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PRIVATE ENTERPRISE IN NATIONAL DEVELOPMENT:

A REVIEW OF AID EXPERIENCE

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PREFACE

PURPOSE AND LIMITATIONS

This paper is designed to assist the Agency for International Development in its policy analysis of the potential role of private enterprise in national development through a synthesis of a variety of retrospective evaluations of the economies, the policy environments, and a selected number of projects within some clearly delineated program areas in a variety of countries.

Although the focus is on the past, the purpose is centered on the future: in what manner, under what conditions, within what policy environment can a vigorous private enterprise sector make a positive difference to any society's development? The Agency is engaged in a comprehensive effort to assist such activities, yet these multiple attempts might be made more productive if past experience were explored and the Agency were to learn from its past successes and failures.

Such an analysis is uncommonly complex. The heterogeneity of developing nations, their natural resource bases, levels of management skills, infrastructure, cultural patterns and historical precedents, and levels of economic resources as well as development policies present a bewildering array of examples from which to choose. Thus, nations can be considered along a spectrum of developmental levels and potential far more variegated than the simple index of per capita gross national product often employed. The world economy, too, has changed from the era in which the United States provided considerable assistance to private enterprise. Two oil crises, a worldwide recession, fluctuating and depressed prices for many of the primary export commodities of many of the developing societies, greater protectionism among developed nations make projection of past trends into the future more difficult. So, too, both the level of United States assistance and its relative position among donors, and even the internal capacity of AID to program and to monitor projects, has changed.

This paper and its related studies are severely circumscribed by events, and also by the time available for this analysis. To have potential usefulness to the Agency, however, it was necessary to limit the study and to consider it the first stage in a broader effort that will in the next year fill in many of the inevitable gaps.

The potential relevance to program and project effectiveness has been a primary factor in the analytical approach chosen and the specific subjects selected for study. Since projects operate in a policy and economic milieu from which they cannot be separated, it became necessary to avoid the overly specific, and not solely to look at projects in isolation to see whether they accomplished their stated objectives, which in any case were often not articulated with the rigor or the analytical framework employed later. It thus became evident that one aspect of the study should explore total economic systems in their national political and cultural settings.* A number of country studies were thus undertaken. These were supplemented by a series of special studies that reviewed selected and relevant experiences or problems. A third approach, to review worldwide clusters of project activities, such as management training or regional institutions, had to be delayed for lack of available manpower to meet the present deadlines.

If, then, the country studies were an appropriate approach, the first issue was which countries? The choice was more than marginally difficult. First some countries were inaccessible to staff, such as Iran, Nicaragua, El Salvador, or Afghanistan. Some, such as Brazil or India, were too complex for such a short study. Others might have presented atypical findings, such as those with major petroleum reserves. Some, such as Korea and

Taiwan, have been extensively studied. Others, such as the Philippines, Egypt, or Turkey, had special considerations of U.S. ties or overly, massive assistance, thus limiting potential usefulness as a model. A geographic mixture was obviously desirable, and within that context, some were to be chosen because of the depth of U.S. programming, ostensibly favorable policy environments, or other relevant factors. Although the choices may be considered by some to be somewhat arbitrary, and indeed this potential criticism cannot be completely dismissed, they were purposely selected.

Thailand was picked both because of the depth of the American effort in that nation, the possibilities for future programming, and because it offers a relatively hospitable environment for both indigenous and foreign private investment[1]. Its turbulent political history--a welter of military, although generally bloodless, coups--contrasts with the democratic tradition of Costa Rica, where the private sector has been encouraged within the context of strong and enduring social concerns. Sri Lanka, a study of which was planned by the mission and on which the Office of Evaluation did a partial analysis, is a particularly informative case. There, in what may be the most profound change of economic philosophy in modern times through the democratic process--from socialism to economic liberalization in 1977--there is time to review the effects of change even though the American involvement in the private sector there has been minimal. Jamaica, in contrast, is still too recent an economic change to assess. The Cameroons (also included in the GAO study) provides an example of the private sector operating within a French-influenced adminstrative and economic system, while Malawi, with its important parastatal economy and market-oriented approach to

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[1]Thailand was one of the ten nations chosen by AID for future programming as were Sri Lanka and Costa Rica. It was also the subject of a GAO report on private sector activities--at this writing still in draft.

development, illustrates some economies emerging from the British colonial system.

Special studies were also assayed, although some may not be completed at the time of this report, to understand a variety of other constraining, supplementary factors, or instances from which lessons might be learned. The relationship of public infrastructure in enhancing the private sector seemed an important possibility to be explored. The relationship of minorities to entrepreneurship has clearly been important in the west, as well as in developing nations. Southeast Asia, West Africa and East Africa all provide examples. The interaction between financial institutions and efforts at management training in the Dominican Republic seemed an especially germane instance of fostering private activities, but one that did not seem to require a full-blown country study given limited time. So, too, the activities of Castle and Cooke in Latin America was an example of how foreign investment could affect indigenous private activity.

To provide comparability with the AID policy paper, the private sector, or private enterprise (and the terms will be used synonomously in this paper) is confined to indigenous, private, profit-making institutions. The definition seems clear cut, but as the analysis proceeds, its limitations will become apparent. Included in the private sector but omitted from major consideration in this paper is the overwhelming element of private sector activity in most developing nations--the small farm. Although this activity must be considered in any overall statistical analysis of national private sector activity, it is covered in other policy documents of AID and thus not stressed here. So, too, the indigenous private, voluntary non-profit organization is excluded, as are the cooperatives. Both may be considered for future study. Both were included in the GAO study.

The evidence from a series of country studies, given time and budget considerations, cannot capture the wealth of information on the worldwide phenomenon of economic systems, their variety, their growth or potential for expansion, and the role, planned or actual, of the private sector in this process. It thus becomes necessary to turn to other material to fill in some of the gaps if one is to proceed from a few specific national situations to more generalizable conclusions. Here, then, some of the hypotheses and broad considerations of the interplay between political and economic systems and the private sector might be appropriate.

Inevitably, the use of these studies, some highly abstract and some quite pragmatic, cannot alone solve developmental dilemmas, nor can they act as sole guides to project formulation. They can, however, sensitize development specialists to potential problems in the design of projects in the private sector field. Combined with some of the empirical conclusions, they could give both breadth and depth to projects. On closer examination, simple typologies or categorizations breakdown, as a variety of country-specific situations are examined. Even the simple definition of private enterprise becomes somewhat more obscure under certain considerations. If some of these issues seem rather abstruse, the intent of their inclusion is to demonstrate their practical relevance to AID.

Within the limitations imposed both internally and externally, this paper thus presents the empirical findings of these studies supplemented by other materials considered relevant to present a more holistic approach to the private enterprise. It does not purport to present an analysis of the literature on private sector economics or development, both of which ar so extensive that their inclusion would render this paper unmanageable for its authors and undigestable for its readers.

I. INTRODUCTION

Some years ago development specialists extolled Costa Rica as a model among developing nations. A country that has stressed broad distribution of social benefits with more teachers than soldiers, it was fortunate to have a long heritage of democracy, a modest population compared to its fertile agricultural base, and a vigorous private sector. Incomes had risen steadily, and its relatively homogeneous population prospered. Costa Rica was a stable society, expressing many of the middle class values familiar and respected in the United States. Within this context, the United States fostered the development of what became the most important, largest, commercial intermediate financial institution in the nation. It was, by all accounts, a major success.

Today, however, the situation is vastly different. Costa Rica is bankrupt, unable to finance its public and private debts. Its industries cannot compete for export earnings, desperately needed to provide foreign exchange in a world where the price of some of the agricultural commodities it produces have fallen precipitously. Concommitantly, its controlled internal prices increasingly constrain local production or are a drain on the national treasury. Its public bureaucracy is swollen, and its social services under reevaluation. COFISA[2], AID's centerpiece in support of the private sector, is in trouble. Its origins were founded on the need to release credit to private enterprise in response to a stultifying nationalized banking sector, but it too had become bureaucratic. After growing into the largest private commercial credit institution in the nation, it became more cautious in its loan policies, but in major fiscal trouble both because of the inability of some of its clients to repay their debts on schedule while others did in devaluated currency.

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[2] Corporation Costarricense de Fomento Industrial

The forces that precipitated these changes reflect in part the variety of problems facing even those nations that have progressed markedly along the road toward economic development, let alone those less well endowed in natural resources, skilled and literate populations, and political history. These factors also illustrate both the problems and the prospects of private enterprises as they might contribute to this process.

These problems are both external and internal. Many nations have been buffetted by precipitous drops in the international prices for their agricultural commodities. Their industrial production, often protected by internal or regional tariff barriers, sometimes is not capable of competing on the international market. Having spread their social services broadly in a humane endeavor to reach equitably their populations, the recurring costs prevent national budgets from being used for investment. Bureaucracies become swollen to absorb the excess educated unemployed. Banking systems are not responsive to local private entrepreneurship and avoid innovative lending, market forces no longer operate, and skilled/managerial manpower is in short supply.

This single case illustrates many of the problems of developing nations generally, and some of the complexities involved in analyzing the role of private enterprise, and the possible role of international donors in this connection.

A confluence of forces have converged to accelerate interest in the potential and enhanced role of private enterprise in national development. These factors are becoming more prevalent both among some donors and increasingly among recipients as well. The heightened expectations of the value of liberalization of private sector activity result from both positive and negative forces--those that intellectually regard the operation of competitive markets as inherently more efficient as well as those disheartened by weak or unresponsive public bureaucracies. Yet the history of foreign aid is in the aggregate one of support to the public sectors of recipient nations. Why this has occurred is relevant for the future, for if support is proposed for private enterprise activities, then these factors are likely to continue to skew assistance toward the public sector.

A. Public Sector Trends

Among many countries, the following forces have contributed to encouraging assistance to the public sector and insistance on receipt of such aid by governments, although attribution of any single factor worldwide would no doubt be erroneous:

-- The major donors are governmental, or if multilateral, are controlled by governments. It is thus easier and more comfortable administratively for one bureaucracy to deal with another; thus, assistance goes directly to governments, often even when the ultimate intention is to assist non-governmental institutions.

-- Following World War II, the newly emerging states considered central planning a requirement if national aspirations were to be fulfilled; it seemed to assume and indeed require public sector control over much of the economy. In some nations, central planners had jurisdiction of many private sector activities.

-- Some newly independent governments equated private business activity with colonial exploitation, and thus were pushed into stressing the public sector or a variety of forms of state socialism.

-- In a number of countries, private enterprise has been associated or equated with the exploitation of the economy by an indigenous minority (the Ibos of Nigeria) or by a foreign minority (the Indians in Uganda, Malawi, Burma; the Chinese in Malaysia, Indonesia, Thailand).

-- State control has been fashionable intellectually. Many members of the elite of the new nations were trained in Europe when socialism or state control, either democratic or totalitatian, was prevalent. Fabian socialism played an important intellectual role in many former British colonies.

-- Cultural concepts often reinforced public sector emphasis. Buddhism was sometimes interpreted to equate capitalism and greed, and thus, socialism was assumed to have both economic and moral rationales. Islam, by discouraging the concept of interest, effectively discouraged capital markets.

-- Many governments, both in the traditional and modern periods, have been and are reluctant to see the development of a strong, vigorous private sector that might compete for political power. Such independent forces could threaten the bases of authoritarian regimes. Economic pluralism is sometimes as much of an anathema to autocracies as political pluralism. In many such societies, the private sector is thus coopted by government or regulated through such mechanisms as control of credit (Korea) into an impotent political role.

-- Economic models of either the import substitution or export promotion mode seemed to require a strong, interventionist administration, and indeed public sector control, to achieve objectives.

-- More state involvement seemed necessary to accelerate growth the better to fulfill the immediate requirements of new nation states, requirements that the older, established nations had taken centuries to achieve.

-- More complex technology and large size of enterprises seemed to require more extensive and intensive government involvement.

-- To increase equity in societies, donors in the past decade may have somewhat simplistically interpreted this as a call for public sector activity.

B. Private Sector Emphasis

The continuous push into public sector programming has been countered by the pull of the private sector. The interest of the present American administration in encouraging private enterprise is comprehensive, if not completely new. Private enterprise was an early emphasis of foreign aid in the period of the Marshall Plan, and later, cyclically, as well. Private sector staff were also brought into AID in the early 1960s to make that organization more businesslike. It is, however, remarkable how little is known about the successes or failures of some of these earlier efforts.

There is a new factor now present not apparent during the periods of earlier private sector activity. This is the increasing dissatisfaction in many nations with public sector performance; this offers a new opportunity to test the efficacy of private sector approaches. There is greater receptivity today in many parts of the world to private sector contributions to national development. Consider the following: Through free elections Sri Lanka and Jamaica have moved from essentially nationalized economies to freer markets, specifically designed to foster private enterprise. Bangladesh has indicated interest in divesting itself of its public corporations. The President of

Guinea, a strongly socialist state, had requested American private investment. Colombia and Mexico have both proposed liberalization. Burma, although retaining its socialist policy, has required its public enterprises to operate as if they were private corporations. Korea is loosening its control over aspects of private enterprise. Even China has liberalized its economy to some degree. Some of the factors for this enhanced emphasis on the private sector include the following:

-- Bureaucratic competence is generally low, and the sensitivity of such economic systems to respond effectively and in a timely manner to changing needs is even lower.

-- There is a realization that there is no guarantee that public sector monitoring of projects, at least of certain types, is any more effective than private sector activity.

-- Public sector enterprises often seem to lack incentives that raise productivity and efficiency.

-- Reflecting the need for political control or aspirations for equity, private sector activities may have been overregulated, stretching bureaucratic capacity and retarding access that is itself a part of equity.

-- Weak bureaucratic systems ironically find it administratively easier to control the economy than to monitor private enterprise. For example, it is bureaucratically easier to collect revenue through regulation of producer prices combined with forced government procurement (rice in Burma) or export taxes (Costa Rica) than to collect other forms of taxes (such as income taxes or corporate taxes) that require more complex and sophisticated administrative systems. Yet the results are not always efficacious.

-- Regulation of the private sector, often designed to stem the external flow of capital, seems to have been counterproductive.

-- Efforts to mobilize indigenous capital under state-controlled systems have often failed for lack of proper incentives.

-- There may be increased realization that private investment, requiring longer gestation periods before returns may be realized, needs to be encouraged to prevent short-term, non-productive flows of funds into parallel or black market activities, smuggling, or real estate speculation.

-- Some regimes may recognize that the political advantages of encouraging the private sector, at least over the short term, and thus accruing their political support for governments in power, may outweigh longer term political diversity.

-- Increased foreign investments in cooperation with the local private sector may open foreign markets and improve foreign exchange generation.

Under these changing circumstances, what might the United States do?

C. The Role of American Assistance

The present capacity of the United States to respond to the challenges of the Third World is severely restricted. The magnitude of foreign assistance is limited, both in the aggregate and even more so when calculated in constant dollars as compared with a decade earlier. The United States, in only a very few societies such as Egypt, now has the magnitude of funds to affect in any major way the economy of other societies, although even in those societies its effect on policy may be limited. More often, the modest amount of American aid is a small proportion both of concessional assistance and even less when considering private investment and trade. Thus, it becomes even more of a challenge to ensure that funds are used most effectively--supportive of policy changes that will allow nations to use effectively their own capital resources. In other periods, policy reformulation as suggested by donors often required extensive parallel capital as well as technical assistance, but today the push for private sector activity might not require such major capital flows. Yet increased programming sensitivity is required, for heightened nationalism, greater world political and economic competition, and the rise of better trained indigenous leadership require the American effort to be both credible in a more sophisticated world and consistent with the aspirations of national development.

There are potential inherent contradictions, however, in this approach. The United States wished to encourage growth, but not such growth in certain areas that are competitive with American industry, and thus influence the internal American political process by undercutting the American economy. Foreign assistance, as a part of American foreign policy, thus is an effort to build national economic systems responsive to national needs, and thus improve local stability, but at a rate and in a manner consistent with American goals. As the case of Korea has demonstrated, it is a delicate balance.

Thus, the United States is faced with a unique opportunity. Assisting private sector growth is both a natural inclination of the American administration that now fortunately may be responsive to widespread foreign interest in this activity. If this opportunity is lost, and equally important, if it is not effectively implemented with sensitivity and skill responsive to the local milieux that shape political and economic realities and possibilities, then this unique confluence of interest and momentum may disappear. This paper is an attempt to assist in defining under what circumstances and how this may be accomplished.

II. FINDINGS FROM ANALYSES

A. The Problems of Transitions

In some sense, most nations are in the process of transition: economic, political, cultural, and social. The oil price crises of the 1970s are reflected in the inflation and the higher prices of manufactured goods in the 1980s. As internal markets stagnate, import substitution policies sometimes give way to export orientation, often a difficult transformation as previous internal protectionism is balanced with rising international protectionism making competition more difficult. The political elite who led nations to independence are being, or soon will be, replaced peacefully or violently by others who may lack the inviolable nationalistic credentials, and their leadership recognition, of those of the earlier period. Traditional cultures and social systems are subject to the stresses of modernization that sometimes does not equate with progress.

Costa Rica is undergoing economic trauma that may spill over into social or even political problems. Euphoric over its demo-cratic transition from socialism to a more open market economy, Sri Lanka is now faced with determining how to balance its social equity considerations against more stringent international economic forces and preventing exacerbation of class differences. The Cameroons and Malawi, with their relatively benign administrations under personalized rule, must inevitably prepare for the political uncertainties of the future. Malawi must look toward the greater use of indigenous personnel in its administration, with its resulting tensions. Thailand, with its ambiguities of military factionalism and the uncertainties of political forces beneath the monarch is searching for a more effective approach to economic growth than its haphazard mixture of Thai and Chinese bureaucratic and private forces.

Periods of transition place special stress on societies, for the hallmark of modernization may be the capacity to deal with flux and change, and as societies shift so does the role and importance of private enterprise. The driving force of the private sector is entrepreneurship, to which we must now turn.

B. Entrepreneurship

Private enterprise is dependent on the development and effective use of entrepreneurial skills. The issue of entrepreneurship has been the subject of considerable debate since the term was first used in 1723. The origins of such skills, generally defined as including significant aspects of risk-taking and organizational capacity for longer-term gain, have been the subject of much controversy. Some theories focus on entrepeneurship's economic, psychological or social origins.

The question of origin is important, for under certain circumstances, entrepreneurship can be encouraged. If, for example, entrepreneurship originates from an economic focus, it is more easily developed than if psychological in origin. The spirit of entrepreneurship, whatever its origins, if it already exists in a society can be strengthened in individuals, but they in turn operate in a politico-cultural environment and a policy setting that encourages or discourages entrepreneurial efficacy. Without entrepreneurship, however, private enterprise will not grow.

Important as the policy environment that assists entrepreneurship may be, the cultural context, often ignored by AID, is sometimes critical. For example, some speculate that entrepreneurship is difficult to develop in those societies that have tendencies to be nonconfrontational. Such societies tend to develop social systems that avoid face-to-face confrontations, challenges, negotiations or bargaining, thus smothering entrepreneurship. Of course, no society is an ideal type, but

Thailand is an example of a country where traditional Thai values (as opposed to those of the modernized Bangkok elites) tend to be nonconfrontational, and it is evident that the Thai historically did not develop entrepreneurial skills. It is no wonder, the argument follows, that the economy has traditionally been in the hands of the Chinese, and indeed intentionally placed in their hands by the Thai in the nineteenth century. They have been regarded by the Thai as outside of their social system.

Other cultural factors may also be important in limiting entrepreneurial endeavor, and thus, private enterprise. The social value of leisure, for example, under certain circumstances may be greater than the value of a second crop or working a swing shift in a factory. In other circumstances, too successful an application of entrepreneurial ability that excites envy can turn a citizen into the object of decoity if goods are available to accumulate tangible evidence of this talent. There is probably no clear line in any community between socially acceptance economic prominance and one that has an implicit threat of social retaliation. How to allow the accumulation of the tangible results of one's entrepreneurial talents without dissolving social cohesion is the issue. Without the availability of such goods, however, entrepreneurship may not flower.

In some cases, nontangible indications of merit or success may be better than a new machine or a Cadillac. Financing a Hadj to Mecca or building a Buddhist pagoda might be a much wiser investment, in the former instance assuring one's heavenly rewards, and in the latter building up a supply of karmic capital for a future incarnation. These might be far more prescient activities than engaging in speculative longer-term investments that can be confiscated by the state, subject to taxation, the focus of bribery, the object of payoffs, or just simply the target of administrative whim. One is not taxed on one's next incarnation.

As important as the cultural context in which entrepreneurship develops is its economic setting. Not only important are appropriate positive economic policies to foster productive investment and risk-taking, a natural focus of AID activity given its limited funds, but equally salient is the closing of unproductive avenues for making quick profits. Development literature is replete with examples, such as manipulation of exchange rates (Korea in the 1950s), smuggling or the illegal resale of goods (Burma), or excessive speculation in real estate (Yemen). It seems likely that these tendencies are exacerbated under weak administrative systems, or those in which economic opportunities must be provided to political entourages, and where political instability is pervasive. In fluid situations, long term productive investments under what may be unknown political or economic systems may seem unwise. Development specialists postulate that an important aspect of peasant economies is risk aversion. It might not be unsound to postulate a similar predilection among potential entrepreneurs. That is, entrepreneurs by definition may be willing to take reasonable economic risks but only if political factors are held constant. A number of American firms have done well propagating political risk analysis for foreign investors. Perhaps if AID is to encourage indigenous entrepreneurship, the Agency needs to do similar analyses.

It can be argued, perhaps, that another factor in the lack of development of entrepreneurship is timing. By the time that a monetized economy had developed in many societies, one that was not controlled by a monarch or chief, then Europeans and their Asian associates had moved in to control the potential wealth accruing from this activity, thus inhibiting entrepreneurship. So in Malawi, The Cameroons and Thailand, local entrepreneurship is a recent phenomenon. Only in Costa Rica is entrepreneurship widespread, probably caused by centuries old Spanish colonization together with few indigenous inhabitants and a relatively homogeneous population.

There are very few nations today that have not gone to some considerable length to make indigenous the entrepreneurial functions. Thailand has attempted to assimilate the Chinese and has coopted them into a politico-economic system that allows the Thai to pluck the entrepreneurial fruits, along with the Chinese, even though they may not yet plant the seeds. The Cameroons turned much of this function over to one ethnic minority group in a political move designed to foster national integration. Even in Malawi, which must rank as one of the most tolerant nations in allowing both entrepreneurship and management to remain in foreign hands (or if one prefers, it could be considered to have an unusually high level of political tolerance), the Indians were expelled from rural areas, although many still continue their economic activities in the towns. Malawi was relatively humane; Uganda was not. Burma expelled the Indian entrepreneurs while Malaysia introduced its own affirmative action program of private entrepreneurial parity to the bumiputras (Malays), at the expense of the economically dominant Chinese.

C. Managerial and Technical Training

If, entrepreneurial talent is required for the organization of enterprises, the mobilization of resources, and the identification and exploitation of markets, the skills needed for the effective operation of businesses and the staffing of institutions are quite different. Entrepreneurial skills may be enhanced if the predilection exists, but managerial and technical knowledge can be taught. How important are these skills?

Malawi has recognized that the nation could not be run effectively without such talents that were, on independence, virtually absent, and are still in short supply. It filled, and continues to fill, these needs through the employment of large numbers of expatriates at all levels in the society. Costa Rica on the other hand, has been able to draw upon the resources of the regional Central American Business Administration Institute (INCAE) which supplies a small but steady supply of graduates to business. Plans are underway to build a Costa Rican campus. The effect of other regional training institutions, such as the Asian Institute of Management in Manila and the Asian Institute of Technology in Bangkok, may be important and should be evaluated. There is some talk in AID of setting up a regional management training institution at Yarmouk University in Jordan.

The Cameroons has drawn upon its French connection to train many staff, and Thailand upon its American connection for the same purposes. Some 26,000 have studied in the United States, of whom just less than half were supported by AID. Sri Lanka seems to have a large reservoir of educated talent; in fact such a large surplus that it fomented a rebellion in 1971.

It is likely that there is a shortage of top-level managerial skills in many of the nations, and this need was articulated in such countries as Thailand, although this may reflect the residual reluctance of some Thai to go into what has been considered Chinese occupations. AID's role in filling this gap has largely been directed toward the public sector, although some private sector Thai were also trained under AID auspices. In general, the reflections on the training by participants has been positive.

Skilled labor is, however, a more complex matter even though of somewhat lower status. In many countries, perhaps with the exception of Malawi, skilled labor is in supply or readily trainable in country if the positions were available. What may be more important is the wedding of skills taught with skills needed. Even in the United States, technical training has often been found to be irrelevant, as the job market is changed before the curriculum.

Specific skills, however, may not be either the immediate need or the answer to private sector staffing. Studies on Korea have found that what in retrospect seemed important about the educational system was not the skills taught, as the curriculum was highly Confucian in content, but the attitudes toward self-efficacy and self-discipline.

Technical education, in some countries that limit access to traditional secondary or higher education, is often seen as an alternative avenue to a generalist education when opportunities for transfer exist and the preferred route is closed. Provision of technical education in such instances may not support increased productivity.

The recent phenomenon of skilled labor flows to the Middle East, as well as other exoduses to Europe from North Africa and Turkey, have created labor shortages, especially among skilled craftsmen and artisans, that has profoundly influenced the quality of staff available for the private sector in non-oil countries. The migrations are having an increasingly important effect in East as well as South Asia. Although the pattern is seen to be temporary, it may eventually rival the outflow of Indians to Southeast Asia and East and South Africa of the nineteenth and the first half of the twentieth centuries. In both cases, remittances have been important, but the annual magnitude of the funds today--$200 million to Sri Lanka, and $400 million to Thailand--may have profound effects on the nations. It might be argued that the basis for a new entrepreneural class in these societies might arise from the Middle Eastern Hejira, for the capital for small-scale enterprise will be there if the interest and the policies are in place to use them wisely.

D. Credit and Financial Institutions

Capital is the auxiliary to entrepreneurship. Credit and financial institutions, formal and informal, thus assume critical importance in the functioning of the private sector, the former becoming more critical as economies grow and trade becomes more complex. Informal credit systems are not only the means to finance consumption; nor are they limited to very small establishments, the so-called micro-firms or industries, those that are often thought of as family enterprises, although their role in these case is, of course, critical.

Informal, or curb, credit systems are far more complicated than their name implies. They often have international ramifications and have important developmental, and indeed, political roles. The curb market scandals in Korea in May 1982 that totalled some $900 million indicate both the magnitude of the informal market in an industrializing nation and its political importance. Indian credit systems, operating through caste or ethnic associations, greatly influenced, and in many cases controlled, the production and availability of goods in East Africa. The Lebanese systems in francophone Africa performed similar, if less pervasive, functions, while those operated by the Chinese throughout Southeast Asia enabled that group to assume monopoly positions in many economic fields. The magnitude of these funds is not known, but estimates indicate that in 1929 informal Indian Chettyar funds in Burma alone totalled some $300 million. In that case, laissez-faire credit policies by the colonial authorities resulted in alienation of land and industry, with disastrous political, economic and social consequences after independence.

Smaller, local groups, such as the rotating credit societies of The Cameroons are matched throughout many parts of Africa and are ubiquitous throughout the Confucian-influenced regions of

East Asia. Even when informal credit mechanisms are outlawed, as in Burma, and are replaced by state-controlled intermediate institutions such as cooperatives, the suspicion is that the motivation for such actions is as much a product of the desire for rural control by the government as it is to alleviate the plight of the peasant. Even in those cases, however, the informal credit market may continue to function.

The formal credit mechanisms, operating by law or decree and included in the national accounts, spring from or are established in response to local conditions and needs. They vary in form and function, innovatively or conservatively, depending upon their locale. The commercial banks of Thailand, for example, are a direct outgrowth of the informal clan and family associations that allowed the Chinese, through judicious marriages and political alliances with the Thai as well as through astute management of capital, to asume pre-eminent economic roles in that society.

The nationalized banking system of Costa Rica reflected political commitments made decades ago, and were in response to local social needs as ratified by the electorate. The Investment and Development Bank of Malawi (INDEBANK) also reflects the particular configuration of economic and political forces in that society. A product of the United Kingdom's Commonwealth Development Corporation and other European lenders together with Malawi's parastatal interests, it illustrates the unique blend of expatriate and Malawi parastatal control and management that seems to have characterized that nation since independence. Intermediate financial institutions have been liberalized in Sri Lanka since the elections of 1977, and The Cameroons represent an adequate, conservative, array of institutions that have proved to be particularly adapted to that nation's needs.

The formal financial institutions tend to follow sound business practices--they become conservative, requiring formal collateral (very often land, buildings, or machinery, but excluding accounts receivable), and operating where the costs of lending are most inexpensive--in the urban areas. Often when institutions are established to provide funds for rural development or to more impecunious farmers, unless there are such quotas, as there are for some Thai banks, those for whom the program was designed often are neglected. The Bangladesh small scale irrigation project supported by AID failed to provide the credit it was to have established for the poorer farmers. Complicated procedures, low literacy, inordinate time required in travel to complete the necessary forms and procure the required authorizations all make such programs tenuous at best. In retrospect, weak administrative systems cannot be expected to meet complex and new circumstances. Even the most successful of such institutions, COFISA in Costa Rica, changed its portfolio, becoming more cautious as it become more successful. Donors can only expect financial institutions to reflect the environment in which they operate.

Formal credit institutions range from state organizations to parastatal and private organizations. In all the countries studied--Malawi, Cameroons, Thailand, Costa Rica, and Sri Lanka--foreign banks are allowed and can operate with relative freedom. In other countries, however, even those with renowned private sectors, financial institutions are closely regulated. Until recently, Korea has rigidly controlled the allocation of all credit in the formal markets, internal and external, rewarding firms that reach export targets with fresh supplies of credit to finance new or expanded enterprises. The effects have been obvious: the successful firms, already large, become larger and the curb or informal credit markets become more important for the smaller enterprises. These smaller firms thus pay more for their credit and become less competitive. The free marketplace, therefore, must be defined to include reasonably equal access to credit, otherwise the role of competition will be retarded.

The provision of credit is not only an economic function--it is also a political tool. Economic rationalization must sometimes give way to political necessity as governments attempt to forge a nation. The Cameroons has made it a specific policy to ensure that all parts of the nation share as equally as possible in economic progress. Thailand has stressed the importance of the Buddhist northeast, not only the poorest portion of the nation and the home of one-third of its population, but also an area that encompasses a minority group and a region that was previously considered to be the site of communist insurgency and Lao irridentist sentiments. They have not, however, played an equal role in the poor, Muslim South. The Sri Lankan government, prompted by extreme separatist sentiments among some of the Tamils of the north, have directed resources, and foreign assistance, into that region. The Malaysian government, on the other hand, has acted much like The Cameroons by directing credit (and skills training and education that are requisites to using credit effectively) to disaffected minority groups in the case of the former, and toward the majority Malays in the latter instance, thus attempting to redress the balance between the ethnic groups.

There are, of course, cases of the less idealistic uses of credit for political purposes. In Malawi, a letter from the President and collateral of only 500 acres could secure a half million dollar loan to take advantage of the sanctions against Zimbabwe to grow tobacco. Credit institutions have been used to provide sinecures for leading Thai military, and thus political, figures. This, of course, is not only a product of financial institutions, but is part of a generalized system related to what has been called patrimonial societies, which are discussed below.

Malawi, through its pervasive system of parastatal organizations, has used credit for building up its indigenous population. The President has held in trust a portion of the profits from these institutions for the Malawian people, and invested those funds in educational institutions to train skilled workers and an elite educated along the model of the English public school.

Credits institution are, of course, used to strengthen rural production by acting as the channel to provide or subsidize the commodities that are required for modern agricultural production. This specific function has been covered in other documentation and, therefore, is not considered in detail here.

Is there sufficient credit for the entrepreneur in these societies? The answer is ambiguous. There is a tendency for businessmen to decry the sufficiency of capital in many places, and this seems to be the case in Thailand. In Malawi, local Malawian entrepreneurship is still so limited as to make the question essentially meaningless. In Costa Rica, The Cameroons, and Sri Lanka the institutions exist and probably provide a reasonable degree of needed capital. When they do not function well, it is because of other exogenous factors.

E. Information Systems

The third aspects of private enterprise is the markets. Broadly interpreted, knowledge of and access to the markets is a matter of information. The breadth of the subject and its obvious importance belies its complexity.

Information systems are as varied as they are broad. They range from informal rumors over the price of products in the next town, to radio broadcasts beamed by loudspeaker to every Korean village exhorting the farmers to plant or transplant rice, providing alerts for frost or drought, or indicating the price of vegetables. They are as sophisticated as the Thai Board of Investment to which, parenthetically, AID assistance was only of the most marginal utility, that assisted both indigenous and foreign entrepreneurs in their endeavors.

The information mechanisms are more highly developed for foreign investment, where in Thailand an American Chamber of Commerce is active, American banks do analyses of investment opportunities and economic conditions, publications appear in English for foreign businessmen, and a variety of firms do market surveys and political risk analyses. In such a complex atmosphere, there are increasing numbers of Thai associations organized along business lines that provide convenient, knowledgeable counterpart organizations for foreign investors, as well as support to and lobbying for its own membership. In other countries, such as Korea, these associations act as virtual arms of government policy. Sri Lanka actively promotes foreign investment through the media. Specialized groups do so for Costa Rica.

How effective these organizations are cannot be judged by any quantifiable measure such as the range of investment. Japan, through the close alliance of the business and public sectors under the system known as "Japan, Inc." regards such activity as in the national interest. Korea does the same, but with stronger governmental pressure. Investment is also affected by the local political climate, the ease of investment, the cost and character of the labor force as well as other competing opportunities. The most complete and industrious information system cannot compete against widespread strikes and political disturbances.

More important for indigenous entrepreneurs has been the informal mechanisms--the Chinese or Indian network that spread information of markets as rapidly as it did the availability of credit. The complexity of the needs and the rapidity of the changing circumstances have made effective information networks a product less of a turgid, public bureaucracy than a result of the immediate and perceived interests of individual firms. Although illiteracy and a lack of communications in some nations may account for some of the problem of individuals being unaware of business opportunities, those systems that depend on bureaucracies to spread the word of the availability of a new technology, such as irrigation pumps or new seeds, are likely to suffer. Direct intervention by AID into such systems, as in Costa Rica, has proven less advantageous than indirect fostering of the private sector through other means.

F. The Policy Environment

The public environment expressed through policies and action in which the private sector functions is almost as varied as the societies themselves. These policies range from articulated laws and regulations--from the national constitution to rules on how to secure a bazaar stall in a provincial town--to inchoate social attitudes toward trade and business. These milieux are composed of both positive and negative elements: what the public sector will do as well as what it will avoid, who is subsidized and who pays for that subsidy, and who has access to everything from the market to those who formulate the decrees. It is thus not merely a matter of law, it is one of practice.

Yet, the overarching legal framework, often articulating social norms, does sometimes set the tone. Tanzania and Burma, for example, set clear lines within which private enterprise must function. Others have been more laissez-faire in their approaches, but each nation brings to the private sector the impedimenta of its history and politics, its society and culture.

Malawi is perhaps the most extreme example studied. With the almost complete absence of an indigenous private sector that is scarcely larger than individual petty traders or single artisans or craftsmen, in a sense, the whole nation is being held in trust for its own people. Although the attitude towards private enterprise may be positive, it is a policy expectant of the time when Malawi's own people will undertake these roles. Therefore, there is presently major reliance on foreign private investment and on indigenous parastatal organizations, which for the most part have been allowed to function in response to market forces.

The Cameroons has approached the private sector quite differently, discarding the concept of equality under law, and cajoling both foreign and domestic enterprises on a selective, irregular basis to adhere to the rules set out by a cautious, pragmatic leadership that has as its first priority the forging of a nation out of disparate tribal groups. It, therefore, sets its political goals, and is fortunate to have had both a strong and benign leadership together with judiciously monitored oil revenues that have allowed the country to pursue its own path.

Costa Rica and Thailand have provided favorable policy environments for both foreign and domestic private enterprises, but both have been tempered by other internal factors. Externally, Costa Rica is a member of the Central American Common Market and within that context engaged in an import substitution and limited export promotion policy that made her overall export orientation beyond that market less than competitive. It nationalized its banking system, stultifying internal credit, thus prompting business to seek foreign capital and eventually encouraging the creation of COFISA to act as a counterbalance to the slow, cautious public banking sector. By controlling prices, as has each of these countries for some goods at various periods, it has tried to ensure supplies of what were regarded as essential items at prices the populace could afford. It was more equity than market oriented in this respect.

Thailand's policies were also favorable overall, and although foreign, especially Japanese, investment was quite forthcoming in spite of the bureaucratic miasma through which business normally had to find its path before the Board of Investment was established, local counterpart investors had to be found in the Chinese community, which had remained relatively isolated and self-contained.

In all of these cases there was a close, symbiotic relationship between the private sector and public policy. The public policy-private relationship is even closer the more the economy is examined. The interrelationship between the effects of public policy and private initiative is often temporally linear--the public sector provides the infrastructure and the private sector makes it work. The change of much of Northeast Thailand from a subsistance economy to diversified, commercial cropping patterns can be attributed to the Thai investment, with AID support, of a wide network of rural market roads. Irrigation systems in Sri Lanka, hydro-electric power in Costa Rica, and railroads, riverine or land communication networks, all essentially public sector activities, have prompted the spread of both large and small scale enterprises. It has probably been one of the most effective means by which private enterprise could be encouraged. Even in a relatively small nation such as Korea, rural roads has turned small, valley economies into a national, vibrant market system for both commodities and labor. Such changes are not without their social and economic costs. In the latter case, the opportunity costs of public capital are considerable.

The interplay between public policy and private enterprise is not solely limited to the concrete levels of roads or infrastructure. It is closely related to the question of labor--its availability, capacity, and its regulation. In an increasingly competitive international market, governments are caught in the dilemma of increasing local incomes through minimum wages or other benefits, and remaining competitive with their exports, for there always seems to be some other nation with lower wage levels that would like to attract foreign investment or capture export markets. Labor intensive industries have migrated, much as labor has been attracted to the Middle East. From Japan to Korea, Taiwan and Hong Kong, to Sri Lanka and South Asia, capital has moved to take advantage of lower labor costs. Malawi has kept the price of labor down, not only to attract foreign investment but also to keep urban and rural income disparities minimal. The policy is double-edged--it creates a larger pool of employed, thus promoting equity, but keeps incomes low, thus depressing living standards. The balance between the two requires the wisdom of a Solomon.

Public policy has affected the labor markets. Korea has strictly controlled labor unions, prevented strikes, infiltrated the leadership of the movement with intelligence operatives, and refused to join the ILO because it would require the promulgation of minimum wage legislation. Thailand has promulgated such laws, but applied them unevenly, businessmen in Chiengmai complained about Bangkok standards in the north that make their products uncompetitive in either the capital's markets or those overseas.

Through the formation of a duty-free trade zone, Sri Lanka has attempted, with reasonable success creating over 13,000 jobs, to attract foreign labor-intensive light industry. The migratory patterns of foreign investors sometimes seem as seasonal as the birds moving from country to country, searching for skilled, low-paid, docile employees who embody the protestant work ethic as well. With strong, authoritarian governments, the search is often successful but the results can be ephemeral, if a local private sector that flourishes is also not encouraged. There are few nations that seem to have the prescient capacity to anticipate change and move, as has Singapore, from low-skilled, labor-intensive industry to high technology, thus satisfying both the internal needs for equity and external markets.

The dichotomy between public and private sector policies is further complicated by the distinction between smaller and larger private enterprise activities. It is not necessary that public policies be enforced episodically and ad rem, in response to political imperatives as in the case of The Cameroons, but even consistent, economically determined policies may have differential effects on private enterprise by size. Export-oriented or import substitution industrial policies may have positive effects on the balance of payments but could, and indeed have, destroyed micro, village, or family-based industries. Liberalized import regulations have eliminated traditional textile production in many parts of the world, not only during the colonial period when the mills of Manchester destroyed cottage industries throughout the British Empire, but more recently as well under regimes that rhetorically sought the welfare of its people. The effects of seemingly efficacious public policies that encourage either large scale foreign or domestic enterprises must be examined for their impact on the small, family-oriented business. Indeed, public urban zoning regulations in developing countries often effectively prevent such industries from functioning.

If it is assumed that policies that move nations toward free markets will encourage greater quantities of goods, fairly priced and more equitably distributed, then the issue must be addressed as whether public policy encourages equality of access of entry into those markets. No nation approaches the establishment of private markets with a tabula rasa. All bring to policy formulation the products of tradition, of history and social systems. So access is normally limited to some degree, sometimes by region or ethnicity; by caste, connection or status; by education and training; as well as by the availability of credit or capital. Public policy affects such access--both directly and indirectly. The availability or previous attainment of land and education, as well as public discriminatory investments in areas in response to the needs of national security or integration

(Thailand and The Cameroons, for example), are some of the determining factors in the relative equality of the access to the markets. Thus, the most productive or the most market-oriented of public policies does not necessarily result in a veritable free market economy if policies on educational opportunity, on land tenure or holdings, or the breakdown of rigidly hierarchical social systems do not encourage such mobility. If, for example, secondary education is located only in relatively remote market towns, far from the rural mass of population, and if scholarships and/or dormitory facilities are lacking, rural youth will have limited access to higher education, and thus, the skills related to mobility and broad participation in either the public or the private sector. Relationships between the public and private sector enterprise are intimate and complex.

These complexities are apparent in pricing policies of both consumer goods or primary products. Under-valuation of agricultural staples to farmers, such as rice in Burma, or an export tax on rice in Thailand or on sugar in Costa Rica are means by which governments intervene in the market for both political and developmental purposes. Often they regard an articulate volatile urban elite as a more immediate concern than a rural, quiescent peasantry, thus attempting to keep urban consumer prices low at the expense of farmers. The urban consumer, or indeed producer, may be subsidized through favorable energy costs (Thailand at certain periods), or the rural sector subsidized through below market fertilizer prices. Important is who ultimately pays. In the case of Korea, both urban and rural populations were subsidized, the government printing money to cover the deficit, thus fueling inflation. In fact, the nation paid until the burden became intolerable.

There is, therefore, a profound inter-penetration of public and private sectors. It is so seamless in most developing problematical--more an exercise in intellectual discrimination or the search for developmental models than a matter of reality. Policies are not formed in isolation, nor are they independent of history or political intent. That is not to say that repressive policies should not be liberalized, that open markets not be advocated. The accumulated evidence worldwide, even from some ideologically committed states, indicates a wide and profound malaise with the public sector performance, and a willingness, sometimes informally as in the Burma case, to become more pragmatic and open about private enterprise, foreign and domestic, and the spirit of incentives and competition that characterize them. As equity is sought, it can best be defined in terms of access. That access should include both access to the services that the state is normally required to perform for its citizens, but also access to the markets that can accelerate the growth of the economy. Thus, the interweaving of the warp of private enterprise with the woof of the public sector are necessary, and indeed offer opportunities in which the role of public foreign assistance can contribute, helping both public policy and private enterprise to achieve more sustained economic growth.

G. The Political Economy

The inextricable relationships between politics and economic systems, between public and private sector activities, and between economic systems and their historical and cultural backgrounds intellectually encourage a holistic view of societies at their various stages of economic development. Simply put, the basic question might be phrased: who gets what out of the system in terms of power, wealth, and status? The complexity of the issues prevent simple answers to what may seem to be a disarmingly simple question. Very broad generalizations may be possible for a few, rather sweeping catagories, but more often it is easer to point out the lack of correlation between theories and actuality rather than their convergence. AID documentation is silent on the relationship of private enterprise to types of political systems. This is not surprising, given the sensitivity of the issue and that politics seems to fall within the purview of the Department of State. Yet the inter-penetration of public and private force such speculation.

There seems no apparent correlation between private enterprise and our normative categories of governments, such as democracy and totalitarianism. Political typologies do not seem to be a relevant category of analysis. Burma is a single party military dictatorship that seized power through a coup, but so is Chile; Burma stressed socialism and Chile the private sector. Thailand is also effectively run by the military, which plays a considerable economic role, but that group has allowed the development of a strong private enterprise sector, both indigenous and foreign, as has Indonesia under the military, but not under Sukarno.

Internally, individual nations have changed their economic focus, sometimes through a coup (Indonesia), but also through the processes of government internally determined. Egypt moved from state socialism to somewhat more open and competitive markets through strong leadership, if not through democratic processes. Sri Lanka and Jamaica have done so through elections. The only generalization about private sector economic policy and the nature of political systems is that generalizations tend to be spurious.

There does seem to be one generalization possible about the inter-relation between the private sector and regimes arrayed in a different set of typologies. The concept was first defined by Max Weber, and the theory has been applied to contemporary societies such as Iran, Thailand, and Korea, although the concept is much more widely applicable.

Many developing countries are, or have tendencies to be patrimonial societies, formed of political leaders and their entourages, the former rewarding their associates with rewards (prebends) generated from state activities and often using state funds. Given the close relationship between public and private enterprises, these funds are often the product of an intimate association between the ruling elite and the business sector, either private or public. Both often become part of the entourage, the latter performing services for the overlords and providing funds, either public or private, for their use. The rulers undertake that their entourage is rewarded with further evidence of power, status, and wealth. Iran under the Shah was an example of such a society in which the distinction between public and private was effectively blurred, where the resources of the whole society were at the command of the leadership for purposes, benign or otherwise. Korea is, to a lesser degree, a society with many of the same characteristics, as the recent curb market scandal illustrates. Thailand is also such a politico-economic system, complicated by the factor of a close partnership between the ruling military elite and the ubiquitous Chinese business community. Nicaragua under Somoza was another example. Malawi, with its strong parastatal economy, may also be such a system, although more open and also more benevolent in the distribution of its profits. Zaire and Gabon might also be mentioned, along with Haiti and numerous other nations.

In these and other societies, this system is a continuation of relationships of those with power to those without and is often centuries old. That the system continues in many nations is more a commentary on cultural continuity than it is on the lack of a modern, monied economy or a legal system along common law or continental models.

The salient point is not to denegrate the system, but to understand it. Prebends can be considered a form of corruption, but here a distinction could usefully be made between what is considered illegal and what is corruption, at least in some non-western societies.

The patrimonial system is an informal, accepted integration of public and private enterprise and leadership, and a sharing of the fruits thereof. Rather than being considered illegal, which in many states the system is not, it is traditional. "L'etat, c'est moi," L'etat, c'est le miens," "L' economie, c'est le miens" may be all synonyms under that system. Illegal activities, on the other hand, are those actions that are destructive of social systems (murder, for example). Traditionally, levels of corruption tend to continue and indeed solidify existing economic, social, or political systems. Thus, corruption could be considered to be the counterpoise to a bureaucracy incapable of performing its modernized functions. When such corruption exceeds traditional levels or because it is economically or politically disfunctional, it then becomes socially illegal.

The need for such prebends may determine the nature, amount, position, and types of private enterprise systems that are allowed or encouraged by the state. If, for example, an oligarchy controls much of the wealth of a society disposed to be prebendial, then it is likely that industrialization will be centralized and composed of large-scale enterprises that lend themselves to such manipulation, and any intermediate financial institutions or state-controlled credit systems will be arrayed to support the structure in power. Such a society is unlikely to advocate developing major plans for decentralized, small scale industries that makes prebends more difficult for a centralized elite to provide to its entourages, whatever its rhetoric may be about rural employment or development. Of course, a regime dependent upon relatively autonomous provincial or tribal elites within a patrimonial system would foster a different, more diversified, approach to a spoils system.

This does not necessarily mean that economic growth might not occur or even be more rapid (Korea) under this patrimonial circumstance than in a more modern, participatory system. It does imply, however, that the beneficiaries in the short term will be the elite of the patrimonial group. The level of political tolerance among societies varies, and what may cause demonstrations in one may be accepted with equanimity in another. The balance of this tension is a product of the unique configuration of a variety of forces in any particular society at some point. Simply put, it thus becomes important and highly practical that AID, to achieve both its economic and foreign policy goals, be cognizant of all aspects of such systems when it chooses to support a private sector project, for it is likely that foreign assistance would be most welcome for private sector programming by the elite under any such society, and they will use them to their full advantage.

Political polarization today has prompted many to divide the world in Manichaean terms. There are those who argue that if socialist, authoritarian governments, the regimes of darkness, have effectively and as a matter of policy stifled private sector activity, with resulting deprivation of living standards for their populations, then the reverse system would be more efficacious--free markets that through competition provide better priced and more widely accessible goods and services. Whether this may be true of developed nations, and this is not the focus of this paper, the underdeveloped states present a more clouded picture, where Manichaean dichotomies are blurred into various shades of grey.

If regime types seem to offer little in evidence that there is a causal relationship that the private sector has played a more salient role in either democratic or totalitarian regimes of either the right or the left, the situation is somewhat less murkey on issues of equity. Equity has been defined as "the most even distribution of and access to the fruits of economic growth; that is, access to all decisions, goods, and services throughout all social strata, geographic regions, and ethnic and religious groups, and a fair sharing of the costs and burdens of such goods and services."

There is evidence that participatory governments seem more interested in providing equitable access to goods and services, but it is not without qualifications. The cases of Sri Lanka and Costa Rica both stand out as strong examples of governments concerned with equity, and in the former case it has been evident under both socialist and free market regimes. Malaysia, also a participatory society, has attempted to redress the economic balance by redistribution of assets, including land and the access to education, in favor of the Malays. Burma offers an interesting counterpoise, where under both totalitarian and democratic systems equity has been a prime concern.

In other societies that have essentially been run by single party systems, such as Korea and Malawi, the relatively favorable income distribution is a result of reasonably even distribution of one of the prime assets of the society--land. Conversely, those societies in which land distribution has been markedly uneven, such as some of the nations of Latin America, the Philippines, and Bangladesh, income distribution is badly skewed.

Participation does not necessarily equal private enterprise, however. Some developing nations, such as Costa Rica, that are highly participatory also have advocated vigorous and independent private enterprise systems, but others such as Sri Lanka have wavered between state control and open economic systems, always with the focus closely held to equity considerations.

If broad participation and concern for equity do not require private enterprise, is the reverse true--does a strong private sector postulate more equity or participation? "Strong" is the critical word, but if it is defined in aggregate terms--the total amount of goods and services in private hands (excluding the small farm, which for purposes of this paper is omitted), then the answer is ambiguous: not necessarily. By any standard, the Korean private sector is large and vigorous. It has no vital political power and operates within a highly totalitarian state. Singapore, a strongly private sector-oriented state, in effect, is a single party dictatorship, although quite a benevolent one.

If equity is considered in large part a product of equal access to the market, then few if any, societies qualify. Equal access to the market may not generally exist, but the converse is also apparent: market forces do not, of themselves allow equal access unless other factors are present, for they cannot create educational opportunity or sacred esteem.

The conclusion is that for equity, as for growth, private enterprise may be helpful but it is not necessary. The private sector sometimes flourishes under participatory governments, but there is no evidence that there is a necessary correlation between the two.

H. External Forces

Malawi, in its efforts to improve its foreign exchange position, increased its sugar production on the expectation that American quotas, which had greatly expanded, would continue. When these were cut back, the government found that its losses in sugar exports to the United States would be triple the foreign assistance it received from that nation. Thailand is far more dependent on trade flows than it is on either foreign investment or assistance. Nations are far more interdependent today, and yet the international scene is more complex and growing protectionism means greater competition for non-traditional exports, and a weakened market for primary exports. Costa Rica finds it particularly hard to escape from the limited Central America common market into broad exports. The transition from import substitution, with its protective tariffs, to export promotion, and heightened competition, is sometimes exceedingly difficult.

Increasing internationalization is an important factor that affects private enterprises of all sorts. Its consequences are profound for most countries, and its impacts are more complex than economic, impinging on national security and related to nationalism. The Cameroons is seeking to broaden its foreign investment and become less dependent on the French. The Thai and Indonesians have both demonstrated against what they have regarded as excessive Japanese investment and economic influence on their societies. In contrast, the Koreans have regarded increasing trade with the United States as a balance against charges that their economy has been mortgaged to the Japanese, while American investment in Korea is considered to be a type of economic hostage to ensure that the United States would honor its defense treaty with Korea and come to its assistance in the event of a North Korean attack.

These external forces are operating to force nations into transitional economic periods that will require adjustment in their economies, their export policies, protective tariffs, and export incentives. In such circumstances, trade looms ever more important, and the role of private sector programming to meet these needs becomes more important. It clearly then becomes an issue not only for developing countries, many of which must diversify their primary and make more competitive their non-traditional exports, but also for all developed countries that must absorb some of these products. The need, therefore, is for coordinated policies of both trade and aid, a circumstance difficult to achieve, but one required if there is to be an effective private sector program.

III. DEFINITIONS REVISITED, OR THE RECTIFICATION OF NAMES

The confluence of forces not only has prompted renewed consideration of the potential role of the private sector in national development, the confluence of public and private sector policies and activities also prompt reconsideration of the original definition of private sector or private enterprise with which this paper started.

We have started from a commonsensical viewpoint, a definition familiar to those who wrote this paper as well as those within the Agency who will read it. As a tentative definition, its simplicity has much to recommend it. It seems both familiar and sound.

The evidence mounts that this homely definition, no matter how appealing in its clearcut approach to developmental problems may have seemed to be, should not lull us into uncritical acceptance. The evidence seems overwhelming: the Confucian precept of the rectification of names should prompt reconsideration of the definition.

What has become apparent is that the relatively simple western distinction between public and private enterprise has become far more complex in non-western settings. As corruption or poverty are largely defined by the culture in which they operate, so too is private enterprise often defined in accordance with local social norms. If this review illustrates anything, it is that care is required in programming or the package or label may obscure the contents.

Even this cursory catalogue of national experiences has erroded the clear, perhaps simple, definition of the private sector as privately-owned, profit-making businesses. There comes some intellectual, some arbitrary point when governmental regulations, requirements, controls, and supervision turn a private sector activity into an appendage of government. How does one regard that enterprise? If, as in the case of Korea, government controls the credit, sets the export targets, determines many attributes of the price, regulates the labor supply and organization, and can even fire the senior staff, at what point do these firms become parastatal organizations in everthing but name? If, on the other hand, government allows its parastatal enterprises freedom to respond to market forces, to hire and fire, as in Malawi, this may be closer to private enterprise than some titularly private firms in other countries.

The implications for programming are profound. Each nation at a set point in time must be studied to determine whether these are appropriate interventions that might affect positively the rate of growth of that society in the most equitable manner. If some sort of private sector project is justified, then the distribution of the likely effects of the action should be determined to explore the political and social implications of such actions. If, for foreign policy or security reasons, such projects are proposed, then the longer term political implications of such projects should be considered to assure that the timely expenditure of funds in alluringly fashionable categories does not outweigh the possible internal effects of such activities in these nations over time. The prudent expenditure of public funds in any field, including what has been known as private sector activity, requires that such actions be thought through with care and perception.

IV. CONCLUSIONS

Many nations are undergoing political, social, and economic transitions. These transitions are in part caused by new international economic forces that require rethinking of traditional economic policies. At this time, there is increasing interest in a diverse assembly of nations in private sector activities. The United States should respond to this interest positively but with care and understanding.

The initial definition of private sector activity propounded was that of for-profit enterprises organized and run by private individuals. Entrepreneurship, capital, and market and other types of information were considered to be required elements in any analysis of private enterprise. No overall conclusions could be reached about required levels of each, or how generically each might be fostered.

The forces that shape any nation's development are so diverse, their relative importance arrayed in such unique configurations, influenced by political, social, and cultural factors, that any attempt to speculate on the typical or ideal mix in which private enterprise might play an especially productive role is likely to fail. The consideration of any single factor and its importance to effective private sector activity seems to yield little in positive insights. For example, the size of the potential internal market is not the single determining criterion, as Singapore, Malawi, and Costa Rica demonstrate. The agricultural or other natural resource base seems also only peripherially related to performance in the private sector, and it is evident that fairly large countries (Burma) have done poorly in private sector activities in spite of their abundant natural resources while similar size nations (Korea, Thailand) have done rather well.

The number and quality of trained manpower may be a necessary, but evidently not sufficient, determining factor in a successful private sector. Costa Rica had the manpower, Malawi did not, but Malawi was prepared to employ expatriates. Other nations might not be so inclined for political legitimacy, the indigenization of authority, often outweighs economic logic. National ethnic unity, or conversely, nations in which minorities have had singular economic power, once again is not demonstrated to be a solitary determining factor. Korea was just as homogeneous ethnically in the 1950s when there was little progress as when its successful export drive began. At best, if ethnic homogeneity is not a positive force, it is not a retarding influence.

Previous colonial experience alone does not seem to determine private sector economic policy. In spite of the influence of the Fabian socialists on the early national elite emerging from the British experience, Kenya could go one route, Tanzania another. Burma and Sri Lanka had strong socialist leanings, but Malaysia was far more open to a market economy. The French tradition in Africa produced diverse economic systems.

Political typologies do not seem relevant in predicting the role or function of the private sector, although the existence of tendencies toward a patrimonial system, blending public and private funds by the elite as rewards for services, should give pause to consider who might benefit from private sector activities and whether the risks are worth the efforts.

The interpenetration of public and private is so complex, each so dependent on the other, that the simple westernized perception of the dichotomy between public and private enterprise breaks down under analysis. Countries, in unique configurations, treat their public or parastatal organizations differently, and each nation assigns, overtly or indirectly, a specialized role of the private sector. The effect of direct support to private industry or the indirect support to them though intermediate financial institutions or parastatal organizations cannot be predicted in the abstract. Each effort requires a thorough understanding of the complex environments in which it operates.

In general, however, carefully planned efforts with financial institutions might be useful as would management and skills training. The success of each of these efforts is dependent on a multitude of other elements operating in any society that must be analyzed prior to support, for each is a necessary but not sufficient condition of a successful private sector program.

This inter-penetration calls for a redefinition of the AID involvement in the private sector. Private enterprise programming is not an end in itself. It is an important means through which, under certain circumstances and in certain countries, national development may be spurred and more equitable distribution of the fruits of such development assured.

The complexities of the interlocking roles of private, public and parastatal organizations and economic and political systems in some developing countries should prompt reconsideration of the term "private sector." Suggested instead is emphasis on open and competitive market systems. This redefinition moves from what essentially is a static term, and one which has little analytical usefulness and indeed some programmatic dangers, to one that is dynamic and allows the Agency to design projects that are more in keeping with developmental needs. Such an approach would also ensure that the provisions of the Foreign Assistance Act that call for considerations of equity, which by definition call for increased access to and involvement in the development process, are more central. Increased access to the marketplace would encourage the broadcast distribution of developmental benefits, and would at the same time, help ensure that the competitive forces would operate. It is when such competition is repressed, either by lumbering bureaucracies that cannot respond to changing needs or by monopolistic private elements sharp to recognize their own advantages, that the development process and equity both suffer.

V. RECOMMENDATIONS TO AID

The following recommendations grew from the experience in evaluating the five countries included in the agenda of the Office of Evaluation, as well as the previous, combined experience of the authors. These recommendations do not necessarily purport to represent a complete summary of the recommendations of those studies, which are included as appendixes to this report, nor the views of their authors.

1. The purpose of AID's programming is to accelerate economic development that will encourage growth, economic self-reliance, and equity. Work in the private sector is a means to help achieve these ends. It is not an end in itself any more than agriculture is unrelated to the people who will eat its products.

2. Private sector programming is so complex that it requires most careful analysis of the broad socio-political environment which must be supplemented by an understanding of the various private enterprise activities in a particular cultural setting.

3. The term, private sector, is more a slogan than a guide for the programmatically perplexed. It is too imprecise in the many contexts in which it is used. More useful conceptually and programmatically would be a term specifically implying open and competitive markets. It is the concept of the open market that is a more important programming tool than the ownership of the enterprise, an ownership often concealed from the public.

4. In countries receptive to market economic ideas, AID might consider projects that improved equal access to the market, since this approach both assists the competition of the marketplace as well as increases equitable access to it.

5. In increasing access to the marketplace, two broad avenues seem particularly important; credit and training.

6. The provision of credit has been an important method of AID programming historically, especially in Latin America. It should continue through assistance to appropriate intermediate financial institutions that operate to increase market competitiveness. In general, AID should allow that institution to plan an independent role, and not dictate the conditions of each loan. In some special cases, for reasons of national interest, certain geographic or special groups may be singled out for assistance. The potential impact of such work should receive extra scrutiny.

7. Training is a field in which AID has had some successes. In general, training for managerial skills may usefully be done in the United States, in regional graduate schools (Asian Institute for Management), or in specialized, local institutions. Thought should also be given to managerial apprenticeships in firms themselves.

Skills training historically have been less successful when formulated in the United States, but it is an important program area, and should be designed in a "loose-leaf" format--subject to quick changes in the curriculum to correspond to market needs. This aspect of programming should also focus on increased access.

8. Access also requires increased availability of primary education in some nations, especially in parts of Africa. It is a necessary ingredient of any long-range, effective market economy.

9. If AID is requested to assist in policy reform related to private enterprise, AID would do better to concentrate on the improvement of the competitive nature of the market rather than on any specific firm.

10. If policy reform is considered, it would more likely succeed if technical assistance were focused on detailed aspects of policy, rather than policy itself. Examples include: tax legislation, copyright laws, operations of banks, etc.

11. The inter-penetration of public and private activities is so complex in many societies that in fostering more competitive markets, parastatal or other quasi-public or public activities should not be neglected if they contribute to such market forces.

12. Infrastructure such as rural roads and irrigation systems are important activities in the public sector that contribute to the growth of market forces. They are areas in which AID has much experience and which AID does reasonably well. They should continue, and perhaps might be made more effective if more thought were given to how the competitiveness of the market might be improved through such programming.

13. AID generally should not work directly with private enterprises, as the public nature of AID and its objectives may sometimes be seen to conflict with the profit motives of individual firms. AID should work through intermediary institutions that can understand the problems of private enterprise, and which will act as brokers in the process.

14. In fostering open and competitive markets, AID should not neglect the differential effects of programming on the very small, micro-firms. These generally employ more people, are greater in number, and studies show are often far more cost effective. They are also important aspects of an approach that considers seriously the problem of equity.

15. In the search for increased foreign investment, AID should note that excessively liberal investment terms offered by a nation means that the benefits accrue more to the foreign firm than to the nation. The Cameroons experience shows that in such cases the people of the nation helped sometimes pay for such liberal policies.

16. If AID supports programs to assist open and competitive markets, then it should do so prepared to continue such support over protracted periods. Projects have failed because of "fadism" in programming fields, where support is not continued long enough to have an effect.

17. In general, AID should let the marketplace allocate the AID resource. If AID forces programming modes or conditions, the changes for failure increase exponentially.

18. AID has limited competence to program in the marketplace. Its trained staff in such fields is limited, as is its experience. It does not have the number of personnel to monitor directly a variety of subprojects. This further requires intermediaries that will preform these functions.

19. Competitive market programming requires intimate country knowledge that is better left to those with direct responsibility for such efforts. The function of Washington would be better directed toward providing a corps of trained enterprise specialists, sensitive to the markets, who can work with economists and country specialists to devise programs situated to individual, national needs.