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Ethnic-sectoral cleavages and economic development: reflections on the second Kenya debate

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ABSTRACT

The second Kenya debate has prompted a close examination of the role of an ethnic business community – Indians/Asians – in the country's industrial development. While this community does own up to three-quarters of the country's medium and large-scale manufacturing firms, a narrow focus on manufacturing understates the contribution which Africans have made to the economy. A progressive rural business class is more likely to re-invest in profitable farming activities and to branch out into agro-processing, transport and trading than to undertake risky investments in urban manufacturing. As a result, historical ethnic-sectoral cleavages will tend to be reinforced. The article provides new calculations on the extent of African involvement in manufacturing, and reviews an ancillary literature which uses institutional and socio-economic analysis to understand differences in Kenya's business communities.

INTRODUCTION

In many developing countries, a small ethnic community owns a disproportionate amount of private enterprise in key sectors. While these communities are sometimes indigenous to the country, they are usually composed of immigrants from other developing areas. They have used strong family and social networks to accumulate capital and advance their position. In many cases the process began during Western colonisation when immigrants were imported as workers for plantations, mines and infrastructure projects. They also filled a trading niche in supplying

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goods to colonial administrations. The best-known example is the overseas Chinese in various parts of south-east Asia, but other examples include the Lebanese in West Africa, Armenians in central Asia and the Jews in Europe. Their relatively small numbers have tended to exclude them from political power and therefore their economic success is usually not due to overt favouritism from the state.

Kenya's Asians (or Indians) constitute a prime example of an ethnic business community. This group comprises immigrants from contemporary India and Pakistan, along with several generations of descendants who have lived in Africa all their lives. Their importance to the country's manufacturing and wholesaling sectors has been tacitly recognised during the colonial and post-colonial periods. However, the community was left out of the key debates in the 1970s and early 1980s on the country's economic development. In the early 1990s, David Himbara (1993, 1994, 1997) sought to rectify this oversight through the publication of a book and two articles on the Asian contribution. His quantitative work suggested that the community owned 75% of medium and large-scale manufacturing firms, while constituting less than 1% of the population. Africans, meanwhile, controlled only 5% of such firms. In addition, he criticised the Kenyan state for its corruption and its inability to play a more developmental role. In forceful language, Himbara's message was that black Africans had made very little private contribution to industrialisation and had also held back progress through the mismanagement of the state. His work provoked a critical response from Michael Chege and sparked a new debate on the nature of Kenyan development.

This second debate[1] is similar in some ways to the 'first' debate of the late 1970s and early 1980s. That debate centred on the work of Colin Leys, and on the question of whether Kenya was caught in a dependent relationship *vis-à-vis* Western capital or whether it was developing its own indigenous business class. Both debates have focused on whether (black) Africans have been able to advance into urban manufacturing or whether the sector continues to be dominated either by foreign multinationals (first debate) or by Kenya's Asians (second debate). Both debates suffer from similar flaws. The first debate and Himbara's contribution to the second debate have focused narrowly on urban manufacturing, even though Kenya's economy is based largely on agriculture and services. Chege (1998) has gone some way towards correcting this conceptual problem by providing a more balanced view of the contributions of the various ethnicities to the economy.

Even with this correction, the debate has lacked a clear understanding of the process by which an indigenous community might invest its surplus

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capital. If farming is profitable, re-investment in farming and in related agro-processing, transport and services may constitute the best option. Meanwhile, channelling money into urban activities in which the indigenous community has limited experience and few connections, may be risky and unprofitable. In this way traditional patterns of ethnic-sectoral cleavage may take considerable time to dissolve. Support for the process of sectoral specialisation can be found in a body of ancillary research on Kenyan manufacturing which has developed in recent years. This research has not directly addressed the second debate but has made distinctions between African and Asian entrepreneurs and the firms they operate. It suggests that networks and informal institutions within business communities can reinforce traditional specialisations.

This article is divided into five main sections. The first provides a brief review of the initial Kenya debate. It is followed by a synopsis of the changing nature of Kenya's political economy during the 1980s and 1990s. The third section reviews the main arguments of the debate between Chege and Himbara. The fourth section presents new calculations on firm-level data from an existing World Bank survey. The results indicate that Himbara's figures on Asian ownership in urban manufacturing are probably reliable, but that his data tends to underrepresent African ownership. The fifth section analyses the institutional and socio-economic factors which have reinforced patterns of sectoral specialisation. A brief section then concludes.

THE FIRST KENYA DEBATE

The first debate centred on whether Africans were moving into manufacturing or whether the sector continued to be controlled by foreign multinational corporations (MNCs). Based on leftist dependency theory then in vogue, it questioned whether Kenya was enmeshed in a 'dependent' relationship *vis-à-vis* foreign capital that was stifling its economic progress. The debate arose after its central figure, Colin Leys (1975), wrote a book advancing the dependency thesis and then changed his mind a few years later. There were signs, according to the revised Leys position, that a urban indigenous class was forming, based on the Kikuyu ethnic group and supported by the state (Leys 1980, 1982). Other theorists then entered the debate or provided support for the original or the revised Leys position (Cowen 1981, 1982; Fransman 1982; Kaplinsky 1982; Swainson 1980). While a full discussion of the first debate is not relevant here, three broad issues are important for analysing the second debate.

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Firstly, the initial debate focused on manufacturing as the key indicator of economic control and progress, and the sector to which an indigenous business class should naturally aspire. If Africans were to be considered successful at private enterprise and to have taken control of their economy, they needed to control manufacturing. This view held despite the fact that manufacturing has never accounted for more than 13% of GDP.

Secondly, the debate avoided any discussion of the Asian business community, which had not only been making steady advances into manufacturing since the Second World War but was also known to control much of wholesale trade. This oversight was surprising given the group's obvious presence. It did not, however, fit neatly into the categories of 'indigenous' versus 'foreign' capital as required by dependency theory. The oversight gave rise directly to the second debate.

Thirdly, Leys' revised position was only a tentative one and was based on a particular historical conjuncture. His return to Kenya in the latter half of the 1970s coincided with a coffee boom (derived from frosts in Brazil) which put money into the hands of Africans with coffee interests. It also generated increased government revenue which could be used to further the state's efforts to Africanise the private sector. It was not clear at the time, however, whether this state-led programme represented a durable African advance into urban business, or whether it merely fostered a crony capitalism which was dependent on continued state support.

By the time the debate petered out, very little strong evidence had appeared that private Africans now owned large manufacturing outlets with little or no state support, or that even those ventures with state support had proved their competitiveness. Probably the most revealing conclusion to the debate came in Leys' own 10-year retrospective. In the early 1990s, he wrote, 'Africans (as opposed to Kenyan Asians) were still virtually unrepresented in manufacturing' (Leys 1994: 235). It is important to note that Leys uses the prefix *un* and not even *under*.

THE EVOLVING POLITICAL ECONOMY OF THE 1980S AND 1990S

In the decade following the first debate, a number of political developments served to disrupt the nascent African advance into urban industry and to strengthen the position of the Asians. A non-Kikuyu headed government sought to develop a new African business class based on its own ethnic group. In the process it tended to enlist the support of members of the Asian community.

The death of independence leader and president Jomo Kenyatta resulted in the accession of a non-Kikuyu, Daniel arap Moi, to the presidency.

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While members of the old political and senior technocratic elite were retained in the short term, a longer term shift took place in state personnel and state objectives regarding the business community. To reduce Kikuyu economic power and dampen their chances of a return to political power, the new government used the state machinery to undermine their activities. At the same time, the administration supported the interests of a new and relatively inexperienced group of businessmen comprising Kalenjin and other allies of the government. It cannot be known how successful the African (Kikuyu) advance would have been without the change to a Kalenjin president. It is certainly possible that the close and overlapping relationship between the state and business was leading to the creation of a pseudo or crony capitalism which lacked long-term viability and competitiveness. (This has occurred in many developing countries, including those with strong government and the best intentions, when the state has sought to advance the economic interests of its own ethnic group, e.g. the Malays in Malaysia.) At the same time, Kenya's change of presidency did disrupt the African business advance by dissipating the financial and knowledge capital that the Kikuyu had accumulated since the late colonial period.

The rivalry between ethnic factions was confirmed by an attempted coup in 1982. The event increased the president's resolve to build a non-Kikuyu power base and resulted, for example, in the banning of all other political parties. These problems diverted the government's attention from economic management and also frightened foreign investors. Many multinationals began to sell off subsidiaries. These plants were bought up by the community best positioned to take over, Kenya's Asians. In addition, the privatisation of state firms, demanded by the World Bank and Western donors, resulted in the transfer of assets to the new Kalenjin businessmen, often working in combination with Asians. Unlike the Kenyatta administration, which viewed the Asian community as an obstacle to economic Africanisation and imposed restrictive laws such as the Trade Licensing Act, the Moi presidency saw the Asians as allies. Their small numbers meant that they posed no political threat while their capital and business expertise could be used to support the Kalenjin business advance and deny the aspirations of the Kikuyu. The Asians themselves, being in many cases Kenyan citizens and more rooted in the country, were less likely than MNCs to flee as a result of political uncertainty.[2]

By 1990, therefore, the foreign MNC presence was in decline, the Asian influence was increasing and the tentative advance of Kikuyu capital, supported by the state, had been disrupted. A new group of African interests, with the support of the country's second president, was in the early stages of development. These events, in which political objectives affected business

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activities and the structure of ownership, provided the setting for a new debate about the role of Asian and African capital in Kenya's development.

THE SECOND KENYA DEBATE

The second debate was sparked by the publication of David Himbara's *Kenyan Capitalists, the State and Development* (1994). This is a heavily researched, strongly written analysis not only of the Asian business community but also of the failure of African-run state institutions to support the country's development. Himbara's sweeping generalisations and blunt denigration of African business and political efforts drew a response from Michael Chege (1997, 1998). He criticised the use of racial categories and attacked the work's conceptual and factual basis. In the process, the exchange shifted the focus of Kenya's political economy from the African-vs.-MNC distinction of the first debate to an African-vs.-Asian dichotomy. While Himbara rightly focused attention on the importance of Asian capital in Kenyan manufacturing, Chege challenged the idea that economic development should be equated with manufacturing, especially in a country dominated by agriculture.

Himbara (1994: 5) argued that 'black Kenyan capitalists … were almost non-existent', and that the 'performance of private African companies and state parastatals has ranged from mediocre to total failure' (1994: 51). Not only had black African capitalists not succeeded in private business, despite considerable state support, but the 'whole state apparatus could appropriately be described as a set of institutions for the aggrandizement of those who oversee its units' (1994: 7). In contrast, the explanation for Kenya's more advanced industrial development, relative to its neighbours, Uganda and Tanzania, could be attributed to Asian capitalists. What distinguished them from 'businessmen in other Kenyan communities', according to Himbara (1994: 35), were commercial skills which included:

> an ability to survive in remote areas on modest resources and by sheer determination and hard work; their vision of the potential mass market and the patience to transform it into an actual market; their general efficiency and competitive edge; and the role of family units and collective organisations in providing mechanisms to engender discipline and cohesion.

In setting out his explanation in this manner and providing no other reasons for the Asian concentration in urban manufacturing, Himbara was equating entrepreneurial skill with race, and with a culture determined by race.

The basis for Himbara's analysis was a simple survey of 100 medium and large-scale manufacturing firms (over 50 employees) drawn from

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the membership of the Kenyan Association of Manufacturers (KAM). A mere 5% of the firms were of sole African ownership, while 75% were owned by Kenya's Asians. Moreover, the Asian community controlled an even greater proportion of the largest firms: 86% of those valued at more than Ksh.100 million. Africans owned none of these (1994: 45–51). Himbara's stated criteria for the selection of firms included 'various sub-sectors', a 'representative range of products' and 'a reasonable geographical representation' (1994: xii–iii). He did not, however, provide a breakdown of the number of firms sampled from each sub-sector or product line, or any data on the location of sampled firms.

In a vigorous and persuasive response, Chege (1998) challenged Himbara's argument, criticised his methods and offered convincing counter-evidence. The central thesis is that there can be no direct association between race (and culture), on the one hand, and entrepreneurial talent, on the other, because of abundant evidence of African economic success. That success is apparent not so much in urban manufacturing but in agriculture, an activity which has been, and continues to be, most important to Kenya's economy (in terms of output, employment and exports). Furthermore, Chege chides Himbara for not basing his analysis on any of the standard measures of economic performance (return on capital, price–earnings ratio, total factor productivity, etc.) or even non-standard ones, such as surplus value (1998: 216–17). For his part, Chege (1998: 220–1) refers to a range of sources which indicate, among other things, that: African-owned agriculture has generated a better return on investment that other sectors; that coffee production per hectare in Kenya is comparable[3] to that in Colombia, India and Indonesia; and that, by most criteria, Kenya's coffee cooperatives are more efficient that those in other parts of the continent. As a measure of performance, Kenyan coffee and tea doubled their global market shares between 1967 and 1987, while manufacturing exports as a proportion of total manufacturing dropped from 20% to 10% over a comparable period. The latter was attributed, in a World Bank study, to the high cost and low quality of the products (1998: 221). In addition, Chege cited the work of Barbara Grosh whose financial analysis indicated that 'performance in most, though not all, state-run bodies in the banking and industrial sectors outstripped the private sector' (1998: 227).

Himbara was also criticised for his biased sampling of the manufacturing sector. KAM is not representative of the Kenyan business community, according to Chege (1998: 217–19), because it is dominated by MNCs and Asian firms, and because it draws its members mainly from urban industry with little representation from rural-related manufacturing

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activities (i.e. agro-processing), where Africans are more active. Successfully managed tea factories should be included, for example, including some of the 45 factories of the Kenya Tea Development Authority, one of the largest tea corporations in the world and well managed for most of the independence period (1998: 218). A variety of African managed (or owned) agro-processing and other firms provide evidence of African commercial ability, Chege argued. He cited Kenya Breweries, Unga Ltd., Alliance Hotels and the financial group which includes the Insurance Company of East Africa, AM Bank and First Chartered Securities (1998: 225).

On first reading, Chege's analysis and evidence are so convincing that one is almost prepared to declare the debate over and recognise him as the undisputed winner. On closer scrutiny, however, two issues remain unresolved. Firstly, Chege argues that Himbara's sample is biased, but he provides no statistical evidence himself as to the true racial proportions of ownership in manufacturing. Would an unbiased sample show Africans and Asians owning an equal number of firms or would Kenya's Asians still dominate? In other words, how biased is Himbara's sample? Despite Chege's arguments, the fact that Asians may own up to three-quarters of all medium and large-scale manufacturing firms does suggest some ability to generate and accumulate a surplus and to be sufficiently competitive to stay in business. Indeed, Chege's recurrent references to the superior performance of (African) agriculture, relative to manufacturing, can be read as an implicit admission that manufacturing, in fact, is mostly owned by Asians. If it is not, then his comparisons of sectoral performance are much less relevant as a critique of Himbara's evidence. To address this unresolved issue, the following section provides data on manufacturing ownership which is not biased by being drawn solely from KAM membership or by excluding the food sector.

Secondly, if the unbiased evidence still does indicate that manufacturing is heavily Asian-controlled, then this requires an explanation. If race (and culture) are not supportable as explanations, then what is? Chege opens the door to – and indeed invites – a possible answer by referring, in his concluding paragraph, to Putnam's notion of social capital. That invitation is taken up in a further section of this paper, with reference not to social capital but to informal networks and sectoral specialisation.

STATISTICAL EVIDENCE

Without his own evidence, Chege was not able to fully validate his claim that Himbara's survey was unrepresentative. However, by the time Himbara's study appeared, the World Bank (2003) was conducting its own

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TABLE 1
Ethnicity and enterprise size

No. of workers	N	% of enterprises owned by Asian	African	Other	Total
1–10	72	22	78	0	100
11–20	23	65	22	13	100
21–100	63	89	10	1	100
> 100	22	73	18	9	100
All enterprises	180	57	39	4	100

N = number for enterprises.
Source: RPED-World Bank data, calculations by author.

survey of Kenyan manufacturing, as part of a Regional Program on Enterprise Development (RPED).[4] This survey was based on a random sample of firms from the government's Register of Companies and was then supplemented with the inclusion of some informal sector firms not officially registered. It does not suffer, therefore, from the bias of including only KAM members. Furthermore, it contains firms from Nairobi, Mombasa, Nakuru and Eldoret (that is, the two main cities and two smaller, more rural, towns). As such, the data may still suffer from some urban bias. However, the survey was able to include fairly equal representation from the four main product sub-sectors (metal, wood, food and textiles). The food sub-sector, which includes elements of agro-processing,[5] makes up almost one quarter (22 %) of the firms in the sample. Finally, the total sample size is 223 firms, more than double the size (100) of the Himbara survey. When these various sampling criteria are considered together, we can conclude that the RPED survey provides an improvement in terms of representativeness and addresses a number of Chege's concerns. The questionnaire also asked business owners to indicate their ethnicity and therefore the data can be used to compare differences in ownership between the African and Asian communities.

A statistical analysis of that data is presented in Tables 1 and 2. Table 1 presents a breakdown of firm size based on workforce, a common indicator used in statistical work. It reveals that Africans are concentrated among the smallest firms, while Asians dominate the larger ones. For example, 78 % of the firms with ten employees or less are African-owned and that figure drops to between 10 % and 22 % in the larger size categories. Meanwhile, Asians own between 65 % and 89 % of firms in the three larger size categories.[6] Overall, the median size of Asian firms is 40 workers,

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TABLE 2
Ethnicity and investment

Cost of replacing equipment (divided into quartiles)	% of enterprises owned by			
	Asian	African	Other	Total
1 = to Ksh.0·2 million	5·4	91·1	3·5	100
2 = to Ksh.3·4 million	57·4	42·6	0	100
3 = to Ksh.30 million	74·5	19·6	5·9	100
4 = to Ksh.2,500 million	82·4	14·7	2·9	100
N	96	86	6	188

Note: 47 firms in each quartile.
Source: RPED-World Bank data, calculations by author.

compared to just three for African firms (not shown). It is interesting to note, however, that three African-owned firms have substantial workforces (370, 550 and 670 workers). The results from the RPED survey can be used for comparative purposes if we adopt Himbara's definition of medium and large firms as having more than 50 workers. This criterion indicates that 81 % of such firms are Asian-owned, slightly higher than Himbara's figure of 75 %. However, the proportion of African firms in the RPED data is 15 %, which is three times the level reported by Himbara.

Workforce size can sometimes be a misleading indicator, however, because it fails to capture the level of investment and thereby tends to over-emphasise labour-intensive firms relative to those which are capital-intensive. Table 2, therefore, provides a breakdown of firm size based on the estimated cost of replacing existing equipment. The firms are divided into quartiles of 47 firms each, ranging from smallest (1) to largest (4). The value of the largest firm in each quartile is indicated. Here we find a slightly more pronounced and consistent relationship between size and ethnicity. Africans own 91 % of firms in the smallest quartile, a figure which falls to 15 % in the largest category; Asian firms exhibit the reverse tendency. Furthermore, the median size of Asian firms is Ksh.10 million, compared to Ksh.100,000 for African firms (not shown). For a comparison with Himbara's results, we can define large firms as having an equipment replacement cost of more than Ksh.100 million. The RPED data indicates that 81 % of these firms are Asian-owned, slightly less than the 86 % recorded by Himbara. However, 19 % of firms are African-owned, compared with none recorded by Himbara. Overall, using both the workforce size and investment criteria, the RPED data does confirm Himbara's figures on Asian concentration but shows a much higher representation for African firms.[7]

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There remains the question, however, of what these figures actually represent from the perspective of African advancement into urban manufacturing. Africans have been held back in their involvement in manufacturing for a number of reasons. Their activities were severely restricted during all but the final years of the colonial period, while Asians enjoyed a much closer working relationship with the British (Vandenberg 2002a: ch. 4). Furthermore, African commercial activity is far more diverse, with a heavy traditional concentration in agriculture, while Asians have focused on urban activities. As Chege noted, manufacturing is not the mainstay of the Kenya economy. Its contribution to GDP has fluctuated between 9% and 13% since independence. While this output reduces the import bill by providing domestic substitutes, it contributes less than 25% of merchandise exports. By contrast, the rural activities of the food, beverages and tobacco sector provide 58% of exports. The value of tea exports alone (Ksh.35 billion) is greater than all manufactured exports combined (Ksh.27 billion) (Kenya 2001: 76–7). Tea is dominated by smallholder African production.

The focus of the first debate and of Himbara's analysis in the second debate on manufacturing represents a traditional view of development in which an economy moves from primary activities (agriculture, mining, forestry, fishing) into secondary activities (manufacturing), and then increasingly on to tertiary activities (services). The first part of this transition occurs because the expansion of primary activities becomes constrained by a fixed resource base. In particular, land becomes scarce and with it the ability to support more labour, especially as production from the land (the forests on it, the minerals under it) becomes increasingly mechanised and capital intensive. This mechanisation is possible as a result of technological progress in manufacturing, which frees labour from primary activities that then becomes available for work in factories. The range of new avenues for accumulation in manufacturing outstrips that for the primary sector and rates of return can be much higher, further driving secondary investment.

While this evolutionary process maps the development pattern of most developed and many newly industrialising countries, Kenya's economic trajectory has followed a rather different path. Manufacturing's share of output has grown very little since 1964, especially after the potential for first-phase import substitution was exhausted.[8] The lack of foreign direct investment, which has fuelled manufacturing growth in other developing economies, and the barriers to trade within the region and at the global level, have probably had some impact on limiting the growth of the sector. What is clear, however, is that the Asian (or any other) business community

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in Kenya has not been able to spearhead a sustained process of industrialisation in the post-independence period.

It is true that agriculture has seen a large decline in importance, from about 40% of GDP following independence to 24% currently. This has been counter-balanced not by growth in manufacturing, however, but by a substantial expansion of the services sector. The latter has grown from 43% of GDP at independence to just over 60% currently. Indeed, the category 'Trade, Restaurants and Hotels' alone accounts for 12% of GDP, only slightly less than that accounted for by all of manufacturing. (Kenya 2002: 26; World Bank 2000.)

It is unclear from either Himbara or Chege which ethnic group dominates the services sector. This includes the lucrative tourism industry, a key foreign exchange earner; the transport sector, which supports the country's role as a hub linking landlocked neighbours to the coast; and the donor community which has concentrated its East African activities in Kenya because of its political stability.

NETWORKS, SECTORAL SPECIALISATION AND ACCUMULATION

Along with the work of Chege and Himbara, another body of literature has formed around the question of Asian and African business activities in urban Kenya (Fafchamps 2000; Kimuyu 1999; Ramachandran & Shah 1999; Vandenberg 2002a). This does not engage the second Kenya debate specifically, but has sought to provide deeper explanations for differences in the formation and operation of African versus Asian businesses. It draws its inspiration from the broader phenomenon of ethnic business communities in Africa and other developing areas (see Kilby 1983; Moore 1997).

Part of this work applies the theory of institutions and transaction costs as developed by North (1990),[9] and applied to developing countries by Platteau (1994) and others (see Harriss *et al.* 1995). It suggests that small ethnic communities have an advantage in business by the very fact that they are small and therefore information about creditworthiness and reliability is dense and inexpensive. This lowers the transaction cost between members of the same ethnic community and facilitates business interaction. For example, it is easier to lend to a member of the same community because information about the person's creditworthiness is easy to obtain, by word of mouth, from other community members. In these situations, preserving one's reputation within the community is critical for long-term success. Such transactions are governed by what Greif (1993) has termed a 'multilateral punishment system' (MPS), in which the failure to honour a

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contract with one member of the community is punished multilaterally by a loss of reputation and the curtailment of future contracting with other members. The system is more successful at contract enforcement than a bilateral punishment system (BPS), in which the person who breaks a contract is only concerned about the loss of future business with that one other party. Thus, an Asian will find it more risky to lend to an African because he knows that the African is not covered by MPS and is therefore less concerned about the implications of breaking the bilateral agreement. In this way, the networks of information and the informal institutions which govern contracting are seen as important in understanding why a relatively small group can dominate activity in a specific sector or location.

While information networks may affect a variety of contracting situations, attention has focused on trade credit (Biggs *et al.* 1996). Under such an arrangement, the supplier provides goods to a producer based on a promise that the producer will pay in 30, 60 or 90 days. This allows the producer to use the supplies in production, sell the finished product and then pay the supplier from the sales revenue. Given that many small and medium-sized businesses are credit constrained (Levy 1993), access to trade credit provides an advantage over competitors who must transact on a cash basis. Using Kenyan data, Fafchamps (2000) has shown that Asian manufacturing firms have greater access to trade credit than their African counterparts, and that this holds even after controlling for the size and the age of firms. Fafchamps provides evidence that Asian owners also have a greater propensity to socialise with their suppliers during business hours and afterwards (at sporting events, community gatherings and religious celebrations). Social networks based on ethnicity appear, therefore, to reinforce credit networks. As most suppliers to the manufacturing sector are Asian, it is difficult for Africans to succeed because they are less likely than their Asian competitors to gain the advantages of trade credit.

While intriguing as a specific example, the ethnic networks approach provokes important questions about the operation of such networks among Africans. As Kenya comprises at least 40 African ethnic groups, it is likely that the same capacity to assess information and sanction opportunism exists within these groups. As Asians use networks in urban manufacturing, African ethnic groups are likely to use them to generate success in other sectors. Africans, who have traditionally focused on agriculture, would tend to have greater knowledge of technology, markets and suppliers in these activities. To forsake existing knowledge and connections to venture into new areas is to relinquish assets which have been accumulated. Network and information capital is best deployed in expanding agricultural and related activities. As Arthur Lewis (1954: 148) observed,

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several decades ago, 'Capitalists have experience of certain types of investment … and not of other types … and they stick to what they know.' Only if such possibilities are limited or if returns are low, does venturing into urban manufacturing become a better investment option.

The notion of sectoral specialisation is supported by another branch of recent analysis which involves understanding differences in the characteristics of firm owners. Three aspects stand out: family business tradition; ownership structure; and starting capital levels.

The RPED data suggests that there is a much greater tendency for Kenyan-Asian manufacturing owners to come from a family in which their parents have owned a private business. Indeed, a full 50·9% of Asian owners had parents in the same business, compared to only 9% of Kenyan-African entrepreneurs. This suggests a greater inter-generational flow of business knowledge, experience and information about markets among Asians. Africans have less familial background knowledge, requiring them to learn through first-hand experience and the lengthy and costly process of trial and error (or what might be called 'learning by failing'). Furthermore 87% of Africans had started their businesses themselves compared to 66% of Asians, indicating higher levels of business inheritance among the latter (Ramachandran & Shah 1999: 81–2).

Secondly, Asians also have a greater tendency to form business partnerships. Not only does this allow them to pool financial capital, but it also allows them to combine the technical skills, business knowledge and network connections of two or more persons. Africans more commonly start sole proprietorships and are thus at a strength disadvantage. A survey of small and medium firms in Nairobi's metal manufacturing sector found that 83% of Asian firms were constituted as partnerships compared with only 34% of African firms (Vandenberg 2002a: 172). This may stem from the closer social community of Asians in urban areas in which it is easier to screen potential partners.

Thirdly, African firms tend to have much lower starting capital. In the metal sector survey noted, median starting capital for African firms was Ksh.31,000, compared to Ksh.619,000 for Asian firms (Vandenberg 2002b). While very small firms do grow, they tend not to grow enough to allow them to 'graduate' from the informal to the formal sector. Firms which start small tend to remain that way because they are surrounded by many other firms which have also found it easy to enter into business because of low capital barriers. The sector becomes highly competitive, resulting in low margins that make it difficult to expand out of retained earnings. Asian firms start out with more capital, which allows them to invest in the machinery necessary to enter less competitive, more

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lucrative segments of the market. With higher returns, businesses are more sustainable and more likely to expand (Vandenberg 2002a: 190).

These differences in the starting capital and the background characteristics of owners must be seen as differences within the urban manufacturing sector and should not be generalised to the African business community as a whole. This is because the existence of ethnic specialisation means that the African element of any survey of urban manufacturing will generate a negatively biased view of African private sector achievement. It will include some well-managed and viable businesses, but it will tend to exclude those Africans who have sought not to attempt to cross the ethnic-sectoral divide and instead have re-invested in agro-related and service activities. (It will also exclude Africans who have accumulated capital through paid employment in the professions, in private business and in government, but who do not want to cross the ethnic divide into urban manufacturing.)

In addition, surveys which attempt to be comprehensive will include firms at the small end of the size distribution. These micro-enterprises or informal economy firms are almost exclusively owned by Africans. However, their small size does not necessarily represent a lack of entrepreneurial skill or an inability to accumulate and re-invest. Instead, their size is the result of larger social and economic forces which have affected Kenyan society for at least the past two decades. High population growth and declining land availability have prompted young people to migrate to the cities and towns. Public sector downsizing and the stagnation of the formal private sector have forced many Africans to generate their own income by setting up micro-enterprises. Some of these new owners have genuine entrepreneurial ability and 'generate income well above the average earnings' of workers in the formal sector (Daniels 1999: 63); others have less talent and earn very little. In both cases, however, they suffer from a low-income background which limits their ability to amass starting capital from family, friends and the community and from commercial sources which require collateral (Vandenberg 2002b). They also lack a family background of business and any networks or connections with the formal business community (Vandenberg, forthcoming).

The foregoing analysis has suggested how ethnic-sectoral cleavages, which often arise from historical circumstances, are reinforced over time. There are also ways in which they may be diluted. As our analysis of the RPED data indicates, Africans are making a gradual advance into manufacturing and, as they do, they strengthen the perception that Africans do have a place in that sector. In addition, those Asian firms which limit their interaction with African firms are foregoing business opportunities.

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The disadvantage of not being able to reinforce transactions through social networks must be weighed against the loss of business from avoiding inter-ethnic activity. Moreover, the importance of informal networks is always greater in economies where the formal institutions for contracting are weak. A low-cost and effective legal system makes it less risky for an entrepreneur to expand transactions beyond personalised relations. The effort by donors and the government to establish special commercial courts in Nairobi not only supports the expansion of commercial activity, generally, but it may also have the (unintended) effect of promoting greater inter-ethnic transacting. A reliable credit-referencing bureau can have a similar impact by allowing Asians to check the payment record of newer African entrepreneurs. The existence of such a bureau in Zimbabwe may explain why ethnic network effects are not significant in that country, while they are in Kenya where such a bureau does not operate (Fafchamps 2000: 222).

Ethnic business communities are an interesting aspect of developing countries and in many cases may be an important stimulus for urban manufacturing and trade. To generalise from specific locations and sectors to the entire economy is problematic, however. Developing economies are diverse and complex, and in most cases agriculture remains an important source of employment, output and foreign currency earnings. The contributions of this sector, often heavily dominated by long-time inhabitants, are not to be overlooked. Economic development is not only about industrialisation, especially for those poorer countries still at the lower stages of development. The second Kenya debate has highlighted the Asian contribution to the country's development but it has also drawn attention to the country's diversity and the ways in which different ethnicities have and continue to contribute to output.

The controversy has arisen in part because of the difficulties in obtaining data differentiated on an ethnic basis. Without publicly available figures covering a range of sectors, it is difficult to obtain a balanced perspective on the contribution of ethnic groups to the economy's overall evolution. Instead, analysis tends to be based on available survey evidence, often gathered by individual researchers with limited resources and thus necessarily limited in scope. This is not to say that individual research efforts are not valued, but only that the limitations of surveys must be appreciated and generalisations avoided. This is also not a call for public agencies to

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devote scarce time and money to compile ethnically differentiated data on a regular basis. Indeed, it can be argued that the ethnicity of business owners is irrelevant and that what is really important is the extent to which public policy supports the expansion and competitiveness of all businesses so as to generate employment and reduce poverty.

If ethnic differences are to be understood, however, they must be situated within an historical context of ethnic-sectoral cleavage. This is especially true if, as in the case of Kenya, colonialism established such patterns and ended 'relatively' recently. There is unlikely to be a quick movement out of rural activities by local populations because of the specific knowledge and network capital which have been accumulated. At the same time, cleavages will dissolve over time. The calculations provided above give some evidence that Africans are operating medium and large-scale manufacturing firms. Whether they have also moved into the expanding services sector requires additional research.

NOTES

1. Minor contributions to the debate include those of Cowen & MacWilliam (1996) and Kaplan (1992).

2. Many Kenyan Asians did flee, notably those who still retained British passports from the colonial era.

3. Chege's figures indicate that output in Central Province, Kenya, is much higher than output in the other countries, but it is not clear why one province in Kenya is being compared against whole countries. If FAO statistics are used for the other countries, then FAO statistics should be used for all of Kenya. Furthermore, it is unclear why particular countries were selected for comparison. What are the output rates for important exporting countries such as Brazil, Coast Rica and Ethiopia?

4. The programme included surveys of manufacturing in eight African countries (Burundi, Cameroon, Côte d'Ivoire, Ghana, Kenya, Tanzania, Zambia and Zimbabwe).

5. It is not clear from the information provided by the World Bank on the survey what the 'food' sub-sector actually represents. It would certainly include advanced agro-processing (production of food) and some more simple processing. The question of whether simple agro-processing should be included as manufacturing would likely depend on the extent of value added.

6. 'Other' consists of three firms with owners of Middle East origins, two firms owned by Europeans, and two firms which do not fit any of the categories. No comments are provided here on this 'Other' category because the number of firms is too small to make reliable inferences.

7. One difficulty with Himbara's figures is that the reader is often provided with percentages and is not informed of the number of enterprises in sub-samples (i.e. firms with over 100 employees, firms valued at over Ksh.100 million). If the number of firms is small then generalisations from these sub-samples to the actual population become tenuous. In the case of 'firms under receivership', 33 % were African-owned and 67 % were state firms (Himbara 1994: 50). The easy division (by three) means that it is possible that the total number of firms involved here is only three.

8. This involves consumer goods like food products, soap, etc. which are relatively simple to produce. Second-phase import substitution includes items such as machinery and vehicles.

9. For an overview and critical analysis of North's work, see Vandenberg 2002c.

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