# Local entrepreneurs, networks and linkages to the global economy in Southeast Asia and Africa

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# Summary

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# I. INTRODUCTION

For much of the past decade, the world has applauded the striking development performance of Indonesia, Malaysia and Thailand. Despite the setbacks caused by the present financial crisis in Asia, the rapid structural transformation and improvement in the standard of living in these three countries remains a powerful testament to the benefits of a strategy emphasizing industrial exports. In the first half of the 1990s, when gross domestic product (GDP) grew at 2 percent annually in Sub-Saharan Africa, GDP grew at over 8 percent per year in the three Southeast Asian countries. During the same period, exports from Africa grew by 2.5 percent annually, and the three Southeast Asian countries pushed their export growth to an average 13.1 percent.[1] African countries have tended to remain commodity exporters, and while Africa has so far remained largely untouched by the "Asian flu", the continent also missed out on the benefits of engagement with the global market.

Why has Southeast Asia developed such a dynamic industrial export sector, while Sub-Saharan Africa has not? Until the recent financial crisis, most analyses argued that Southeast Asia had "developmental states", while Sub-Saharan Africa was cursed with corrupt and neopatrimonial governance. The developmental states of Southeast Asia were credited for putting in place the fundamentals of macroeconomic stability and investment in education, and orienting policy to favor exports, or at least to create a level playing field between exports and imports. They were said to have engaged their private sectors in high-level "deliberative councils", designing and implementing policies that encouraged productivity and efficiency. However, the financial crisis put this interpretation into question. In the aftermath of the crisis, the Southeast Asian states are now being castigated for their high levels of patronage, corruption, and business-state collusion. They are described in terms strikingly similar to those used to describe African states.

It remains a little too soon to put nails in the coffin of the Southeast Asian developmental state. However, the Asian miracle always had a societal side, one that a state-centric focus largely missed. Many who wish to compare Southeast Asia and Sub-Saharan Africa point to the structural similarities between the two regions: similar commodity export histories, similar GNP/per capita in the 1960s, etc. Yet the differences between the two regions are significant, and particularly so in their experience of entrepreneurial development. This paper suggests that Southeast Asia's lead over Sub-Saharan Africa is not simply a response to good policies undertaken in the past two decades, but rather also reflects the different ways in which each area first engaged with the capitalist world, the paths indigenous and non-indigenous entrepreneurs took and the experiences they accumulated during the colonial period and after, and the subsequent depth and breadth of the business networks and global linkages that characterize the entrepreneurs of each region.

When seen historically, three striking differences emerge between Sub-Saharan Africa and Southeast Asia. First, Southeast Asia was well integrated into international

[1] Export figures refer to 1990-1995 and are from World Bank (1997); growth figures refer to 1990-1996 and are from World Bank (1998).

maritime trading networks several centuries before maritime trade reached most of Sub-Saharan Africa. The lower cost and greater ease of maritime trade meant that traders in Southeast Asia could develop business skills, be exposed to outside innovations, and accumulate significant capital much earlier than was possible for many in Africa. As part of this maritime mobility, waves of Chinese and Indian immigrants settled in Southeast Asia and were to become significant elements in the area's economic development. In contrast, Africa's experience of pre-colonial maritime trade focused on a small stretch of East Africa, bypassing most of the continent. Settlement of Asian immigrants took place much later as well. Finally, once maritime commerce reached into Central and West Africa, it focused almost exclusively on the slave trade, and this also affected the continent's later trajectory. Second, significant import-substitution industrialization began in Southeast Asia in the late 19th century, three or more decades before any significant modern industrial development occurred in Africa, giving Asian entrepreneurs and workers a longer history of experience with industrialization. Third, proximity to Japan served as a powerful catalyst for entrepreneurial development in Southeast Asia. Japanese firms appear to be much more likely to enter into joint ventures in manufacturing with domestic firms, and at a lower level of technology than western firms. African entrepreneurs had no similar, "appropriate" catalyst. Direct foreign investments in Africa are still much more likely to be in mining, petroleum, and other primary commodity extraction ventures.

This paper reviews the state of the knowledge about local entrepreneurship in Southeast Asia and Sub-Saharan Africa. It continues with a brief discussion of entrepreneurship and several related issues and questions. It then provides a short social history of entrepreneurial development in both regions. The fourth section reviews the enabling conditions and constraints facing local entrepreneurs in both regions. The conclusion suggests some policy recommendations and areas for further research.

## II. ENTREPRENEURSHIP AND THE GLOBAL ECONOMY

Entrepreneurs are the bedrock of the capitalist system, and their development has to be seen in the context of the development of societies that allow and even encourage private accumulation of capital for investment. Although traders are the foundation of a market economy, it is primarily the rise in broad-based manufacturing investment and the social division into owners and workers that distinguishes a pre-capitalist from a capitalist system. This study focuses primarily on entrepreneurship in the "modern" manufacturing sector. Entrepreneurs are the founders and leaders of businesses, a group separate from business managers, but with many of the same concerns. Even with these limits, there are a number of dimensions of entrepreneurship that need to be understood in order to learn from comparisons. First, entrepreneurs need to be studied as individuals whose histories and capacities make up much of the dynamic force of an economy. Second, we need to understand the relations between entrepreneurs and the state: under what conditions do societies move from state-business relations characterized by patronage, cronyism, and corruption, to those characterized more by productivity, dynamism, and synergy? Third, we need to explore the linkages *between and among* entrepreneurs: their networks, clusters, and associations, and the ways in

which these linkages are globalized.

Most of the studies of entrepreneurship in these two regions examine entrepreneurs as individuals, often including life (or firm) histories or an assessment of the capacity and "modernity" of a country or region's businesses. These studies have their roots in several traditions. Modernization theorists during the 1950s and 1960s studied the extent to which entrepreneurs in both regions possessed the attitudes and skills necessary for modern business development. Both academics and politicians expressed doubt over the ability of local entrepreneurs in both regions to provide the driving force for economic development. This set of concerns survives in recent studies that examine the relative capacity, productivity and efficiency of local firms and firms owned by foreigners, as well as those that address the debate over whether or not each region is developing a "true" indigenous capitalism, or some distorted "ersatz" or "comprador" varient, and those that examine entrepreneurship and ethnicity.

The relationship between entrepreneurs and the state entails another level of analysis, one that examines the collective development of entrepreneurs, not their individual growth. Several concerns arise here. An effective capitalist system requires a state that provides an "enabling environment" for business, but which is able to maintain some autonomy and avoid "capture" by the business class. Relationships that are too close degenerate into rent-seeking and "cronyism" or "pariah" capitalism, the kind found under Marcos in the Philippines or Abacha in Nigeria. Relationships that are too distant run the risk that the state will not see the promotion of business as an important goal, resulting in an overregulated or even hostile environment, such as that under Rawlings in the early 1980s in Ghana, or Indonesia under Sukarno. A developed business class (or capitalist class) has a self-consciousness that enables it to promote its interests. One of the puzzles in the study of entrepreneurs and the state remains: under what conditions does the business class see its interests being met by policies that promote capital accumulation through productivity increases and competition, rather than through protection and rent-seeking? Another puzzle focuses on the cohesiveness of the business class: when do divisive forces like ethnicity and nationality become less important than the interests broadly shared by entrepreneurs?

Finally, a critical area for research on entrepreneurship covers the relationships among entrepreneurs and firms: the links, networks and clusters that provide information, assistance and examples, stimulate innovation, and transfer technology and skills. Robert Wade noted that the relationships among firms and other aspects of firm organization should have a "central place" in any study of industrialization, admitting that his inability to say very much on this issue was "a major gap" in his 1990 study of East Asian industrialization (1990: 70). Peter Evans' work on embedded autonomy partially remedied this gap, with its close examination of the interlinkages between state and business in India, Korea, and Brazil (1995). Yet even Evans' impressive book placed primary emphasis on government, and secondary emphasis on the ways in which government interacts with business. Businesses themselves, and the many-stranded networks that link businesses together, received scant attention.

Very recently, however, research has begun to tease out the implications of the

multistranded relationships that comprise industrial clusters, and local and international business networks. These relationships may range from intricately linked business groups, with overlapping directorates and share ownership, to networks of information formed through trade or membership in business associations or social clubs. One set of studies proceeds from the idea that industrialization can be facilitated by Marshallian industrial districts which produce economies of agglomeration. Clusters of enterprises in similar or related industries can be found throughout Southeast Asia and Sub-Saharan Africa. Geographic propinquity may generate economic benefits for entrepreneurs, but this must be established, not assumed. Among the potential benefits are lower costs of production through joint marketing or joint purchase of inputs, or lower transaction costs through sharing information about market demand, reliable sources of technology and equipment, or supplies; equipment sharing; access to working capital; subcontracting opportunities; informal technical assistance, etc. Harvard Business School professor Michael Porter highlights these clusters as an important component of "competitive advantage", arguing that when industries are geographically concentrated, domestic rivalries are magnified, and rivalry is a potent force that goads entrepreneurs into keeping up with their neighbors (1990: 149).

Another set of researchers approach the question of linkages via a focus on economic organization. Organization theory and some branches of economics examine the institutional forces that shape entrepreneurs' strategic decisions about firm structure: vertically-integrated hierarchies, or looser, horizontally-linked enterprise groups (common in both Southeast Asia and Africa) and subcontracting arrangements for example.[2] A current thread within this research examines the question of "trust" and "social capital" in comparative perspective. In more complex societies, trust is less necessary for exchange, since courts and other impersonal institutions of contract enforcement provide incentives to follow through on agreements. In less complex societies, familiarity, reputation and ascriptive characteristics such as shared ethnicity substitute for formal enforcement, smoothing transactions and allowing contracts to be upheld. It is possible that societies differ in the degree to which their history and shared sense of trust has created the kind of social capital that facilitates efficient exchange and investment.

The discussion above outlines most of the issues that concern us as we look comparatively at local entrepreneurship in Southeast Asia and Sub-Saharan Africa. Each region has grappled with a set of challenges inherent in the transition from traditional (pre-capitalist) to "modern" capitalist systems. Technical and learning challenges provide one set: how do entrepreneurs gain access to the skills and machinery that will enable them to be internationally competitive? How do they break into international markets? But the political and social challenges of business development are equally vexing. Entrepreneurial opportunities in each region tend to be skewed toward certain ethnic groups (often expatriate). What are the development implications when the industrial dynamism in an economy comes primarily from foreign or non-indigenous local investment? Finally, the political influence of entrepreneurs and their relationship with the state shape the incentives business receives and the ways in which

[2] Some of the relevant works include Coase (1937); Williamson (1975, 1985); Granovetter (1985) and Feenstra, Huang and Hamilton (1997).

accumulation occurs. Ruth McVey once described a business promotion program in the Phillippines as "a giant porkbarrel into which politicians and their friends, newly dubbed entrepreneurs, dipped their fingers" (1992: 11). Can a business class formed through rent-seeking and "crony" capitalism evolve over time in a more competitive and efficient direction or must it be largely destroyed through liberalization, so that something new can emerge?

## III. ENTREPRENEURSHIP IN COMPARATIVE HISTORICAL PERSPECTIVE

Southeast Asia and Sub-Saharan Africa differ sharply in the extent of time each has been exposed to the stimulus, learning and accumulation opportunities inherent in international trade networks. Southeast Asia is strategically located along the great ocean trade routes between India and China. The spices of Southeast Asia brought Indian traders in the first century A.D. and Chinese traders to the region by the 5th century A.D.. International trade had grown substantially by 1000 A.D., as Chinese and Indian traders visited trading ports from Malacca to Kerala. Between the 1300s and 1600s, indigenous entrepreneurs also played a major role in Southeast Asian trade: Malays, Sulus, Javanese and others contributed the bulk of the goods, ships, and finance for trade (Brown, 1994: 6).

During this period, Sub-Saharan Africa was markedly less linked to international trading circuits. Swahili Arab traders plied small vessels along the coasts of East Africa, establishing trading ports in Zanzibar and northern Mozambique by the 10th century and exporting ivory and gold. Except for an odd series of expeditions organized by the Ming Dynasty in the early 15th century, the Chinese had no contact with Africa. Indian trading ships, limited by the monsoon winds, reached only to the coasts of Kenya by the 15th century (Austen 1987: 59). Camel caravans moved across the Sahara into the Sahel and Savannah regions, but then trade routes generally broke down into short distance "relays". The very different geography made transport much more difficult and impeded trade links. Furthermore, the Western coast was almost completely cut off from significant outside contacts until the 16th century. As Oliver and Atmore's history of the African Middle Ages notes, in 1400, there were no ships at all in the oceans between southern Morocco and what is now South Africa, and "for those living between these points the ocean marked the end of the world" (1981: 16).

It was not until the arrival of Europeans and the marked acceleration of the slave trade that the many small, regional trading networks were finally linked with the earlier trans-Saharan and East African coastal trade into a continent-wide system in the late 18th century. Yet even then, in West Africa, there was little that could be termed indigenous, long-distance trade:

traders failed to develop market networks and merchant estates which transcended geographical and cultural boundaries. Goods moving to or from the coast were therefore not carried by single caravans or agents of the same organization over wide distances, but instead passed by a system of relays from one ethnic group to another across territories often defined by shifts from overland to water routes (Austen 1987:

91).

Until the demand for Africa's industrial raw materials rose in the mid-19th century, neither production nor trade grew in a sustained manner (Sender and Smith 1986: 8). This contrasted sharply with Southeast Asia during the same period, where trade was already a significant feature of the local economy.

Colonialism brought intense competition and often brutal suppression for indigenous traders in both regions. In the 17th century, Portuguese and Dutch trading groups fragmented the "vibrant indigenous trading circuits" of Southeast Asia which "failed to survive into the colonial era" (Brown, 1994: 11). The Chinese and Indian immigrants, on the other hand, were able to draw on the resources of ethnic networks and to make themselves useful to the colonial powers. Their investments and trading networks rivaled those of the Europeans. Some wealthy Chinese entrepreneurs in Southeast gave credit to European merchants, and others had important roles as middlemen.

In Sub-Saharan Africa, Portuguese efforts to capture the gold and ivory trade greatly reduced the activities of the Arabs who had traded along the east coast. The Portuguese dominance and the low level of accumulation detered local groups from gaining much of a foothold in trade, although the Indian merchants who had earlier settled along the coast were able to maintain and even expand their trading businesses and have been credited with introducing the money economy to East Africa (Himbara, 1994: 22; 37). In West Africa, as colonial trading enterprises penetrated further into the interior, they used their exclusive charters, greater access to capital, and the protection of colonial authorities to force their nascent African competition out of business. In Nigeria in the 1880s, for example, Jaja of Opobo, a successful indigenous trader with some several thousand employees, had begun to export palm oil directly to England, threatening European dominance of the export trade. He was driven out of business by the British.[3] Likewise, in Southern Africa, the colonial powers protected European traders by tightly controlling the entry of Africans (Nicolas, 1994: 96). In the early colonial period, these moves may have kept most indigenous African entrepreneurs from accumulating capital on any significant scale.[4]

By the late 19th century, both regions were on different paths. Southeast Asia moved into modern manufacturing well before Africa, with almost exclusively foreign and Chinese or Indian investment. The first phase of industrial development in Southeast Asia -- cement production, food canning, beer, soap and biscuit manufacture, rubber processing and other basic industries -- began between 1860 and 1914, with the production of chemicals, refined sugar, light machinery, cycles, paper, textiles and other

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[3] The challenge of West African indigenous traders and the response of the colonial power are discussed in Gertzel (1962), Nwabughuogu (1982), and Ofonagoro (1979).

[4] There exists some disagreement among scholars on whether the colonial state impeded indigenous capital accumulation in East Africa. Himbara (1994) recounts numerous instances of colonial support for local entrepreneurs, but his earliest accounts date from the 1940s. Marris and Somerset (1971), Brett (1973) and Swainson (1980) all argue that local entrepreneurs were restricted by direct colonial action.

goods well in place by 1930.[5] Dunlop invested in rubber plantations in Malaya in the early 1910s, Goodyear in Sumatra.

Yet even in Southeast Asia, the development of industry was uneven. In Thailand, the monarchy had been pressured into signing the Bowring treaty by the British, which limited tariffs on all imports to 3 percent, between 1855 and 1926 (Akira 1989: 21). These levels of protection, the lowest in all of Asia, allowed little scope for import substitution industrialization in Thailand. Consequently, industrial development was slow. Steam-powered rice mills were established in Bangkok by the 1870s, but by 1919, Bangkok had only a cement plant, cigarette factory, soap and leather factories, and several soda bottling plants, in addition to a number of large-scale rice mills (49 by 1908) and saw mills. With the repeal of the Bowing treaty in 1926, Thailand was able to impose trade barriers to stimulate domestic industry. Cotton mills and a paper factory were established in 1935, modern white sugar refining began only in 1937, and the first textile factory in 1939 (?), dates that are not dissimilar to those in some of Africa's more progressive economies, such as Kenya.

The colonial authorities in Indonesia also introduced quotas on textiles in the 1930s to stimulate textile production. As intended, this pushed domestic capital (mainly Chinese) and foreign capital into manufacturing. As Yoshihara (1988: 113) recounts it,

Some traders went into manufacturing because the goods they were importing could no longer be imported. For them, entry into manufacturing was a strategy for survival. Others went in seeing a great opportunity to make profits under the protection and incentives offered by the government.

The colonial authorities in Malaysia, on the other hand, maintained essentially *laissez-faire* policies until a 1955 World Bank report urged Malaysia to raise tariffs on manufactured goods to stimulate import-substitution industrialization (Jesudason, 1990: 48).

By 1941, although Southeast Asian industrialization could still be described as "patchy", it was well underway, led by Chinese, Indian, European and Japanese entrepreneurs, and already involving production for export: "Entrepreneurs had identified potential areas of investment and used their trading base to take the opportunities for specific industrial initiatives. They initially targetted the domestic market and later, through cartels, attempted to secure a market share in Asia" (Brown, 1994: 249-250). Even at this early point, the economies of Southeast Asia had already become well-integrated with extensive intra-regional trade and investment, although it was to take until the industrial policies of the late 1950s and 1960s for manufacturing to "take-off".

In contrast, the initial development of manufacturing in Sub-Saharan Africa lagged Southeast Asia's by some 30 to 40 years, and no region of the continent is anywhere near being well-integrated.[6] Entrepreneurs in Kenya established the first

[5] The discussion of the dates of industrialization in Southeast Asia draws on Akira (1989), Brown (1994).

[6] For discussions on the dates of industrialization in Africa, see Himbara (1994: 39); Rapley (1994);

rudimentary factories at the turn of the century, tanning leather, ginning cotton, and making furniture. But in general, African industrialization appears to have begun primarily in the 1920s and 1930s. Uganda's Madhvani Group began manufacturing sugar in the 1920s, and the first factories in Nigeria appear to have been established in the 1920s. In one of the more advanced regions, Côte d'Ivoire, industrial development was almost nonexistent until the 1940s. Indigenous entrepreneurs in Côte d'Ivoire tended to focus on plantation agriculture, and diversify into services (transport, moneylending) and real estate. And despite the initial investments in Kenya, Kenyan manufacuring was "still in its infancy" before World War II (Himbara 1994: 43). Being cut off from external supplies during World War II acted as a stimulus for import substitution industrialization in parts of Africa, as in Latin America. As African countries moved closer to independence, some colonial authorities began to implement import substitution policies. In the 1950s, Nigerian authorities raised tariff levels on some classes of imports that were also produced in Nigeria, and Kenyan authorities developed a duty drawback scheme for imported raw materials used in manufacturing exports. But in general, policies to stimulate domestic industry would wait until after independence.

Industrial development clearly has an ethnic dimension in each region. Both Southeast Asia and Sub-Saharan Africa have found their indigenous entrepreneurs getting a later start than the Chinese, Indian, and other foreign entrepreneurs who entered as long-term residents. The Chinese and Indians have been a presence in Southeast Asia for more than a thousand years. The Chinese in particular have become important percentages of local populations. In 1981, about 33 percent of Malaysians, 13 percent of Thais, and about 3 percent of Indonesians were of Chinese descent (Mackie, 1992: 163). Several centuries ago, local rulers used the resident Chinese for "tax farming" which enabled them to raise revenues without the risk of accruing obligations (and demands for power-sharing) from their indigenous noble families. Tax farming worked synergistically: the Chinese identified a sector or product that could be monopolized, obtained an agreement to control its production or distribution, and paid a fixed rent to the ruler, while keeping the surplus. Tax farming became a lucrative source of capital accumulation for Chinese business families, while also establishing the Chinese as a useful "comprador" for royal interests.

By the start of the 20th century, Southeast Asia had many, very large Chinese family firms, already diversified into a number of activities. The Khaw family, for example, began their accumulation in the 19th century as tax farmers in Hong Kong and Southeast Asia, and moved in the early 20th century into insurance, shipping, and tin mining and smelting in Siam (Thailand), Burma and the Malay States. Their investments included several joint ventures with Australian companies, Chettiar groups, and other Chinese (Brown, 1994: 87). Chinese firms in Southeast Asia dominated small-scale industry in the 1930s and 1940s, and moved increasingly into larger-scale manufacturing in the 1950s, although they tended still at that time to concentrate in sectors with simpler technology: garments, molded plastics, wood products, and paper, leaving the more complex sectors to foreign investment. The entire first wave of

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Sender and Smith, (1986: 12-13; 28). See also Kennedy, Illife, Forrest in DC.

business activity in Southeast Asia depended heavily on foreign and Chinese investment. In 1937, half of the capital invested in Thailand came from Chinese businesses, and the Chinese controlled almost a third of the capital in Malaya-Singapore, and 10 percent in Indonesia (Mackie, 1992: 164).

Chinese, Indians and Lebanese immigrants first settled in Africa much later than in Southeast Asia. The earliest to arrive were the Indians who came to trade in the Arab ports along the East African coast, exporting ivory and cloves back to India. By the early 19th century, there were some six thousand Indians settled along the coast, and, as in Southeast Asia, some had become important sources of finance for both local and expatriate commerce (Hollingsworth 1960: 28). Indian traders from the coast began moving into the interior in East Africa in the first decades of the 19th century. Indian immigrants began to arrive in significant numbers in East and Southern Africa, and Mauritius, as laborers in the building of railroads and in plantations, while others continued to come as traders throughout the 19th century (Kuczynski, 1948; Bowman, 1991: 20). In Mauritius, Chinese traders already numbered several thousand by the 1780s. By the mid-1840s, the Port-Louis market in Mauritius was "dominated" by Chinese traders, and two decades later, one visitor reported, "'in every out-of-the-way nook and corner of the island' you found 'a Chinaman's shop'." (Snow, 1988: 55). However, with the exception of Mauritius (where the Chinese population is currently about 30,000), Madagascar (10,000), and South Africa (10,000), Chinese immigration was not significant in any African country (Bowman, 1991: 44; Snow, 1988: 57). By the 1930s, some Indian firms like Chellarams, a Sindhi Indian trading company with branches in Southeast Asia, the UK, the Middle East, the West Indies, and West Africa, and the Chandaria Group, with subsidiaries in Kenya, Nigeria and elsewhere, had become true multinationals. Levantine traders (Syrians and Lebanese) came predominantly to West Africa, arriving in Nigeria in the mid-1890s, where they became traders and transporters.

As the colonial period came to a close, indigenous African entrepreneurs remained concentrated in the service sector: trade, transport, real estate, and construction, where some amassed considerable investment. Others set up mills, bakeries, and other light industries but very rarely on any significant scale. For indigenous entrepreneurs in Southeast Asia, the situation was not very different. Even in the most advanced country, Malaysia, indigenous firms remained "feeble" and concentrated in batik printing, rattan products and other handicrafts (Jesudason, 1990: 64). One handicap indigenous entrepreneurs had was their inability to, as one study reported, "develop business networks" (Yoshihara, 1988: 55).

In both regions, it was non-indigenous entrepreneurs who had accumulated the networks, capital, and business skills, and who had the global linkages necessary to begin the transition from commerce to modern manufacturing. European capital in Nigeria first began to shift into larger-scale, import-substitution manufacturing after 1957 as a defensive reaction to new tariffs on imports (Forrest, 1994: 25). Kenyan Indians ("Asians") who had started out in commerce and banking in the late 19th century, slowly moved into manufacturing in the 1920s. By the 1950s, they were producing on a large and diversified scale, and by the mid-1980s, one study concluded

that "Kenyan manufacturing industry is almost exclusively owned by multinational corporations, Kenyan Asians, or government parastatals; Africans own very few medium or large-sized manufacturing firms" (Coughlin, 1988: 293).

Ethnicity became an important political issue in both regions, as colonial governments reconsidered economic development strategies in the post World War II period. After independence, pressure grew for the new leadership to intervene to create opportunities for indigenous capital. A number of African countries, such as Kenya and Nigeria, attempted to promote indigenous African business by new licencing requirements and regulations that pressured Lebanese and Indian entrepreneurs to vacate trading and small-scale services (leaving these for African entrepreneurs), and move their capital into more sophisticated manufacturing. Some, like Uganda, expelled their Asian population.

Malaysia's New Economic Policy (NEP), put in place in 1971, was the most explicit effort to boost business opportunities for indigenous capital. The government pledged that by 1990, Malays and Malay interests would own at least 30 percent of the corporate capital in the country. Dozens of programs were put in place to promote Malay entrepreneurship. One effect of the NEP was that the proportion of Chinese investment in manufacturing fell by about 50 percent, as concern rose about the security of their property rights (Jesudason, 1990: 143). Much of the difference was made up through state corporations, often in joint ventures with foreign firms. Up until the mid-1960s, Indonesian policies did little to support entrepreneurship for any ethnic group. As development economist Benjamin Higgins charged in 1963, "the story of Java seems to be one of repeated nipping off of a budding entrepreneurial upsurge by a political elite essentially hostile to it" (1963: ix). After the 1965 coup, policy became more nurturing, targetting in particular the "pribumi" or indigenous Indonesians. Yet at present, Chinese Indonesians contribute some 70 percent of domestic investment, and they also continue to bear the wrath of the indigenous people whenever the economy slumps (Weidenbaum and Hughes, 1996: 25). Several thousand Chinese have been killed recently in the riots accompanying the price hikes introduced by the government to address the economic crisis. Thailand, which was never colonized, followed a policy aimed at assimilation. The Family Name Act and the Nationality Act of 1913 led many resident Chinese to take Thai family names and Thai nationality. Although some official policies of ethnic discrimination existed, they were abandoned in the late 1950s. Thais of Chinese descent dominate business in Thailand, holding some 90 percent of investments (Akira, 1989: 9).

By the end of the 20th century, despite the recent setbacks, the structural transformation and industrial advance of Southeast Asia is still substantially better than most of Africa. Manufacturing output first exceeded agricultural output in Thailand in 1981, in Malaysia in 1984, and in Indonesia in 1991. By 1991, only four Sub-Saharan countries -- Zambia, Zimbabwe, South Africa, and Mauritius -- had reached that level of structural transformation. Government policies were critical in creating, or not creating, an "enabling environment" for entrepreneurs in both regions, but as the discussion above points out, for various reasons, history has presented different paths to different groups of entrepreneurs in each region. Some have thus been more able than others to draw on

networks and other informal institutions for support, accumulate substantial capital, and be exposed to models of capitalist rationality and external catalysts who can provide the ideas and the strategy for an initial industrial investment.

## IV. LOCAL ENTREPRENEURSHIP AND GLOBAL LINKAGES: ENABLING CONDITIONS AND CONSTRAINTS

What do entrepreneurs need in order to invest successfully in manufacturing? At a basic level, particularly if they are traders thinking about moving their capital into a fixed investment, they need a political and economic environment with a certain degree of stability and predictability and some incentives, or at least the absence of strong disincentives for investment. They also need good infrastructure: roads, ports, a constant supply of electricity and water, and reliable telecommunications. On an institutional level, they need contract enforcement and security of property. This can be supplied by the state, or by informal systems based on reputation or sanctions of exclusion. Finally, entrepreneurs are tasked with gathering the "inputs" to the production process: ideas and information about opportunities and markets, investment finance and working capital, sources for technology and inputs, and skilled personnel. In this section we consider the enabling conditions and constraints faced by local entrepreneurs in both regions. The section begins with a review of networks and clusters as institutions that strengthen entrepreneurs individually and collectively, continues with a discussion of relationships between entrepreneurs and the state, and concludes with a review of foreign investment links. We argue that different local groups have developed different histories of linkage to the global economy, to ideas and resources outside their locality, and to the state, and that this explains an important part of the ability of some groups to embark on dynamic industrialization.

### Networks and Global Linkages

An entrepreneur seeking to enter industry faces high transaction and learning costs. Networks are one way in which entrepreneurs reduce search costs while also lowering the risks of embarking on a new venture. Industrial districts, or clusters of contiguous and often related enterprises, are one way in which networks form. However, today, in an increasingly competitive world, networks need to be global. Global linkages are critical for passing on information and ideas, providing catalysts and capital, and for gaining experience via learning from others. Vertical linkages among firms are formed through subcontracting: larger firms (often international) subcontract parts and processes to smaller (often domestic) firms. Horizontal linkages are those between more or less equals, and are formed either through geographical proximity (clusters), or networks. Global linkages occur most frequently through trade.

Trading networks have always existed outside of the artificial boundaries established by states, and both Southeast Asia and Sub-Saharan Africa today have impressive trading groups with extensive global contacts. Although many hope that small-scale artisans will make the transition to modern manufacturing, local

entrepreneurs who start manufacturing ventures in less developed countries seem more likely to begin as traders. Trade provides a vehicle for capital accumulation and an intimate knowledge of markets and distribution. Travel provides exposure to new ideas and sources of information. Furthermore, traders that are part of an ethnic network have other advantages. As Weidenbaum and Hughes point out: "in a region where capital markets are rudimentary, financial disclosure is limited, and contract law very weak, interpersonal networks are critical to moving economic resources across political boundaries" (1996: 53). Weidenbaum and Hughes were describing East Asia, and of course, these conditions apply even more in Sub-Saharan Africa.

As the histories above make clear, both regions have different experiences of entrepreneurial accumulation, network formation, and global linkages. The Chinese and, less so, the Indian networks of Asia are legendary (Chan, 1992; Feenstra, Huang and Hamilton, 1997; Hamilton, 1996; McVey, 1992; Weidenbaum and Hughes, 1996). Based originally on ties of kinship and of dialect, these networks provided credit, preferential distribution agreements, advice, information and contacts for their members. Extended family and locality-of-origin connections enabled Chinese networks of the 18th and 19th centuries to expand easily beyond national boundaries, reduce search costs, and resolve problems of trust. As the first generations of trading families reproduced, the following generations had those networks to draw on, and expand. The challenges of entering manufacturing from a family with its roots in agriculture, artisanry, or even government service, are much steeper.

African traders and other entrepreneurs also have extensive networks. Indeed, Hausa and Igbo trading networks are also "legendary" in West Africa. Likewise, clusters of enterprises are commonly found in Africa: the Suame Magazine in Kumasi, Ghana, for example. Much less research has been done on the nature of these clusters and networks as they facilitate modern industrial development. One exception is the study of a cluster of modern spare parts factories in the Igbo town of Nnewi in eastern Nigeria (Bräutigam, 1997).

The Igbo of eastern Nigeria live in one of the more densely populated areas of Africa, which may explain why their people became traders, settling in other regions of Nigeria and of West Africa, but always maintaining their connections to eastern Nigeria. Nnewi entrepreneurs entered the palm oil market at the end of the 19th century, producing, collecting and later transporting palm oil. The area became a noted center for transport and a market for spare parts consequently sprang up. During the colonial period, several businessmen, including Philip Ojukwu, amassed considerable wealth through their transport businesses, one of the few areas that were open to indigenous entrepreneurs (Silverstein, 1984). By the 1930s, Nnewi people were at the center of an international trading network that dominated the supply of motor spare parts. Like the Chinese, Nnewi traders used family networks, clustering close relatives at the center of each web of distribution, and non-relatives (but generally co-ethnics) at the outer edges.

Although at first spare parts were imported primarily from Europe, Asian entrepreneurs soon penetrated the market, offering to produce copies of the European "original" brand name parts. Nnewi's first Asian contacts were with Japan, but soon

Chinese networks based in Taiwan came to dominate the supply of motor vehicle spare parts with their "reproductions" of European brandname parts (Alutu, 1986: 221). Gradually Nnewi motor parts traders began marketing their own brand name products instead of the reproductions of "original" parts. These, too, were generally made in Taiwan. The great majority of industrialists in the cluster of spare parts factories in Nnewi are also traders, and most of these are producing one or more of the products they specialize in as traders (usually motor vehicle parts), and most began by distributing their products through their preexisting distribution networks. Family networks remained a factor, although they were weaker in manufacturing than in trade.

Nigerian traders received extensive exposure to production in Asia once their businesses grew large enough for the traders to make the trip to Asia for goods instead of waiting at home for Asian traders. One medium-sized manufacturer of plastic auto parts and batteries related how in the early 1980s his trading business had grown large enough for him to travel to the Far East to meet with his suppliers in Japan: "I saw their plant and how they produced, and I felt if I could produce these items at home, I could give people jobs, transfer technology to Nigeria, and make more profit." Another manufacturer commented, "For eight years I imported these things and saw how simple they were to make. So I decided to start manufacturing them."

Nnewi industrialists generally used imported machinery (sometimes second-hand) one step down the product cycle, at the technical level now being outgrown in the East Asian NICs. Some entrepreneurs were able to import machines from the factories they had been trading with in Asia. For example, an oil filter manufacturer bought out the Singapore firm who used to supply his business. In so doing, of course, Nnewi entrepreneurs were following the experience of Taiwan and Korea, who learned from Japan's slightly outdated production practices. Their extensive international ties gave them access to information that simply did not exist inside Nigeria: information on modern, medium-scale production technologies that Asian firms were beginning to outgrow. These contacts, combined with the advantages of the strong distribution system and the access to credit facilitated by ethnic ties, underpinned the lower transaction costs enjoyed by Nnewi entrepreneurs seeking to enter industry.

Another case of Africa-Asia networks can be found in Mauritius. Mauritius was the first African country to establish export processing zones (EPZ), in 1970, soon after independence. The idea for the EPZ seems to have come from a prominent Sino-Mauritian professor, Sir E. Lim Fat, whose family was originally from the Canton area, and who was linked through his brother-in-law's family to Chinese in Taiwan, where he visited the world's first EPZ. Taiwan offered technical assistance for establishing the zones, and the Sino-Mauritians advertised the opportunities through their contacts in Asia, and invested in the zones themselves. Between 1971 and 1975, EPZ exports grew at 31 percent per annum. Although expansion in the zones then went through a slower period, foreign investment from Hong Kong and Taiwan surged in the mid- and late 1980s, becoming the nucleus of a thriving knitwear and garment export industry. By the late 1980s, Mauritius was the third largest exporter of knitwear in the world.

Early in the life of the EPZs, joint ventures between East Asian and local investors

were common, although this was not a requirement for foreign investment. Because Mauritius had wealthy entrepreneurs with the capital to invest and the desire to learn the business, while the Asian firms needed the capital, risk-sharing, and the local knowledge and contacts, joint ventures were genuine, not "paper" partnerships.

Although Mauritius relied initially on foreign investment and their production and marketing knowledge, entrepreneurs in Mauritius were quick to also take advantage of the business opportunities presented by knitwear, garments, and other products. Franco-Mauritians who had amassed capital in the sugar industry, and Sino-Mauritians who had become wealthy through trade, were eager to establish links to the new foreign firms, who acted as catalysts for local investment. Much as in the "Third Italy" of Emilia Romagna, local firms soon sprang up to take advantage of the fact that the garment export industry is subject to unpredictability, with frequently very rapid turnaround demanded on "rush" orders that a single factory may be hard pressed to meet on time. When a foreign factory needed to send some tasks out to local firms, they would at the same time train the local firm to meet their quality requirements. These frequent demands for subcontractors, as well as the ability of Mauritian firms to attract workers who had been trained in foreign firms and who brought useful skills into local firms, spread capacity throughout the industry. At present, Mauritian owners account for about 60 percent of the capital invested in export production in Mauritius.

Finally, Africa-Asia linkages are also present in Lesotho, where many Hong Kong and Taiwanese investors have set up garment factories, and in Kenya, which receives considerable Indian investment, and where Kenyan Indian entrepreneurs have recently established export processing “parks” on their own (Himbara 1994: 66).

Industrial clusters that start with trade like that in Nnewi, or with artisanry, like the Suame Magazine in Kumasi, Ghana, are historically determined and may build slowly. In Indonesia, where these clusters are common, regression analysis suggests that agglomeration economies go far toward explaining regional enterprise concentration in Indonesia. Yet as van Dierman notes, "the mere occurence of clusters does not guarantee that productive networks will develop and agglomeration economies will accrue to individual enterprises within the clusters" (1997: 29). Clusters of specialized industries may be unable to move toward the kind of collaboration found in Mauritius. Sometimes, the characteristics of an industry will lend themselves to the development of collaboration and horizontal relations. Garment manufacture is one good example of this, where a process that could be vertically integrated is instead disaggregated and parts are given to subcontractors. As Pederson notes, this may be rare in Africa:

Many of the small industrial clusters found in Africa appear to have developed out of market towns rather than out of vertical sectoral disaggregation. They are often characterized by very limited vertical specialization and diversification and may develop into clusters of petty commodity producers rather than full-blown industrial clusters. This may be one reason for the limited success of many African enterprise clusters (1997: 22-23).

McCormick's work in Kenya underscores this conclusion. She found in the clusters that

occured on the low technology end of the garment market "very limited contracting of specialized services" (1997: 117). The mass producers of garments were 100 percent Asian, while the custom tailors were 95 percent African. In this case, networks differed greatly, being segregated by ethnicity and level of education. McCormick argues that entrepreneurial networks explain why some manufacturers produce more efficiently than others, and why some have more potential for growth.

Recent work by economists has begun to quantify the advantages networks may (or may not) provide to entrepreneurs in Asia and in Africa. Stanford economist Marcel Fafchamps has established that personal networks do give entrepreneurs in Kenya and Zimbabwe significant, preferential access to supplier credit (1996a, 1998a; 1998b). The kinds of networks that could benefit from this access generally were limited to non-indigenous groups who could easily identify each other: Europeans and "Asians", who had access to information about the reliability of others in their network, but not those outside. Research by Oxford economist Abigail Barr suggests that network diversity among Ghanaian manufacturers is significant in explaining productivity differences between enterprises . Barr demonstrates that networking helps Ghanaian entrepreneurs achieve increasing returns to scale, facilitating enterprise expansion (1997). Her work suggests as well that networks can be divided into two ideal types: "solidarity" and "innovation" networks (1998). While solidarity networks serve more to reduce uncertainty for entrepreneurs in marginal and traditional industries, innovation networks provide relatively larger, more modern enterprises with the information they require about technologies, markets, and the external world. Van Dierman also notes that in his study of Jakarta's low technology garment and wood furniture entrepreneurs, "dense networks of inter-firm linkages were not significant" in their growth (1997: 195). But Richard Doner's research in Thailand suggests that Chinese informal credit networks and trading company links are still very important, especially during periods of economic downturn, and "for those firms just moving into manufacture for export" (1992: 212-213).

Government policies can promote subcontracting and other kinds of linkages, although it is not clear that Southeast Asian or African countries have been effective in these efforts. Indonesia, for example, began in the late 1980s to actively promote linkages between foreign and domestic firms with a well-enforced local content scheme, and linkages between large and smaller firms with the "Bapak-Angkat" (foster father) scheme. When these programs are evaluated, we may learn more about their usefulness.

## Entrepreneurs and the State

Entrepreneurs require an "enabling state" to provide the policy framework, supportive services, and the public goods of a social and physical infrastructure. Government officials are more likely to support their entrepreneurs if they can identify private sector industrialization as being in their interest. Both Southeast Asia and Sub-Saharan Africa have had challenges in this area. For example, James Jesudason notes that in Malaysia, "the lack of co-operation between the state and Chinese capital has compromised the nation's ability to enhance its technological capabilities and develop a

strong manufacturing sector" (1990: 161). Likewise, Coughlin comments that in Kenya, "Africans own very few medium or large-sized manufacturing firms. This has seriously impeded an identification of interests between local industrialists and the political circles. As a result, the government's economic policies and bureaucratic decisions are frequently detrimental to the nation's long-term industrialization" (1988: 293).

The World Bank's study on the East Asian "miracle" gave some of the credit for East Asia's success to the relationship between entrepreneurs and the state. In particular, states were said to have engaged in productive discussions with their entrepreneurs, receiving and giving guidance on industrialization. While this does seem to characterize the northern tier of Asian countries, with Japan as the foremost example, this kind of consultation has been nascent at best in Southeast Asia. Yet the countries there have made some efforts to institute consultative mechanisms (World Bank 1993: 183-84). Malaysia is probably the furthest along in this regard, and its major formal consultations only began in 1991. As of 1993, Indonesia had no formal government-business links for policy coordination, and although Thailand did establish such links, there is considerable debate over whether or not they have been effective.

States also have the option of direct intervention to promote entrepreneurship. Again, both regions have attempted to "indigenize" their productive base. The Southeast Asian countries seem to have been more serious about using government to provide a boost to indigenous entrepreneurs. For example, Indonesia promoted indigenous investment in oil sector support services by closing certain services to foreign investment and allowing only indigenous firms to bid. The government also promulgated "buy Indonesian" procurement regulations for all government agencies in 1980 (Aden, 1992: 94). In Malaysia, where the state was "relatively autonomous from the dominant foreign and Chinese business groups," its desire both to promote.Malay interests and larger-scale projects led to joint ventures between state enterprises (with shares held in trust for Malays) and foreigners (Jesudason, 1990: 176, 200). While the government could have promoted subcontracting to build up the capacity of the small and medium-size entrepreneurs in Malaysia, most of these entrepreneurs were Chinese, and thus the state chose the option of creating a new business class among the Malays. Indonesia did institute a program to support small and medium-size enterprises, but the low level of state capacity hindered the outcome of the program (World Bank 1993: 181).

Recent work on industrial clusters, districts, and regions such as Baden Würtenberg in Germany, Sakaki Township in Japan, and Emilia Romagna in Italy point to the important influence of regional and municipal governments, in addition to, or instead of, national governments, in providing an enabling environment, establishing supportive institutions and public goods, and encouraging industrialization (Weiss, 1988; Friedman, 1988; Piore and Sabel, 1984). There is, however, little evidence that regional and municipal governments have had this kind of nurturing role in either Southeast Asia, or Sub-Saharan Africa.

Foreign Joint Ventures in Southeast Asia and the Role of Japan

It is next to impossible to discuss the dynamism of local entrepreneurship in Southeast Asia without discussing its relationship with foreign capital. Foreign joint ventures have been the major form of international linkage in Southeast Asia, transferring technology and skills to local investors. Foreign firms acted as catalysts, and their role has diminished over time as local firms have gained access to the same international networks, skilled personnel, equipment, and information. Critical to this process has been the role of Japan and other Asian investors, who tend to behave quite differently from European and U.S. investors.

The story of foreign investment in Southeast Asia has been one of continual change. For example, in 1974 in Malaysia, foreign firms produced nearly 50 percent of manufacturing output, and made up 11 percent of firms. Ten years later, this had dropped to 35 percent of output and 7.6 percent of firms (Ali and Kam, 1993: 83). In part this was a response to the NEP which led many British firms to withdraw from Malaysia. But the same phenomenon has also been observed in Thailand. In the mid-1960s, Japanese companies owned most of the textile industry in Thailand, but by the 1980s, most were owned by Thai firms (Yoshihara, 1988: 19). Yet the World Bank's study on East Asia stated that most of Thailand's manufactured exports "are produced by foreign investors or joint ventures" implying that the foreign role is still quite large, at least in the export sectors (1993: 142).

Foreign investors need incentives to source their component supplies locally, and Southeast Asian governments have been actively promoting joint ventures as a mechanism for the transfer of skills. For garments, the skills are relatively easy to transfer. Skill requirements are higher in electronics, but many Malaysian firms are now exporting indirectly through supplying components to foreign assemblers. In Indonesia, domestic entrepreneurs "thrived" by entering joint ventures with foreign firms in "textiles, electronics, glass manufacture, pharmaceuticals, and finance" (Robison, 1992: 71). Ownership data don't always reflect local-foreign linkages. For example, economist Hal Hill notes that in Indonesia, "most firms in the manufacturing sector have some kind of commercial involvement with foreign parties", either through subcontracting or marketing arrangements (1996: 165).

More than other nationalities, Japanese firms are likely to be the partners in these foreign linkages, and Japanese firms are not only more likely to enter into joint ventures, they are more likely to be using technology that is transferable to partners at the skill levels present in Southeast Asia. Japan has a long presence in Southeast Asia (and a brief presence in Africa). Trading firms such as Mitsubishi had already established outposts in Southeast Asia by 1917. Because Japan has been such an active trading partner in Southeast Asia, when local traders decided to move into industry, they frequently did so with assistance from their Japanese distributors, much as Nnewi traders in Nigeria did later with their Taiwanese distributors. For example, Thai trading groups in the 1950s and 1960s moved into manufacturing under ISI policies, producing the same products they had formerly been importing. About a third of the 211 industrial firms owned by the major trading groups were joint ventures with foreign firms; of these, 80 percent were with Japanese firms (Suehiro, 1992: 54-55).

Japanese firms often entered into joint ventures as minority partners, often with Chinese businessmen who "provided important distribution networks which were vital for the Japanese because they were newcomers and specialized in consumer goods" (Jesudason, 1990: 58). Yet government actions to promote indigenous interests in Malaysia led to a drop in Chinese participation in these joint ventures. Between 1970 and 1975, 40 percent of Japanese investment was in joint ventures with Chinese firms, and 18 percent with state enterprises or Malay firms. By 1976-1980 with more emphasis by the government on Malay participation, joint ventures with Chinese firms dropped to 29 percent, and ventures with Malay interests (including the state) rose to 54 percent (Jesudason, 1990: 153).

Japanese investment tends to come in waves, whenever the yen is highly valued, making exports from Japan itself uncompetitive. The problems Japan has experienced over the past several years have also led to a fall off in new joint venture investment. Although Japanese firms had started to invest in Sub-Saharan Africa, their moves were tentative. For example, not one of the auto assembly firm joint ventures in Nigeria were with Japanese firms, whereas Japanese firms dominate auto assembly in Southeast Asia. Africa has been far more likely to receive investment from Europe and the U.S., and firms from these countries, the U.S. in particular, seem far more likely to remain wholly owned, and to invest only in high capital, extractive ventures.

## VI. POLICY RECOMMENDATIONS AND CONCLUSIONS

To function effectively in a global economy, the entrepreneurs of Southeast Asia and Sub-Saharan Africa will not be able to avoid the kinds of evolution that modern businesses around the world experience. They will move toward public listing of their stocks, greater specialization and capital mobility, modern management techniques. Entrepreneurs in Southeast Asia got an early start in part due to the strength of the Chinese clan and dialect networks. But some evidence suggests that entrepreneurs move away from reliance on these networks as other institutions develop to take their place: formal banking systems, trade fairs and trade promotion efforts, etc. Furthermore, as Ruth McVey points out, "The need to act in an increasingly internationalized business world imposes forms and behavior which erode Chinese exclusivity" (1992: 26).

Already this is happening, particularly in Southeast Asia. By the mid-19th century, for example, the guild-like dialect organizations that organized commerce among the Chinese were being replaced by more "modern" forms "such as business partnerships, alliances and trade associations" (Brown, 1994: 128). Sieh suggests that the new economic groups in Malaysia are different from older groups (1992: 106-108). They are more diversified, rely more on professional management, tend to grow more through acquisition than through greenfield investment, make more use of external finance: stock issues, bank borrowing, and are less risk-averse. Malay entrepreneurs also appear to be moving away from patronage relations and reliance on state protections, particularly as they grow more experienced and confident (McVey, 1992: 26). Business groups in Thailand have been slower to grow away from family connections toward the

ideal-type modern corporation, with its impersonal character, but Mackie argues that the trend in this direction is quite visible (1992: 176). Mackie also notes that the Chinese in Indonesia are making less use of political connections as their businesses become competitive internationally (1992: 179).

This kind of evolution is assisted by the establishment of institutions such as stock markets, a more efficient means of raising capital through reputation without relying on networks. Indeed, this process has probably gone furthest in Malaysia, where the Kuala Lumpur Stock Exchange was established in 1973. The stock market "made it much easier for larger Chinese companies to advance beyond the single-family firm toward more complex patterns of interlocking share ownership and control, bringing very large sums of capital within the grasp of a single group through takeovers, capital issues, and share swaps" (Mackie, 1992: 171). Conversely, although Thailand has had a stock exchange since 1975, it did not apparently played a significant role in capital mobilization until the late 1980s. Indonesia was later in establishing a stock exchange, but its market too only began to take off in the late 1980s (World Bank, 1993: 226). It would be useful to know just what attributes a stock exchange needs to enable local entrepreneurs to avail themselves of its opportunities. This would be useful for African countries, many of whom have recently established stock exchanges.

Governments in Southeast Asia also made good use of import substitution (ISI) policies to push their traders into manufacturing. Increasing import duties on consumer goods like textiles and simple electronics has long been a stimulus to move accumulated capital into production. Since traders have the contacts with foreign distributors and networks of information that can make this process easier, they are the logical group to push. African countries had a later start at ISI than Southeast Asia, and they had probably not made full use of this role of ISI in getting local production of consumer goods started before they were swept into the river of liberalization in structural adjustment programs in the 1980s. For example, the Nnewi traders in Nigeria were stimulated to shift to manufacturing only by new restrictions imposed in the early 1980s on the goods they were importing. Nigeria liberalized trade considerably under a structural adjustment program adopted in 1986, exposing these new manufacturers to the international market. It is important when liberalizing trade not to “throw the baby out with the bath water.” Infant industry protection has a rationale in both theory and practice, and many economists have argued that countries should *first* promote exports, and only later open up to imports.

When considering what kinds of policies might best boost local entrepreneurship in Africa, this review clearly points in the direction of enabling linkages and networks. Entrepreneurs in Southeast Asia had the advantage of a history of global economic activity, and a modern history of linkages with a regional powerhouse, Japan. While the recent economic crisis shows that such informal regional integration can have severe costs, the alternative is not autarchy, but rather more careful crafting of regulations and institutions that promote regional investment, joint ventures, etc. The only likely neighborly powerhouse in Sub-Saharan Africa is South Africa, although Mauritius has begun to export capital to neighboring countries (Bräutigam, 1998). Informal institutions in the private sector, particularly private sector linkages and networks that

can help overcome information scarcities and reduce transaction and search costs, were critical in Southeast Asia. It is possible that developed countries can help form linkages by providing forums for information exchange and networking to take place, or assisting in certification programs that can help substitute for long years of face-to-face contacts in building confidence among network partners.

Further research is needed on local entrepreneurship in both areas, particularly in sub-Saharan Africa. We don't know much about the positive role of foreign investment and linkages there, since most of the research on foreign investment in Africa has been conducted from a critical viewpoint. More studies like David Himbara's of the Kenyan Indian capitalists (1994a, 1994b) would also be very useful for a better understanding of the opportunities available to Sub-Saharan countries who have rich entreprenuerial cultures available in their non-African populations. Mauritius may provide guidance here. It is also likely that firms embedded in business networks that span national borders will have different attitudes toward liberalization: they are likely to be more "outward oriented" than those with only local networks, and this eventually will help promote trade in both regions (Milner 1988).

The road out of poverty for Southeast Asia and Africa will likely be built on the dynamism of the entrepreneurs in each region, but only to the extent that their governments can provide political and economic stability, and the basic public goods of education and infrastructure. There is much that remains in the realm of myth and "stylized facts" about Southeast Asian and African entrepreneurs: stories about ethnic exclusion, cronyism and rent-seeking are contradicted by other stories about dynamism, productivity, and global competitiveness. The relations between entrepreneurs and the state have been uneven in both regions, with ethnicity providing a common thread underlying government policy choices. The challenge for governments concerned with ethnic equity is to promote growth while at the same time promoting greater inclusion in the rewards of growth. Much room remains in Sub-Saharan Africa, and in Southeast Asia, for learning from the most successful of each region's entrepreneurs. For many years, entrepreneurs in both regions have been building globalized networks that take advantage of markets, but in some senses, substitute for them as well. Understanding more about the function of networks and entrepreneurial linkages in developing countries may help in fine-tuning programs and policies to enable more African and Southeast Asian entrepreneurs to compete in an increasingly globalized economy.

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