to exist everywhere (Lall, 1995). Practically all governments undertake a whole range of interventions in their education and training systems to overcome these market failures. Moreover, as international technology markets are fragmented and highly imperfect, governments of developing countries should look for ways to help their enterprises to find, bargain for and transfer new technologies that do not violate the international agreements signed at the Uruguay Round (Lall, 1995). Support to domestic enterprises is particularly required in the area of provision of information and assistance with bargaining with multinational corporations (MNCs) – which represents an important source of learning in the technology transfer and technological capability-building process.

Previously it was believed that technological innovation was a linear process that began with scientific research which was subsequently passed on to industry. In contrast to this unidirectional interpretation of innovation, it is now recognized that the nature of innovation, as well as our understanding of it, has radically altered. Technological changes often provide insights to those engaged in scientific research and vice versa. Indeed, since many innovations involve incremental improvements in technical performance, product quality, product design, or simply learning how to manufacture an already existing product, it is clear that identifying the users and producers of an innovation is difficult while the sources of innovation itself are often multiple, unpredictable and highly uncertain.

Historically all governments have intervened in the market place in support of the production of this service. Across all industrialized countries, the field of culture has been subsidized heavily. The prerequisite of a successful modern industry has been the existence of a supportive regulatory framework for the industry's development (e.g. an appropriate IPR regime). The change in perception of the music product as merely an expression of art and culture towards a commercial product has already occurred in many developing countries. This is particularly the case in countries where the service sector has experienced fast growth. Developing countries need to diversify across the whole range of goods and services, in order to take the full advantage of today's new trading opportunities offered by the latest set of Uruguay Round negotiations. Extensive literature on the economic contribution of the music industry in industrialized countries indicates that in all success cases of commercialization of creative or artistic works, policy played an instrumental role in the evolution of these industries, although the nature and character of this process varied significantly among countries and regions (Baumol and Bowen, 1987; Vogel, 1998; Coase, 1966; Alexander, 1994; Fink, 1989; Shaw, 1987; Toll, 1982; EC, 1993; Dyson et al., 1988).

II. THE PRODUCTION PROCESS OF MUSIC PRODUCTS AND SERVICES

There are at least 16 separate and clearly identifiable functions involved in the music business: namely, singers, musicians, songwriters, producers, audio engineers, publishers, record manufacturers, promoters, managers, disc jockeys (radio, club and sound system) booking agents, venue operators, merchandise manufacturers, entertainment attorneys, distributors and retailers. Combined, the above-mentioned activities result in the production and provision of most of the products and services available in the business of music.

A. *Recorded music products*

Despite much crossover and integration among separate activities, there are four distinct phases of the recorded music business, i.e. recording, manufacturing, marketing cum distribution and retailing phases. Let us briefly summarize the key activities involved in each phase.

1. *Recording phase*

The first phase of the process involves the making of a master recording of a musical work whereby singers, musicians, songwriters, sound engineers and record producers assemble in a recording studio in order to produce a master recording (studio recording facilities are generally rented). This completes the first phase of the music making process.

The record producer is usually the owner of the master recording (but not the song itself, which remains the property of the creators by virtue of the law of copyright). The commercial exploitation of the recording and the song incorporated in the recording normally generates income by way of royalties.

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