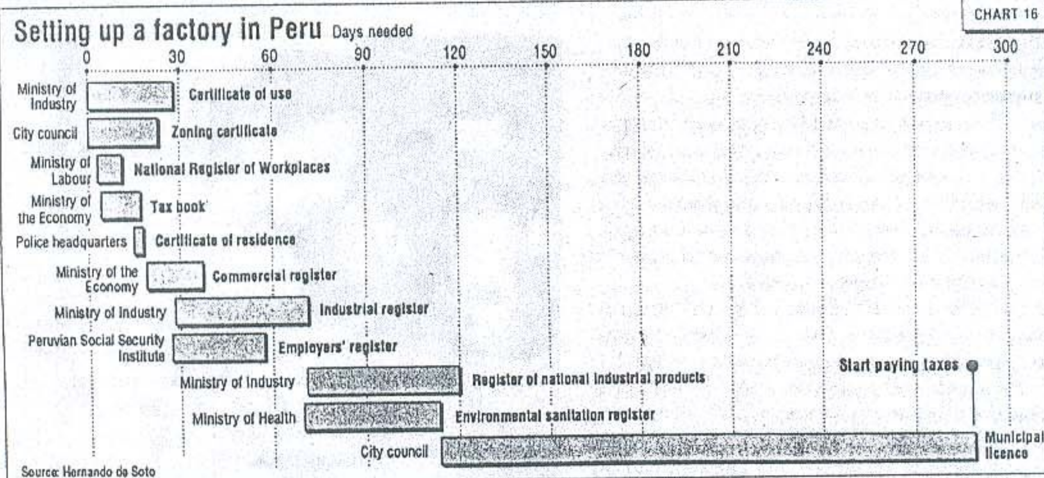

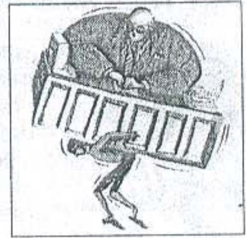

this survey is right, the developing countries have enormous unexploited opportunities for increasing the returns to all manner of economic activities. nce governments allow those opportunities to be sped, entrepreneurs will start to acquire the skills they need.

The third part of entrepreneurship is the willingness to take a chance. This is not always necessary. Some entrepreneurs find ways to gain advantage risklessly. As a rule, though, entrepreneurship does involve at least the risk that by doing one thing, you will be less well off than if you had spent the time doing something else. If investment of some sort is required, the danger of losing out is clearly all the greater. In developing countries, the risks of doing business are huge, and this undoubtedly deters local and foreign entrepreneurs alike.

Again, however, many of the risks flow directly from government policy. Is the present punitive tax rate going to be pushed even higher? Will the government reform its pricing system before a planned investment comes on stream? Is this industry going to be nationalised, or more tightly regulated, or denied its ration of foreign exchange? Will it still have friends at the ministry after the next change of government?

ru, in other words

In view of the ramparts that some governments place in the way of their country's entrepreneurs, it is surprising that enterprise survives at all. Mr Hernando de Soto's celebrated study of Peru's informal economy, "The Other Path", shows the remarkable persistence and ingenuity of its entrepreneurs—and why they have chosen to be outlaws, despite the risks. Africa awaits its de Soto, but he or she will most likely find much the same as he did.

In one experiment, Mr de Soto's researchers posed as workers wanting to set up a small clothing factory in Lima. After renting space in existing factory premises they applied for the various permissions. They also took a short-cut by applying for single-proprietorship: that reduces a good deal of the red tape. Four university graduates and a lawyer—but no other "fixers"—began to grapple with the rest.

In the months that followed, they were asked on ten occasions to pay a bribe. Twice they agreed to, because the alternative was to abandon the project; the other eight times they avoided paying, though this was "far from easy". Altogether, 11 separate permissions took 42 weeks to gather. They involved repeated visits to seven different ministries or other bodies (chart 16). Mr de Soto estimates the cost of compliance at nearly three times the annual "minimum living wage". Quite steep, when you realise that this is the price of being allowed to pay taxes.

If at the same time the businessman had been trying to acquire the title to a piece of state-owned waste ground and thereby establish legal ownership of his house, his patience and wallet would indeed have been strained. Because that is a bit more complicated. It takes three years and seven months, and involves 207 different transactions within multiple layers of six government departments—including, as you might imagine, the office of the president. After all that, our weary entrepreneur would have "adjudication of the land"—but no right to sell it. So, among other things, its value as collateral would be lower than if the owner had been granted proper title.

In the face of such hostility, it is a triumph of entrepreneurial drive that people find ways to conduct business of any sort.

The exporters of Bangladesh

Given half a chance, the three ingredients of entrepreneurship can come together—and sometimes with spectacular results. It would be hard to find a more striking, or more revealing, case than the recent flowering of the clothing business in Bangladesh*.

This started with a collaboration between Mr Noorul Quader, a bureaucrat-turned-entrepreneur, and Daewoo of South Korea. Mr Quader's new company, Desh, agreed to buy sewing machines from Daewoo (itself a manufacturer of clothes, and much besides) and send workers to be trained in South Korea. Once Desh's factory started up, Daewoo would advise on production and handle the marketing in return for royalties of 8% of sales.

Daewoo did not lend to Desh or take any stake

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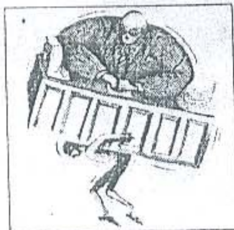
*The details that follow are drawn from "The Role of Catalytic Agents in Entering International Markets". World Bank, Industry Series Paper 5, 1989. Don't be put off: it is much more interesting than its title suggests.



in the business. But it did one other terribly useful thing. It showed Desh how to design a bonded warehouse system (which the government agreed to authorise). This, in effect, made clothes-exporting a special economic zone—an island of free trade within a highly protected economy. Desh was able to compete with foreign producers on equal terms. (So if you look back to chart 9 you now know why Bangladesh did so well for a strongly inward-looking economy: where it did best, it wasn't.)

At the end of 1979 Desh's 130 trainees returned from South Korea with three Daewoo engineers to install the machines. Production began in April 1980, with 450 machines and 500 workers. That year the company produced 43,000 shirts with a value of $56,000; by 1987 sales had risen to 2.3m shirts and a value of $5.3m. That is a growth rate of 92% a year.

Meanwhile an interesting thing had happened. Desh began to do well so quickly that it cancelled its collaboration agreement with Daewoo in June 1981, just 18 months after the start-up. It started to do its own marketing and bought its raw materials from other suppliers. So it has achieved most of its success on its own. Better still, so far as Bangladesh is concerned, the company has suffered heavy defections of its Daewoo-trained staff. Of the initial batch of 130 who visited South Korea in 1980, 115 had left the company by 1987. Why did they leave? To start their own businesses.

From nothing in 1979, Bangladesh had 700 clothes-export factories by 1985. They belonged to Desh, to Desh's graduates or to others following their example. Clothing has overtaken jute products as the country's biggest export, so much so that in value terms it now rivals the sales of Uncle Daewoo itself (chart 17).

What nearly spoils this story is an outrage that will cause export-pessimists to smile sadly. Most of the industry's early exports were to America. In 1985, troubled by its widening trade deficit, that brave champion of free enterprise slapped an import quota on Bangladesh, which at that time was the second-poorest country in the world after Ethiopia (not counting Cambodia and a handful of others for which no figures are available), with an income per head of $150, or less than one-hundredth of that of the United States. Bangladesh's share of clothing imports (not even, please note, its share of the domestic market) was tiny: less than 1.8%. But rapid growth had meant that it had already outstripped the share of Taiwan and South Korea in certain product lines. So on went the quota.

God bless America. And God bless Britain, France and Canada for marching self-righteously behind with quotas of their own. The industry in Bangladesh reeled. Of the 700 factories that were open in 1985, 500 closed within months.

Maybe the pessimists smiled too soon. After negotiations, the quotas were loosened in 1986 and 1987. Exports shot up again, and about 300 of the closed factories reopened. To reduce the danger of tighter quotas in the future, firms have made great efforts to diversify into new markets (including Russia, Australia, Japan and the Middle East) and across a much broader range of product categories. But note that the value of exports did not actually fall across the industry even in 1985: their growth merely slowed. Despite the sad smiles, then, chart 17 hardly makes the case for export pessimism. Nor is it much help to those who would argue that Bangladesh is poor because it lacks entrepreneurs.

Miracle worker

A push from privatisation

To release the full potential of their entrepreneurs, developing-country governments need to change their approach in the fundamental ways this survey has already described. It can be summed up in the phrase "letting prices work". Above all, that means low and stable inflation, an outward-looking approach to trade, an end to financial repression, and a withdrawal from direct intervention in markets. Many governments would regard that list as impracticable even if desirable.

Yet lately many of those very same governments have been bringing the private sector into the provision of public services, closing loss-making state-owned enterprises and selling off bits of potentially profitable ones. Thus broadly defined, the World Bank counted 600 cases of "privatisation" worldwide between 1980 and 1988—400 of them in developing countries, 160 in black Africa.

When privatisation happens against a largely unchanged background of protected markets and price distortions, it is likely to disappoint. This is especially so when it is done reluctantly—forced on unwilling governments by budgetary difficulties they hope will prove temporary. Yet the trend is still a hopeful sign. Some governments may learn to their surprise that privatisation, by promoting entrepreneurship, helps them.

Privatisation often seems to work best in developing countries when it takes the form of allowing private business to compete on equal terms with what was formerly a state-monopoly supplier. Even in areas where some element of public provision is bound to remain—education, health, water supply, urban transport, power generation and telecommunications—a dose of competition does the state a world of good.