

Appraising institutional challenges in the early stages of development

Chapter 8: Identifying institutional obstacles to structural transformation: the role of politics

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Chapter 8: Identifying institutional obstacles to structural transformation: the role of politics

As is evident from our accounts, Taiwan and South Korea represent clear model cases of structural transformation and sustainable development. This does not mean that their experiences are easily replicable, but rather that they are inspiring in the following sense: they draw our attention to pivotal dimensions of the development process and to critical problems that a country willing to develop must face and solve as satisfactorily as it can. It is with respect to these generic issues that the confrontation between the experiences of Southeast Asian tigers and our four case study countries can prove illuminating and insightful. That replicability is necessarily limited already becomes evident when we look at the initial conditions that Taiwan and South Korea enjoyed at the time of their independence, be they historical, geographical, or socio-political.

It is essential to acknowledge the existence of significant differences in the initial conditions between these two countries and many others (including Bangladesh, Benin, Mozambique, and Tanzania), if only because it can help us mitigate our expectations regarding the scope and timing of development achievements in the latter. In the subsequent discussion, we therefore start by taking stock of initial conditions before addressing the generic issues which our institutional diagnostic approach has highlighted. In this chapter, the focus is on issues that involve politics. More specifically, we look at the role of political leadership and state autonomy in development. The institutions involved determine the quality of governance in a country, but they are not the only ones to have this effect. Institutions influencing state capacity constitute a second type of governance-related institution. In order to keep the size of the present chapter within a reasonable range, however, we have decided to deal with state capacity issues in the next chapter.

That we devote a full chapter to the role of politics reflects the huge importance of political forces in shaping or constraining development. This is probably the most salient lesson to draw from our six case studies, and also the most original, insofar as this dimension is largely neglected or underestimated by many institutional analyses. Especially worthy of attention is the types of relationships which exist between state authority and business interests, and the possibility that the former is captured by the latter. Incidentally, the empirical relevance of political factors confirms the importance of the political economy approach to institutions which we have discussed in Chapter 1. In this regard, it is interesting to bear in mind that when the East Asian miracle was attracting the attention of the economics profession in the 1960s and 1970s, the key controversy centred on the question of the respective roles of the state and the market in economic development. With few exceptions, the arguments turned on the advisability of an approach stressing the need for a developmental state to guide the market, and of an industrial policy in particular. Doubts about not only the capacity but also the readiness of the state to take up such a role were rarely expressed. In the following, fully informed by the recent trend of the growth and development literature as regards emphasising the critical influence of political economy constraints, we revisit the comparison between East Asia and presently developing countries. The perspective which our contribution adopts is thus very much the same as the one used by political scientist Robert Wade (1988, 1990a, 1990b) in his seminal works devoted to the role of institutions in development.

8.1 Initial conditions

Taiwan and South Korea were colonised by the Japanese, not by the European powers. In the case of Taiwan this was reflected in a unique combination of strong central (colonial) power and decentralised development based on the modernisation of agriculture and the creation of rural industries, in sugar-processing in particular. The foundations for the physical and institutional infrastructure required for the purpose were laid in the colonial period and it is therefore no exaggeration to say that the development path of Taiwan (and, to a lesser extent, South Korea) was born in this period. Unsurprisingly, this path resembles the Japanese approach to development, which was initiated during the Meiji era and which T. C. Smith (1959) so vividly and accurately described.

Moreover, after the defeat of the Japanese in World War II, and the subsequent advent of independence, US development assistance was provided in a big way to both Taiwan and South Korea. In the case of Taiwan, the US Government was ready not only to go along with the colonial path of comprehensive rural development but also to support, financially and through technical advice, the most radical land reform which the non-Communist developing world has ever successfully implemented (from then to the present day). Its main component, the Land-to-the-Tiller Programme, practically eliminated the upper tail of land distribution. The US adopted the same policy line in South Korea, where at independence land was redistributed from Japanese and domestic landowners to small farmers and tenants, whose status was abolished. The apparent paradox of such a policy, which contrasted so strikingly with the approach adopted for other countries in Africa and Latin America, is unveiled as soon as we consider the geopolitical position of the above two countries. Indeed, the central objective of US foreign policy, of which development cooperation policy was a part, consisted primarily of countering the Communist influence from mainland China. This implied the need to help Taiwan and South Korea provide an alternative model of rapid growth-cum-equity. The egalitarian approach was all the easier to adopt as the indigenous landlord class had collaborated with the Japanese colonial authorities and was therefore not seen as an ally whose interests had to be protected.

These exceptional circumstances contrast with those prevailing in most developing countries, whose sheer existence was effectively guaranteed by the Charter of the United Nations, and which did not feel such a direct challenge from Communism as Taiwan and South Korea. Yet the latter were not the only countries that occupied a key geopolitical position during the Cold War era, and thus benefited from abundant development assistance from the US. In particular, Egypt and Pakistan were also privileged recipients of foreign aid, and yet their development performance has not been anything near that achieved by the two East Asian tigers.

With respect to geophysical conditions, mixed conditions prevailed in Taiwan. The mountainous terrain in a large chunk of the country has caused a concentration of the population along a north–south-eastern axis, thereby easing connectivity throughout its inhabited portion. The other side of the coin is strong population pressure on land resources, itself enhanced by the relatively poor fertility of many agricultural soils. South Korea was also characterised by high population pressure on land resources.

We are now ready to turn to the issue that is at the heart of the present chapter, namely the role of politics. As argued below, a relatively high degree of state autonomy and high-quality

political leadership are critical conditions conducive to the effective and sustainable structural transformation and development of poor countries.

8.2 Quality of political leadership and state autonomy

It is almost trivial to say that promising development prospects are conditioned by the quality of a country's political leadership. There can be no development without a developmental state that is led by a mission-driven leadership with a clear view of long-term objectives, a competent assessment of realistic ways of achieving them, and sufficient autonomy to implement its policies and reforms. This condition is especially important in an international catch-up environment in which development latecomers feel a strong pressure to bridge the gap between themselves and development leaders or pioneers, if only because national sovereignty and external influence are threatened by relative economic and technological stagnation. When high-quality leadership is available from the beginning and is sustained over a sufficiently long period of time, the omens are good. And they are still better if the political elite or the ruler benefits from a strong measure of initial legitimacy, so that sacrifices and discipline are more easily accepted by the population. Yet the condition of strong initial legitimacy will not necessarily always be fulfilled, as epitomised by the cases of Taiwan and South Korea.

The successful experiences of Taiwan and South Korea

There are historical examples of enlightened elites or rulers enjoying a strong initial legitimacy and using this advantageous position to build a modern state, foster the emergence of a nucleus of industrial capitalists, transform traditional institutions, regulate the market, and harness the country's resources for long-term advantage. Think of the Meiji elite in Japan (made up of lower-level samurai and the intelligentsia), or of Atatürk and the Kemalists in Turkey. Having gained a lot of prestige from his military victory against Greek troops in the battle of the Dardanelles, Atatürk was in a position to embark upon radical reforms aimed at educating the people, removing the hold of religion over their minds, and totally transforming the Turkish legal system, even though a large part of the population was still immersed in a traditional Muslim culture (Kuru, 2009: 214–5; Zürcher, 2010: 136, 214). In the Middle East, this approach was later adopted by President Bourguiba in Tunisia, who was not supported by an army but by a strong single political party (Platteau, 2017, 2022). Even more recently, in the People's Republic of China, the far-reaching market-oriented reforms initiated under the paramount leadership of Deng Xiaoping in 1978 marked a critical turning point for a country just emerging from a radical left-wing deviation and the ensuing chaos of the Cultural Revolution. They played a decisive role in launching China on a path of rapid catching-up with the advanced countries of the Western world (see, e.g., Wu, 2005).

The case of Taiwan illustrates a somewhat different situation: here, an enlightened elite from the Kuomintang (KMT), the ruling party that had been defeated by Mao's Communists, settled in Taiwan with the firm idea of one day reconquering continental China. On the island, it did not initially enjoy strong legitimacy because, in contradiction of the view that sees all (Han) Chinese people as forming a homogeneous group, its seizure of political power was considered with a lot of suspicion by the indigenous inhabitants, most of whom had left China during the preceding centuries, starting in the seventeenth century (to this

day, around 90% of Taiwan's inhabitants are Han Chinese).¹ Bloody riots quickly erupted, which were harshly put down by an authoritarian KMT-dominated regime. However, thanks to impressive economic achievements and to effective dissemination of a national ideology, the same regime succeeded in overturning the situation by becoming much more popular than it was at the beginning of independence. Development success was obtained on the basis of a strong one-party state system which can be described as one of 'authoritarian corporatism', and which, paradoxically enough, had adopted important features of a central planning system. Convinced by the importance of its mission (regaining control of mainland China), it did not hesitate to impose strict controls on the population and was little inclined to bargain with established groups or organisations. Since the latter were rather weak, the task of the new masters of the country was relatively easy, much as the task of the Japanese colonisers had been before. Still, although the regime cannot be described as totalitarian, Taiwan was under martial law until 1987.

At least two main lessons were drawn by the KMT from its failure to stay in power in China: the defeat was caused by party indiscipline, and it was also caused by business capture of the nationalist government. To solve the first problem, the party's organization was tightened and purged of all unreliable elements. As a result, factionalism inside the party was bridled and the party state became a coherent entity placed under the paramount leadership of general Chiang Kai-shek (1949-1975) and, later, Chiang Ching-kuo (1975-1988). As for the second problem, the regime was determined to keep all business groups on a short leash, treating them like all other social groups. Again, this was all the easier to do as almost all the established business firms from mainland China had chosen to migrate to the United States and Hong Kong rather than to Taiwan. It is thus revealing that the Taiwanese policy network hardly included representatives of private business, which allowed the government to retain a striking degree of autonomy in setting the directions and details of policy. As a matter of fact, the powerful economic technocrats were largely free from societal pressures, being answerable only to the party's top leadership and responsible mainly for the overall performance of the economy and the success of the targeted sectors.

There were thus no intimate state-business relationships, and the KMT party state did not actually encourage the creation of big private industrial concerns. In fact, most industrial assets under the Japanese colonial administration and most *Zaibatsu* were converted into state-owned enterprises, implying that key sectors of basic industry (power, cement, steel, heavy machinery, shipbuilding, defence-related industries, etc.) were under state control. Elements of political patronage were clearly present, since political loyalty was a major consideration behind the choice of managers of state firms. Moreover, when state firms were allowed to go private or to be transformed into semi-public concerns, or when the state itself created new upstream undertakings, the choice of the owners was based on the same considerations: priority was given to loyalist mainlanders, members of a few politically well-connected native families known for their loyalty to the regime, or local county-level patrons with a stake in region-based oligopolies. Therefore, recruitment was not unambiguously based on competence under the KMT regime. The central principle was rather that only once political loyalty was assured could selection be made primarily on the basis of

¹ These circumstances partly evoke those prevailing at the birth of Pakistan, when a massive wave of Muslim migrants from India settled in the newly formed country. Here, homogeneity was supposed to arise from the common religion of the vast majority of inhabitants (Islam), yet in reality a great measure of heterogeneity prevailed, as attested to by the considerable cultural and historical differences between Balochistan, North-West Frontier Province, and the Punjab and Sikh provinces.

competence criteria. In other words, obedience to the top political leadership and compliance with its prescriptions were the most highly praised virtues. Because the rules were strict and corruption was put severely under check, the system did not degenerate into widespread and uncontrolled cronyism.

Finally, the Taiwanese economy had a dual structure: coexisting with relatively large firms were small and medium-sized enterprises, most of which were family firms located in both urban and rural areas, and largely owned and run by islanders. Institutionally, it was through industrial associations shaped and managed by the party state that the latter communicated its regulations and that performance-based incentives for investment, production, and export were negotiated. The overall picture is therefore one in which the state was largely autonomous vis-à-vis social groups and business interests, in particular. It was thus able to orient the destiny of the country, devising and implementing effective development policies the success of which served as a sound basis for the emergence of an integrated economy, society, and polity. If clientelism was allowed, it was essentially of a competitive kind because the party state was eager to keep rent-seeking activities in check. In practice, this meant that it typically cultivated at least two competing factions in a given county, thus preventing a single faction from reaching a position of political monopoly over the distribution of economic rents.

Like Taiwan, South Korea could rely on an autonomous state. Yet there the beginnings were more laborious. The first autocrat, Syngman Rhee, had no vision for the future of his nation and was more preoccupied with enriching himself and his ruling clique. His deeply corrupt and ineffective regime was heavily contested, particularly when students organised themselves towards that purpose, and he was forced to resign when he lost the support of the army. Convinced that civilian politicians would be unable to end the prevailing mayhem, re-establish order, and root out corruption, the army eventually came forward with another candidate who was to prove much more enlightened and long-lasting (two decades) than his predecessor, General Park Chung-hee. In order to achieve his objectives of fighting corruption, poverty, and public sector ineffectiveness, he equipped himself with two powerful organisations: the intelligence services (the Korean Central Intelligence Agency (KCIA) and the Economic Planning Board (EPB)). While the former's function consisted of controlling all segments of the civil society and ensuring law and order, the latter's role was to design and manage growth strategies based on development planning. To enable the EPB to fulfil its mission, Park staffed it with highly competent technocrats, and did not hesitate to grant its head a rank practically equivalent to that of prime minister.

Park's rule was no doubt harshly repressive and deeply authoritarian, and military personnel operated in most high- and medium-level tiers of state decision units. However, it was under his regime that South Korea embarked on a remarkably successful growth strategy. Having inherited a strong sense of discipline from the Japanese army, doubled with a national patriotism reinforced by the threat of Communist North Korea, the South Korean military, and the KCIA in particular, were able to build a rigorous, corruption-free administration where competence and discipline were the predominating virtues. In order to finance development in line with the priorities set by the EPB, and to eradicate corruption, all banks were nationalised. In addition, state-owned enterprises were created or strengthened in strategic sectors, such as energy, water, and transport infrastructure. Simultaneously, big private concerns, known as the *chaebols*, were brought to heel.

Because of its critical importance for the country's development, the relationship between the state authorities and the *chaebols* deserves a few more words. Under Rhee's regime, when imports played a dominant role in the South Korean economy following the end of the Korean War and the demise of Japanese rule, big trading businesses were consolidated (e.g. Samsung, which was born under Japanese rule) or formed which benefited egregiously from their privileged connections to the state. Privileges were obtained in the form of exclusive import licences in certain key sectors. Progressively, and again under privileged conditions – in this case, high import barriers – these big trading companies started to expand their activities into local production. Collecting huge rents, the *chaebols* became dominant players in a political economy pervaded by bribery, vote-rigging, and intimidation. A major turning point came when Park obtained supreme power. To avoid being nationalised outright, the heads of these firms accepted a deal according to which they would fully cooperate with the new authoritarian regime lest they be expropriated. That the threat was credible was soon underlined when Samsung was caught in a corruption affair and immediately punished by being coerced to transfer its fertiliser company to the state. From then on, the *chaebols* became the main instrument of the state in its efforts to push development in a direction that was set at the highest political level.

In this way, the South Korean model was born. This model combines a mix of state-guided development centred on the task of coordination in macro resource allocation, on the one hand, and coordination in micro-corporate strategies managed by big private companies, on the other hand. While the former task aims at coaxing private economic activities so that they help move the economy in a certain direction, the latter is intended to improve the internal strategies of the private firms (product and process innovation, marketing, quality control, product standardisation, etc.), with the purpose of enhancing their efficiency (Okuno-Fujiwara, 1997). It is nonetheless interesting to notice that, when the heavy industry programme was launched by Park, the *chaebols* increased their bargaining power tremendously, to the point of challenging the state authority. It was actually within the logic of export incentives that they would raise the leverage of exporters since a major incentive to drive firms to enter the new heavy industry sector was the provision of credit at highly subsidised interests (which tended to be significantly negative in real terms) and state-guaranteed foreign loans. It was then unavoidable that some failures, sometimes major ones, occurred. What was unanticipated, though, is that because they had become 'too big to fail', as a result of a considerable expansion of their investments and operations, several *chaebols* had to be bailed out by the state against the terms of the contract struck between the two parties. *Chaebols* had acquired a real but ominous autonomy vis-à-vis the executive and the EPB. Still, the macroeconomic crisis that followed, itself accentuated by the second oil price boom, allowed the government to impose restructuring measures aimed at putting the *chaebols* on a sounder financial footing.

From the political economy standpoint adopted above it is easy to imagine circumstances that might derail the development process. Two of them retain our attention here: (i) a leader enjoying strong initial legitimacy makes ill-thought-out economic policy choices that cause the erosion of his political capital; and (ii) a leader who does not enjoy strong initial legitimacy is unable to resist the pressures and influences of powerful business interests. Strong initial legitimacy, it may be noted, means that a ruler is in a good position to achieve national integration, an objective that it is especially challenging to achieve in the case of countries that emerge abruptly from colonialism and that comprise disparate populations. It

could be argued that inefficient economic policies are the price that has to be paid for the building of a new nation, implying the existence of a trade-off between economic and political objectives. But this is not the sort of situation we have in mind under scenario (i), where economic policies and development strategies involve costs which could have been avoided, not costs that are justified by the need to ensure national integration or political stability.

The ensuing discussion follows three successive steps. In the first step, we illustrate the possibility of faulty economics as understood under scenario (i). In the second step, we specify the nature of the nation-building challenge and point out that Tanzania represents a rather exceptional case in sub-Saharan Africa. We then proceed by considering a number of important trade-offs between economic efficiency and political stability. Finally, in the third step, we address the pivotal issue of state capture by business interests, which corresponds to scenario (ii).

Faulty economics

A common feature of most faulty economic development policies is their excessive reliance on central planning and ignorance of the role of individual incentives. We begin with the regime of Julius Nyerere in Tanzania. Head of the party which led to the country's independence struggle, Nyerere soon became prime minister (1961) and then president of the newly formed country (1964). Endowed with the considerable prestige and authority arising from his status as the 'father of the nation', he embarked upon an ambitious development programme announced in his famous Arusha Declaration (1967). The ideological orientation was clearly socialist as it provided for state control of the means of production and exchange, implying the nationalisation of a major part of the non-agricultural sector. As for the agricultural sector, a top priority under the programme, a major approach to its modernisation consisted of exploiting scale economies through the regrouping of dispersed subsistence farms into the so-called Ujamaa villages. Lastly, Nyerere aimed to rapidly expand education and health among the masses, as well as to increase equality and participation in public decision-making.

Things did not go according to plan, though. For one thing, the nationalised enterprises were inefficient as a result of bureaucratic mismanagement, constant meddling by politicians in the running of state firms, and mounting corruption among the managers themselves. For another thing, the agricultural reforms yielded such disastrous results that Tanzania shifted from being a net exporter to a net importer of food crops in just a few years. Major problems arose as a result of the coercive displacement of rural populations, which were attached to their traditional land locations, and from the collectivisation of agricultural services, including the marketing of crops which were traditionally disposed of through rather effective networks of small and medium-scale merchants. Although Nyerere initially resisted the pressure exerted by international donors and organisations to modify his socialist strategy, he eventually had to give in and accept both a stand-by agreement with the International Monetary Fund (1985) and a Structural Adjustment Programme with the World Bank. That his over-confidence in the guiding role of an all-powerful state and his consequent denial of the potential role of market forces in the economy were misplaced and had doomed the economy to failure became evident when the income per capita of Tanzanians started to fall after 1976. At the time of Nyerere's retirement (in 1985), Tanzania was actually among the poorest countries in the world.

This being said, it should be emphasised that, if Nyerere thus lost control over economic development policies, his political capital was not completely wasted because of his indisputable achievement as the builder of the Tanzanian nation. He succeeded not only in disbanding the multiple traditional chiefdoms existing in the country, but also in bringing cohesion and national unity to the country. Furthermore, this successful national integration drive was fostered and complemented by major social investments in literacy, education, and health, all areas in which Tanzania appeared as a rather exceptional performer on the scale of sub-Saharan Africa. Finally, Nyerere was a major factor behind the country's political stability, a feat that owed much to his personal integrity and his respect for constitutional rules. The latter became plain when he decided not to run for a new presidential mandate, preferring to let his successors manage the transition to a market economy.

In Benin (then known as Dahomey), the long-lasting regime of Lieutenant-General Mathieu Kérékou (1972–1990) shares some similarities with Nyerere's regime. Even though his ascent to power came as a result of a military coup (the sixth in a succession that had taken place since independence), Kérékou wanted to lead his country towards a new destiny by implementing a Marxist-Leninist revolution. This came at a time when, understandably, people aspired to greater political stability, without which development would be impossible to achieve. Kérékou thus started his political career with a good measure of popular support, though mainly in the north, from where he originated. Therefore, his nationwide legitimacy was not as strongly established as that enjoyed by Nyerere (or Nkrumah in Ghana). His regime, inspired by the same 'socialist' vision as these other leaders, ended calamitously.

Kérékou's leftist revolution involved the creation of a one-party state and single workers' and youth organisations, the nationalisation of production units, and the development of collectivism. Democratic centralism and state economic interventionism became the new watchwords. The former principle implied restrictions on fundamental freedoms while the latter was to be applied with special vigour to agriculture, where massive investments were contemplated in order to attain food self-sufficiency. Hopes were soon shattered as the poor economic performance of the new regime were coupled with its propensity to nurture corruption and rent-seeking. Top-down corruption and widespread inefficiency were noticeable in virtually all parastatal organisations, which turned out to be highly bureaucratic and hierarchical, as well as full of employees who, besides being corrupt, were in many cases unqualified or ill-qualified, and tended to be idle, undisciplined, and arrogant. Growing frustration with the suppression of freedoms, corruption, months of salary arrears, and deteriorating living conditions resulted in street protests and general expressions of anger against the ruling clique by teachers, civil servants, workers, and church groups, in particular.

Mozambique's experiment with Marxist economics yielded basically the same results as those highlighted above. It was carried out by FRELIMO, the party which came out victorious in the independence struggle, many of whose members were opposed to private sector development. It was in 1977, three years after independence from Portugal, that FRELIMO declared itself a Marxist-Leninist vanguard party that aimed to establish state farms, impose agricultural mechanisation, and forcefully resettle important population groups, among other things. As could easily be anticipated, support for the regime among the peasantry sank as a result of these policies, and FRELIMO was forced to quickly backtrack. The opposition party, the Renamo, which was historically supported by Apartheid South Africa and Rhodesia, did

not miss the opportunity to exploit people's frustrations. Its base was enlarged by people with roots in the central part of the country, who had serious grievances, ethnic and religious, against the regime, and by people who had become increasingly critical of the regime's top-down orientation. And even though Renamo did not succeed in displacing FRELIMO from power, probably due at least in part to electoral manipulation, there is no doubt that the nation-building efforts of the latter party were undermined by its misguided economic policies.

There are two important differences between Nyerere's regime, on the one hand, and the regimes of Kérékou and the FRELIMO (in the socialist period), on the other hand. The first difference lies in the widespread corruption which characterised the latter regimes but not the former. Regarding the second, the success of Nyerere's nation-building project contrasts strikingly with the fragmentation of Benin and Mozambique along ethno-regionalist lines. Under Kérékou, in particular, state rents disproportionately favoured his own region and network of supporters. This last point is so important that it needs some further elaboration.

The challenge of nation-building and political-economic trade-offs

The challenge of nation-building

As Clifford Geertz (1973) pointed out a long time ago, the formative stage of nationalism essentially consists of 'confronting the dense assemblage of cultural, racial, local, and linguistic categories of self-identification and social loyalty that centuries of uninstructed history had produced with a simple, abstract, deliberately constructed, and almost painfully self-conscious concept of political ethnicity – a proper "nationality" in the modern manner' (p. 239). In any nation-building process, therefore, the new state, or its leaders, must contain or domesticate primordial attachments, instead of wishing them out of existence or belittling them. They must be able to reconcile them 'with the unfolding civil order by divesting them of their legitimizing force with respect to governmental authority, by neutralizing the apparatus of the state in relationship to them, and by channelling discontent arising out of their dislocation into properly political rather than para-political forms of expression' (p. 277). Clearly, a nation-building effort can succeed only if a sustainable compromise can be struck between a country's need to modernise its social, political, and economic structures so as to adapt to the world environment, on the one hand, and the need to win mass-based legitimacy and to involve traditional interests that play upon primordial attachments, on the other hand. In other words, there is a need to somehow overcome the severe horizontal cleavages inherited from the past, which Basil Davidson (1992) called 'the black man's burden'.

Whereas in Taiwan and South Korea the adoption of an effective and inclusive development model which did not ignore agriculture and the rural sector helped integrate the nation at a rapid pace, in most of sub-Saharan Africa the daunting task pointed to by Geertz has only partly been accomplished and, in some regions or countries (e.g. Somalia and the Democratic Republic of Congo), it has not even started to be seriously addressed. If, at the supra-territorial level, pan-African ideologies and pan-African political movements (such as the National Congress of British West Africa, with branches in the Gold Coast, Nigeria, Sierra Leone, and the Gambia) had gained currency toward the end of the colonial period, 'tribal patriotism' (Iliffe's words) generally prevailed at the infra-territorial level, resulting in the

spawning of innumerable local associations of traders, commercial farmers, teachers, clerks, and clergymen. Although their official purpose was to promote the development of the country, in actual practice they defended particularistic interests and did not hesitate to foster tribal identities to better achieve their objective. Nationalism was often a veil behind which many parochial interests concealed themselves. In the words of Iliffe (2007), 'as predominantly local people, most Africans saw nationalism in part as a new idiom for ancient political contests' (p. 258).

In sum, nationalist movements were frequently plagued by factional conflicts that put local issues in the forefront while minimising the importance of national party affiliations. The fact of the matter is that 'nationalism only partially aroused many of Africa's deepest political forces', and that 'responses to it depended on local circumstances' (Iliffe, 2007: 257). It is thus revealing that the political driver of many African insurgencies during the colonial period, such as the Mau Mau rebellion in Kenya and the Teso rebellion in Uganda, was 'parochial rather than regional in orientation' (Jones, 2009: 50). Instead of being directed at district and regional officers, grievances typically originated in local conflicts between rival ethnic groups and clans, between different age groups (often youngsters against elders), or between ordinary people and traditional chiefs or village council chairmen. And they often turned around land issues (see Platteau, 2014: 190–6, for more details). Precisely because it was thus absorbed into local political rivalries, the nationalist movement was able to gather the support needed to remove colonial rule. Yet it is for the same reason that after independence people continued to perceive national issues in terms of local interests, and to judge their representatives and the state on the basis of their contributions to local advancement (Iliffe, 2007: 258, 267). As pointed out by Basil Davidson (1992): 'From being instruments of pressure against foreign rulers, the new parties *at once* became instruments of rivalry within the nation-statist political arena', implying that the competing interests of the elites 'took primacy over the combined interests of the masses' (p. 112, our emphasis).

When put in this broader perspective, Tanzania's success appears quite remarkable. A careful examination of the history of its nationalist movement sheds an interesting light on the reasons behind this success. At the same time, it provides another illustration of the importance of initial conditions. The first thing to point out is that many African countries did not obtain independence after a protracted anti-colonial struggle (think of South Asia and Southeast Asia by way of comparison), as the abdication of colonial power came rather abruptly and unexpectedly.² With the notable exception of the Portuguese colonies, their nationalist movements were therefore of rather recent origin at the time of national emancipation. A direct consequence of this situation is that the African elites were confronted with the hard challenge of *abruptly* shifting from the comparatively easy task of claiming national freedom and sovereignty by uniting against an external power to the much more complex task of building a modern nation endowed with sufficient cohesion.

In this regard, Tanzania occupied a relatively enviable position because of the exceptionally widespread support enjoyed by the nationalist TANU party thanks to its use of the widely spoken Swahili language and the absence of strong tribal politics, conditions largely

² In the words of the winner of the 2021 Nobel Prize for Literature, the departure of the colonial authorities in Africa 'was so sudden, so hurried that it somehow looked as though it was decided impulsively' (Gurnah, 2002; our own translation from the French version published in 2021).

inherited from Tanganyika's nineteenth-century experience (Iliffe, 2005; 2007: 256).³ The nationalist movement in Tanzania was also helped by the existence of multiple ethnic groups of comparatively equal strength, a feature at variance with the situation of many African colonies, where the presence of a few dominant ethnic groups created a fertile ground for polarised conflicts. As a result, leading political figures functioned 'as companions rather than as rivals', in contrast to, say, Nigeria, where they went at each other's throats for the spoils of office (Davidson, 1992: 112). Inside TANU, moreover, the radical and activist faction represented by the Youth League was remarkably effective in constructing a nationalist discourse, and in defining the content of a national identity and common destiny. In pursuing its aim of gaining independence swiftly, it did not hesitate to openly blame the ruling clans for protecting unqualified office-holders and denying positions to educated individuals, for preventing appeals against the decisions of the chiefs' courts, and for perpetuating inefficiency, nepotism, and corruption (Giblin, 2005b: 143–44; Monson, 2005: 109–10).

These historical antecedents do not diminish the important role of Nyerere, who, thanks to his outstanding leadership qualities, was able to give a decisive impetus to the process of Tanzania's nation-building after independence. Still, a balanced account must also acknowledge the influence of the Youth League on the leader, as well as the pre-independence dynamic of a strong and strictly disciplined nationalist movement.

The salience of trade-offs between economic efficiency and political stability

The social cost incurred as a result of the wrong-headed economic policies followed by Nyerere in Tanzania cannot be considered as a price it was necessary to pay for advancing the nation-building project: they represented a sheer waste of scarce resources. The same applies to another outstanding 'father of the nation' in Africa, Kwame Nkrumah in Ghana. Interestingly, the latter entered into a vivid controversy on precisely this kind of issue with his special economic adviser, the Nobel Prize winner in economics Arthur Lewis (see Tignor, 2006, for a detailed review). Indeed, Nkrumah argued that politics should have primacy over economics, and therefore refused the idea that his actions could be rated by reference to the yardstick of economic efficiency, since their objective was political. Lewis was particularly disturbed by the fact that Nkrumah was ready to justify some expensive and inefficient policies by the need to crush the opposition and to put an elite political party into the position of the supreme authority of the country (Lewis, 1965: 30).⁴

It is nevertheless possible to look at the issue in a way that is more charitable to Nkrumah's standpoint (Kanbur, 2017). As hinted at above, we would stress that building a new nation is hard in societies riven by intersections of horizontal cleavages of region, ethnic group, language, and religion. In such contexts, adopting policies that cut across the most important

³ TANU was thus denying the vitriolic denunciation of its claim to erect a new nation made by Colonial Governor Twining: 'Tanganyika does not exist because of any natural unity, but only by the accident of events over which its peoples have exercised no control.... There is no language nor tradition nor interest in common, except what has been lightly overlaid by little more than half a century of alien authority' (cited from Iliffe, 2005; 177).

⁴ An important challenge to nation-building in Ghana (then, the Gold Coast) came from the determined opposition of the Ashanti kingdom to the rising pro-independence party of Nkrumah (the Convention People's Party, or CPP). Riddled with court intrigues and a host of dues euphemistically called 'gifts', the kingdom was ruled by a rigid hierarchy, with the Asantehene at the top and customary chiefs at the lowest level. Educated people had no voice in such a system and therefore tended to join the CPP, the ideological platform of which better corresponded to their aspirations for emancipation (see Busia, 2020).

group divides in a nation may well be justified even though they involve efficiency losses from a conventional economic standpoint. In other words, reaching political compromises and maintaining a proper horizontal balance can be a top priority, especially in the early stages of state formation.

Examples 1 and 2. Coming to mind here are (temporary) positive discriminatory policies in societies polarised between elite immigrant groups and the mass of native residents, or between elite and subject castes, or between historically favoured and traditionally backwards regions (think of positive discrimination in Malaysia, India, and South Africa, as examples). Such policies are not first-best efficient, since they erode the role of incentives to effort for both categories of people, yet they are arguably efficient-constrained in societies suffering from strong horizontal cleavages and lacking a minimum level of cohesion. Land and family laws are other policies or rules that reflect a trade-off between economic efficiency and political stability in societies fraught with horizontal cleavages. It is often the case, indeed, that the lawmakers willingly forsake the benefits of uniformisation and standardisation of local norms and informal rules in order to avoid head-on conflicts with local communities and their cultures (for more on this, see Chapter 9). Clearly, in these instances, inter-cultural harmony and social cohesion are prime objectives that dominate efficiency concerns.

Example 3. Along the same lines, valuable insight is suggested by an analysis of the demand for wealth redistribution in the presence of 'communities', when the latter are conceived as so many social networks or informal organisations that provide local public goods specifically targeted to their membership.⁵ The idea is that, if these public goods are largely funded by rich members, the poorer ones may not demand a reduction of the former's wealth, even though they directly benefit from the ensuing transfers. The reason is that they would then lose access to local public goods, which they value. In such a setup, Dasgupta and Kanbur (2007) show that in societies with multiple communities, each with its own exclusive public goods, pro-poor income growth would dampen or eliminate incentives to demand radical wealth redistribution, whereas pro-rich income growth would have the opposite effect of generating incentives for the poor to support cross-community redistributive alliances along class lines. Moreover, pro-rich growth can turn opponents of redistribution in the middle class into its supporters. A possible lesson to draw from this analysis is that a government that is eager to avoid the turbulence arising from demands for radical wealth redistribution has an interest in opting for pro-poor growth, even if it means that capital accumulation may be slowed down and informal agencies beyond the grasp of the state will continue to play an important role in maintaining social order. Otherwise, pro-rich growth may be its preferred choice of development strategy.

A serious problem with the pro-poor growth solution, however, is that communities are, and remain, separated in the sense that the members of a given community do not have access to, or do not value, the activity (or public good) that is constitutive of another community's identity. In these conditions, they have an incentive to support the expropriation of other communities, thereby creating a fertile ground for sectarian political platforms and communal strife. Fortunately, such a forbidding state of affairs can be potentially avoided if, rather

⁵ As group-specific public goods, one can think of those which serve the function of constructing and maintaining group identities (religious schools, places of worship and activities, community rituals and festivals, leisure amenities, etc.), or local physical infrastructure, such as feeder roads, irrigation systems, recreational facilities, and the like (Dasgupta and Kanbur, 2007, p. 1817).

realistically, some individuals are ready to relate to other communities or have multiple identities. Even more promisingly, they may want to contribute to a public good that transcends communal divisions and incorporates a 'meta-communal' element in their self-identity, assuming that such a good exists or can be created. In a two-community framework in which intra-community wealth differences (i.e. vertical inequality) are abstracted away, Dasgupta and Kanbur (2005) show that the two communities will contribute to the meta-public good provided that the wealth gap between them (i.e. horizontal inequality) is relatively small. In addition, while they remain separated at the level of their own specific public good, no individual has any incentive to support expropriation of the other community. Indeed, this would have the effect of reducing the capacity of the latter to contribute to the meta-public good, which both communities value.

By contrast, a wide wealth gap implies that only individuals in the richer community will contribute to the meta-public good, an outcome that entails a risk of communal tension. In this instance, what happens is that 'even non-communal forms of identity, such as nation, class or language, would become identified with the dominant community, and would not have the capacity to hold distributive conflicts in check' (Dasgupta and Kanbur, 2005: 160).⁶ Illustrative of this possibility is Indonesia (and, we could add, Myanmar), where, despite attempts at developing a national identity, ethnic tensions have remained strong because of persisting inter-community wealth disparities (p. 164). Malaysia offers a better picture, probably thanks to the aforementioned positive discrimination policies, which have helped mitigate wealth inequalities between the Bumiputera and the Chinese communities. The conclusion is the simultaneous importance of a meta-communal public good, which is essentially tantamount to a nation-building project, and moderate inter-community inequality in wealth. Deliberate efforts to create these two conditions, even if they involve significant losses of economic efficiency, hold the key to communal harmony in societies fraught with deep divisions in regard to race, ethnicity, religion, or language (p. 164).

Example 4. Concessions which a civilian ruler or regime makes to the military with a view to preventing them from seizing power through a coup, and following their own vision of the country's destiny, provide yet another illustration of how economic efficiency may be sacrificed to maintain political stability. In most instances, such concessions take the form of allowing the military to participate in lucrative business activities on terms that are generally very generous. Bangladesh is a case in point: since 2009, after a short and disastrous return to the forefront of politics, the army has been a major beneficiary of contracts for large-scale infrastructure projects, in particular.⁷ The involvement of the military in business is even more massive in countries like Pakistan, Myanmar, Syria, Egypt, and Sudan (see Siddiq, 2017; Sayigh, 2019). Because contracts, licences, monopoly rights, and other advantages are typically granted to the army as political favours, implying that they are unaccompanied by performance-based conditions, and because the beneficiaries have been selected for their status in the military hierarchy and not for their management qualities, losses of economic efficiency are unavoidable. Often taking the form of time delays, cost overruns, and the poor quality of the works supplied, they are actually the price which the civilian

⁶ Note that if some members of a community are allowed to contribute to the public good that is constitutive of the other community, large wealth disparities will generally create a situation in which no individual in either community will seize upon this opportunity.

⁷ In Bangladesh, when the military were actually in charge of running the economy during the years 2007–2008 (they were the real actors behind the smokescreen of an interim civilian government), the results proved so disastrous that they lost much of their credibility as economic managers.

regime is willing to pay in order to co-opt the men in uniform and to keep them inside their barracks or in the backseat of politics.

In reality, the political game is more complex than what has been described above. As theorised by Auriol, Platteau, and Verdier (2021), and as explained in Chapter 1, the political game played out in countries where radical religious movements are present is a triangular game between the ruler, the military, and the religious clerics. In Bangladesh, these movements (Jamaat-e-Islami and the like) were eventually excluded from politics at the behest of Sheikh Hasina, leader of the Awami League.⁸ There is no doubt that this exclusionary move would have been impossible without the active support of the Bangladeshi army and security services.⁹ In other words, the civilian power needed to co-opt the military so as to contain the Islamist danger (even though Islamist movements had taken the side of Pakistan during the independence war, thereby inviting the opprobrium of large parts of the population).¹⁰

In Pakistan, where radical religious movements also exist and are even more menacing than in Bangladesh, their political influence is to a great extent endogenous in the sense that it has been nurtured and magnified by the military. As a matter of fact, Islamist clerics have been systematically instrumentalised by the army for the purpose of serving its foreign policy objectives, particularly in Kashmir and Afghanistan. In the army's view, indeed, India has always constituted a serious threat to the very existence of the Pakistani nation, whose defining feature is Islam. To counter this presumed, and in fact much exaggerated, threat, it was deemed important, especially after General Zia ul-Haq (1977–1985) seized power, to intervene in neighbouring countries with a view to stirring up trouble or promoting the interests of Pakistan, and it is for such tasks that extremist militias acting as surrogates in the defence of national identity confounded with the Muslim faith proved highly convenient. However, if radical religious clerics trespass the limits set by the army, they are quickly called to order, as has been recently demonstrated by the repressive military campaign along the Afghan border (in North-West Frontier Province).

There is an important additional factor that marks a difference between Bangladesh and Pakistan. Because of its geopolitical situation and, more specifically, because it has borders not only with India but also with Iran, China, and Afghanistan, Pakistan has attracted a lot of attention from the United States. Economic cooperation, and above all military assistance, have thus been willingly provided by the US superpower, which has had the effect of reinforcing the influence of the Pakistani military (Haqqani, 2005; Shah, 2014). In the end, it is the prominent role of the army as the carrier of the national project, and its continuous

⁸ Interestingly, in the chain of events that preceded the assassination by a group of renegade officers of the father of the country's independence, Sheikh Mujibur Rahman (1972-75), a key turn was his conciliatory stance towards Islamic groups (who at the time of independence were considered traitors and even war criminals) combined with his distancing from his left-wing allies. In 1973, for example, he released thousands of Islamists from jail while ignoring virtually all his imprisoned allies from the left. After the assassination of Sheikh Mujib and much of his family, a martial law government was proclaimed. Thanks are due to Umar Salaam who pointed this fact to us.

⁹ Close to the security services and the police is a paramilitary force known as the Rapid Action Battalion (RAB). In addition to its official function of arresting drug gangsters and terrorists, this genuine thugocracy is often used to settle political scores and hound members of the political opposition, not hesitating to kill them with total impunity (Economist, 2022, Jan. 29, p. 47).

¹⁰ The real political risk, as things turned out, was an alliance between the Islamists with the rival dominant party, the Bangladesh National Party (BNP). In this respect, it is revealing that Sheikh Hasina felt the need to purge the army and police of BNP supporters, promoting loyalists of her own party.

manipulation of Islamist movements, that has forced the civilian authorities of Pakistan to grant egregious privileges to the men in uniform and to let radical clerics wield an outsized political influence (Platteau, 2017: 209–22).¹¹ By implication, the resulting efficiency costs have been much higher in this country than in Bangladesh, where no such geopolitical forces were at play and no immoderate foreign political ambitions were held.¹²

The question arises as to why Pakistan did not follow the path of Taiwan and South Korea, where an overriding national (survival) objective led to the mobilisation of the whole country's energies around the necessity of accelerating its economic development. Interestingly, the regime of General Ayub Khan (1958–1969) resembled the regimes of Chiang Kai-shek in Taiwan and Park Chung-hee in South Korea. Thus, he pursued active industrialisation policies that made the country's economy the fastest growing in Asia, and major infrastructural projects (hydroelectric stations, dams, and reservoirs) were completed under his watch. In addition, he cracked down on religious hardliners, banned the fundamentalist Jamaat-e-Islami party, and checked the political influence of Sufi orders. This allowed him to enact remarkably progressive family laws. Lastly, he inherited a colonial legacy of a strong bureaucratic state and weak representative institutions: elected politicians only had an advisory role and were effectively subordinated to an executive rule where the military and the civilian bureaucrats called the shots. A combination of circumstances caused his downfall: the corruption of his family and the clique around him, accusations of vote-rigging and political murders, an unpopular peace treaty with India, popular uprisings in East Pakistan (today's Bangladesh), and food demonstrations (Abbas, 2005: 37–54; Wilder, 2009).

The major turning point happened somewhat later, under the regime of another general, Zia ul-Haq (1978–1988). In the wake of his predecessor, Zulfikar Ali Bhutto, Zia reinforced the subordination of the bureaucracy to elected politicians, so much so that the latter acquired the power to suspend and transfer uncooperative civil servants and gained unprecedented access to district officials inside strategic departments. Under his watch, the administration thus became highly politicised. Moreover, Zia's pandering to religious forces and traditional political elites, and his Islamisation of the administration, the army (and the intelligence services), the judiciary, and the education sector meant that, in spite of indisputable economic accomplishments – he oversaw the highest GDP growth in the country's history – he deeply undermined key Pakistani institutions, with ominous long-term consequences (Cheema *et al.*, 2005; Platteau, 2017: 217–23). The country's change of direction brought about by Zia led Pakistan astray, as none of his successors really dared question the new orientation he had chosen for the country, namely a model based on a close military–religious alliance.

We are now ready to discuss and illustrate the last important political factor that is liable to hamper long-term development, namely the deep intrusion of business oligarchs or 'Big Men' into a country's politics.

¹¹ It must be noted that Islamist movements in both Bangladesh and Pakistan have no support among moderate Muslims who consider their ideology coarse and their tenets poor exemplars of Islamic scholarship (compared to the great schools of Islamic thought that were found in India at the time of the partition, in Delhi and Hyderabad in particular).

¹² In terms of the theory of Auriol, Platteau, and Verdier (2021), the political economy equilibrium in Pakistan is one in which both the military and the clerics are co-opted by the civilian power, whereas in Bangladesh only the military are thus 'bought off' by the dominant party.

State capture by business interests

State capture by business interests, as we have found out, is a critical and much neglected obstacle to structural transformation and development. To present our findings in this area effectively, we have opted for a two-step approach. First, in the light of the successful experiences of our two comparator countries from East Asia, we propose a general framework that enables us to identify the special conditions under which business interests can be tamed for the benefit of general development. Second, we examine the way state–business relations work and impede development in Benin, Tanzania, Bangladesh, and Mozambique, in that order.

Sketching a general framework

We can now turn our attention to what is perhaps the most critical institutional difference between Taiwan and South Korea, on the one hand, and many poor developing countries, on the other hand. To recall, the state in the two Southeast Asian tigers was effectively insulated against potential pressures from private sector interests. In this sense, they were strong states that were able to impose a coherent and sustained direction on the economy and the society. Because their leaders did not initially enjoy great popular legitimacy, their power had to rest on authoritarian rule, the effectiveness of which depended on the support of a powerful organisation, such as a political party (the KMT in the case of Taiwan), the army, or the police and intelligence services. And it was only after the regime's economic and social achievements became largely visible that its legitimacy could gradually be built up, thereby making the relaxation of restrictions on freedoms, political liberties in particular, eventually feasible.

In many poor developing countries, rulers with relatively low initial legitimacy and no strong supporting organisation at hand have been forced to seek access to political power through elections of some sort, whether in the open space of the whole nation or in the restricted arena of a single party. If, indeed, there is no strong ruler or autocrat at the top of the state and the dominant (single) party, competition for the leading position inside this party is typically stiff. In such conditions, and particularly on the occasion of elections, ambitious politicians need to mobilise wealthy individuals or Big Men (men with deep pockets) to finance their political campaigns and the distribution of perks to the heads of their voting blocs and their clientelistic networks. In return for their financial support, the Big Men demand advantages and privileges which only politicians can provide, such as import, trading, or manufacturing licences, public procurement arrangements and direct adjudication of juicy government contracts, privileged access to on-sale state assets, tax exemptions, licences, special land grants, favourable labour laws, and interference in the settlement of judicial and administrative cases, etc.

The outcome of this give-and-take system is the loss of autonomy of the state and its consequent inability to guide the country on a path of sustained development that is compatible with the general interest. In addition, there is the deleterious effect of corruption and sleaze inherent in crony capitalism: public trust in public institutions such as the judiciary, tax authorities, and customs service is gradually eroded while perceptions that the country's political economy is rigged in favour of Big Men and their political associates inexorably undermine support for the regime.

An important determinant of the Big Men's bargaining power is the relative demand for money for politics: that is, the ratio of politicians seeking to reach top-level positions to the number of businesspeople capable of financing their ambitions. An immediate implication is that the more fractionalised the political space (i.e. the higher the number of political candidates) the greater the ability of business oligarchs to dictate their conditions to these candidates. And, conversely, when the political arena is less competitive, either because political parties or groupings are rather few in number or because the number of factions within the dominant party is rather low, we expect the bargaining strength of the business oligarchs to be relatively weak.

For reasons that are easy to understand, the endogamous relationships between state and business are intrinsically opaque. Lack of transparency is especially valued by businesspeople belonging to ethnic minorities, like Chinese entrepreneurs in Malaysia and Indonesia, Indian entrepreneurs in Tanzania, Kenya, Uganda, and South Africa, or Lebanese traders and businessmen in West Africa. Being vulnerable to xenophobic attacks when they are economically successful, they are eager to act behind the scenes, believing rightly that the more occult their power and their influence the more effective they will be. Deviating from this strategy can be extremely costly, as recently epitomised by the sudden flight of the Gupta brothers from South Africa, where they publicly appeared as the financial arm and the policymaking brain of the highly corrupt President Jacob Zuma. It is only under exceptional circumstances, which can never apply to members of ethnic minorities, that Big Men can consider it rewarding to personally claim the supreme position of political power. A vivid illustration here is provided by President Talon in Benin.

Table 1 schematically presents and illustrates the political regimes that arise under different combinations of initial conditions and effectiveness of social and economic development policies. Two types of initial conditions are considered: the initial level of legitimacy of the ruler; and whether the latter can rely on a strong supporting organisation when starting his/her rule. By strong organisation, we mean an organisation, such as a single party, an army, or the police and intelligence services, which meets the following requirements: (i) it fulfils a public function and does not enjoy an electoral mandate; (ii) it possesses a unified internal structure; and (iii) it is not subservient to particularistic interests, business interests in particular, whether domestic or foreign. Thus, an army or a political party lacking a strong leadership and fraught with factionalism, or an army that is at loggerheads with the intelligence services or the police, or a puppet army at the beck and call of foreign interests, are all examples of weak organisations according to our definition.

We distinguish between two types of policies: developmentally sound and developmentally flawed; or, equivalently, enlightened and non-enlightened. Developmentally sound policies have four characteristics which must be simultaneously observed, although to varying degrees: (i) they rely on private initiative and the associated individual incentives, meaning that the market mechanism is allowed to operate and static efficiency considerations are given due attention; (ii) they create the physical infrastructure needed to make private initiative profitable; (iii) they provide for human capital accumulation, thereby laying the basis for dynamic efficiency; and (iv) they ensure that income inequalities are held in check, so that whatever national integration exists is reinforced rather than eroded.

Table 1: A summary of potential political regimes as per their initial conditions and the effectiveness of their development policies

Initial conditions crossed with quality of development policies	Initial legitimacy			
	Strong		Weak	
	Supporting organisation: strong	Supporting organisation: weak	Supporting organisation: strong	Supporting organisation: weak
Developmentally sound policies	Atatürk (Turkey, 1923–1938) Habib Bourguiba (Tunisia, 1957–87) Deng Xiaoping (People’s Republic of China, 1982–87) Xi Jinping (People’s Republic of China, 2012–)	Ellen Johnson Sirleaf (Liberia, 2006–2016) Pravind Jugnauth (Mauritius, 1983–)	Chiang Kai-shek and Chiang Ching-kuo (Taiwan, 1950–75 and 1975–88) Park Chung-hee (S. Korea, 1962–79) Ayub Khan (Pakistan, 1958–1969) Paul Kagamé (Rwanda, 2000-)	Patrice Talon ? (Benin, 2016–) John Magufuli ??(Tanzania, 2015–21)
Developmentally flawed policies	Julius Nyerere (Tanzania, 1964–85) Kwame Nkrumah (Ghana, 1952-66) FRELIMO (Mozamb., 1975–) Gamal Abdel Nasser (Egypt, 1952–70) Houari Boumediene (Algeria, 1967–78)	Zulfikar Ali Bhutto (Pakistan, 1971–78) CCM post-Nyerere (Tanzania, 1985-)	Mathieu Kérékou (Benin, 1996–2006) Anwar al-Sadat (Egypt, 1970–81) Zia ul-Haq (Pakistan; 1978–88) Omar al-Bashir (Sudan, 1993–2019)	Failed states: Somalia Post-Gaddafi (Libya, 2011–) Haiti

Developmentally flawed policies are those which fail to satisfy at least one of the above four conditions. For instance, economic and other policies driven by dogmatic ideologies rather than by pragmatic considerations cannot meet requirement (i), even though they may well satisfy some or all of the remaining requirements, sometimes commendably. The ideology guiding economic policymaking is political when a government rigidly adopts socialist policies of central planning, which repress the market mechanism and give pride of place to a bossy state. This situation is observed in most so-called socialist regimes, including states bent on social achievements and emancipation at the expense of competitiveness considerations (the state of Kerala in south India comes to mind here). Ideology is also political when a radical laissez-faire approach is advocated without due consideration to the need for redistribution and sufficient attention to the importance of collective goods, including human and physical capital. In these instances, objective (i) is pursued at the expense of all the other requirements. On the other hand, ideology is religious when rules and policies are governed by religious prescriptions and when recruitment or promotion (at least in public organisations) is based on profession of faith allegiance and not on competence criteria. Regimes that ground their policies in religion are likely to fail with respect to both conditions (i) and (iii). Finally, regimes dominated by big business interests, often referred to as crony capitalism, may be lacking not only with respect to (i), since market competition will then be thwarted, but also, possibly, with respect to (iii) and (iv).¹³

Before turning to country-specific lessons, two important remarks are in order. First, the actual effectiveness of enlightened or developmentally sound policies depends on the existence of an enabling international environment in the form of economically advanced countries allowing poor developing countries to gain special access to their markets and to practise some degree of trade protectionism. Second, the question of democracy has been deliberately eluded, the main reason being that this enlightenment ideal can be, and has been, pursued in contexts where individual liberties are (severely) restricted. The historical experiences of Taiwan and South Korea, as well as the contemporary example of mainland China (especially under President Xi Jinping), are cases in point. Whether the trampling upon individual liberties is justified by long-term development objectives is an immensely complex issue that clearly lies beyond the scope of the present book.

Sticking to our dichotomous categorisation, there are eight possible regime configurations. For the sake of illustrating all of them, we provide examples drawn not only from our four case studies but also from other regime/country experiences. It turns out that endogamous state–business relationships have created serious obstacles to stable and sound development in all of our country case studies. Benin is particularly worthy of attention not only because of the aforementioned exceptional feature, but also because it has been analysed in comparatively great depth. We therefore start our discussion by telling the Beninese story. Thereafter, our attention will turn to Tanzania, Mozambique, and Bangladesh, in that order.

Benin

Until recently, Beninese politics has been characterised by a profusion of political parties: their number reached the astronomical figure of 250 during the 2010s. Considerably

¹³ Under crony capitalism, or cronyism, businesses thrive not as a result of free initiative and risk-taking, but rather as a result of egregious advantages obtained from the political class to which they have a privileged access.

exceeding the number of ethnic groups in the country, these parties are designed as true vehicles for power by ambitious politicians backed by wealthy businessmen forming factions inside ethno-regional groups. Obeying a clientelistic logic, they do not confront each other on the level of programmes and policies based on varying visions of the country's future. Instead, inter-party competition is really a struggle for power conceived as a zero-sum game the payoffs of which consist of the huge rents associated with state control. Opportunistic coalitions made before presidential elections ensure that the contest is actually limited to a few Big Men or oligarchs. Besides causing important allocative and dynamic inefficiencies, as well as encouraging all sorts of malpractices, this system has created a lot of political instability, underpinned by regular shifts of alliances and acts of personal treason vis-à-vis political allies. It is therefore not surprising that the country's press has been rife with accusations of embezzlement and rent capture related not only to prestigious construction projects but also to pro-poor programmes and the delivery of essential local public goods (water, electricity, and other vital infrastructure projects).

The business career and political role of Patrice Talon, the present President of Benin, is illustrative in this respect. By betting on the right presidential candidate at each critical stage of his capital accumulation process, even when this implied dropping support for the incumbent in favour of another candidate deemed to have better chances of winning the subsequent contest, Talon succeeded in gradually gaining control of the main sectors of the Beninese economy, including the customs service. Of course, maintaining control is as important as gaining it, hence his continuing interest in politics. In a major turning point, however, Talon decided to eventually run for the presidency himself (2016). Political instability and increasing uncertainty about results in an atmosphere fraught with extremely tense interpersonal rivalries between a few oligarchs persuaded him that the usual tactics of pushing frontmen onto the political stage to represent one's interests had become far too risky. To exert direct control over the state apparatus appeared to be the only reliable solution, and one justified by the need to bring back law and order, fight corruption, and bring an end to instability.

Talon's winning gamble caused the defeat of the old political elite and the question then arises as to whether this major political change can be a game-changer. On the one hand, because Talon has succeeded in consolidating his power and taking firm control of the polity and the economy of Benin, democracy has suffered. This has caused a major stir in a country where freedom of expression is highly valued and where free elections and changes of incumbents had become a regular feature of the political scene during the last decades. On the other hand, precisely because he holds key decision-making levers in his hands, he could become an enlightened autocrat eager to promote his fame and reputation as the man who rescued his country from stagnation and pervasive corruption. This is the image of himself which Talon is keen to project: he declares that his role model for leadership is Paul Kagamé, the authoritarian but effective president of Rwanda. Unlike Kagamé, however, Talon is an oligarch, which raises serious doubts about his ability to design enlightened policies oriented towards the general interest of the Beninese people. It could nevertheless be retorted that precisely because he exerts a large control over the economy, and has now become immensely rich, he does not need to bother any more about wealth accumulation. Therefore he can devote all his energies to a high-order mission that might bring him superior satisfaction. It is of course too early to form a judgement on such a thorny issue, but the future will be particularly interesting to watch.

So far, the omens are rather good. Surrounded with a team of highly competent collaborators – many of them assembled in a special office directly attached to the presidency, somewhat in the manner adopted in Taiwan and South Korea – Talon has established sound priorities for reforms that address key constraints on the country's economic development. They include reforms of the education system (with an emphasis on the creation of technical schools and training institutions), plans for infrastructure expansion (including the improvement of the generation and distribution of electricity), and measures aimed at diversifying the economy and adding value to agricultural and raw material (e.g. cotton) products. Moreover, Talon is working towards keeping the streets clean and clearing the rubble in big cities such as Cotonou. Even more importantly, he has declared war on corruption and in just a few years the petty corruption that was so extensively observed under all previous regimes appears to have been significantly reduced as a result of drastic sanctions imposed by his government. Since day-to-day extraction of bribes by officials (the police, in particular) hits poor and ordinary people especially hard, energetic steps to combat it is bound to earn him popular support. What remains to be seen, however, is how a president-cum-oligarch will be able to surmount the serious conflicts of interests inherent in his double capacity (hence the question mark in the cell of Table 1, where Talon's regime is featured).¹⁴

Tanzania

Tanzania offers an interesting contrast to Benin in the sense that, instead of proliferating political parties representing micro ethno-regional groups, a single party (CCM, formerly TANU) has largely dominated national politics since independence.¹⁵ The central lesson, though, is that this setup has not prevented the same clientelistic logic as in Benin from operating inside this party: in this restricted arena, bitter struggles oppose faction leaders backed by different businessmen, foremost among whom are big entrepreneurs from the Indian community (and, at a later stage, from the Arab trading community).¹⁶ Because it is essential to maintain the unity of the party at election times, the head of CCM refrains from expelling powerful party members who illegally trade business money for undue privileges. This is a game with a bad corruption equilibrium where, given his belief about how other party members behave, no player has an incentive to play a clean move. Some members make illegal deals while others refuse to sanction bad behaviour, and the head of the party does not have the power to break this equilibrium owing to his fear of causing its dissolution in the transition to a new equilibrium. Incidentally, this situation resembles that observed in Malaysia, where, as the dominant party (UMNO) became increasingly fractionalised, the financial support of Chinese businessmen became more crucial for political campaigns (Jomo and Gomez, 1997: 364). This is in line with our earlier prediction that fractionalisation of the political space helps to enhance the power of big business interests vis-à-vis the state.

Even across parties, political clientelism prevails. This is illustrated by the 2015 presidential election, for which CCM nominated John Magufuli as its candidate, instead of former prime

¹⁴ For example, how can a man who privately controls the customs service end corruption in that vital part of the revenue collection system? How can his monopoly position in key sectors of the economy (including the retail distribution of petroleum products) be made to work for the general good? And how can one be assured that tax avoidance by members of his business entourage will be actively fought against?

¹⁵ Although the single-party system was abolished in the post-Nyerere period, and opposition parties started to play a significant role in the political debate, CCM, into which TANU had morphed after the union with Zanzibar, remained the major political force in the country.

¹⁶ To this date, there is only one African Tanzanian name in the list of the 12 richest businessmen in the country.

minister Edward Lowassa. The latter was actually the front-runner but had been displaced after his involvement in a big corruption scandal was made public. Revealingly, rather than withdrawing from politics, Lowassa defected to the main opposition party, which selected him as its candidate for the presidential race. This choice attests to how much the opposition plays the same game of political clientelism and cronyism as the incumbent party. By contrast, CCM's choice of Magufuli was vindicated by his anti-corruption image, acquired while Minister of Public Works in the previous government. This decision was probably not a reflection of a genuine desire to change the rules of the political game, but rather an opportunistic defensive move. As a matter of fact, the party had been badly discredited by a wave of resounding corruption affairs, especially during the second term of Kikwete (Magufuli's predecessor), which led donors with a pivotal role in the funding and designing of Tanzania's development strategy to suspend their aid programmes. Like in many countries emerging from a socialist planning regime, news about corruption scandals started to proliferate after the process of transitioning to a market economy was initiated (that is, in the post-Nyerere period).

Because of his premature death from Covid, Magufuli's mandate at the helm of the country was dramatically shortened. There is no doubt that his rule was deeply authoritarian and his methods echoed those used by Kagamé in Rwanda: disappearances of critical journalists, jailing of political opponents, etc. Yet, at the same time, Magufuli was bent on stamping out corruption, stopping the internal disunion inside CCM, and imposing a strict discipline on its leaders. His idea was apparently to re-establish full control of the party in the hands of its president (implying a return to Nyerere's system), to terminate the practices of political clientelism, and to reduce the influence of the oligarchs by prohibiting deals with private firms. This last strategy led him to be especially tough with both domestic and foreign business concerns. Moreover, he launched a vigorous anti-corruption campaign, which was beginning to show some success during his shortened mandate. Like for Talon, therefore, we put a question mark in the corresponding cell of Table 1.

Mozambique

FRELIMO in Mozambique, which also benefited from strong initial legitimacy as a successful anti-colonial movement, occupies about the same dominant position as CCM in Tanzania. And, most relevant for our discussion, its internal politics is also dominated by fierce struggles for access to power. Financial strength being a key determinant of the ability to rise within the party's machine, this intra-party elite rivalry creates a fertile ground for the spread of money politics and influence peddling. The interpenetration of business and politics was reinforced after the liberalisation and privatisation drives imposed by the IMF and the World Bank in the 1990s. What happened was sheer political capture of the privatisation process itself. Thus, privatised firms were taken over by party members, civil servants, and army officers, thereby ensuring *de facto* continuity with the previous state of affairs.¹⁷ As for entrepreneurs with ties to the opposition, they were systematically excluded. Given its

¹⁷ The same situation has been observed in many other countries transitioning from central planning to a more market-oriented system. In Malaysia, for instance, we learn that cronies of the national executive were best placed to capture the most lucrative opportunities arising from the privatisation drive encouraged by multilateral financial agencies in the early 1980s. Not only have well-connected businessmen from the dominant ethnic group (the Bumiputeras) gained priority over others, but many privatisations 'have not even involved the formality of an open tender system, and thus many beneficiaries have been chosen solely on the basis of political and personal connections' (Jomo and Gomez, 1997: 366).

overwhelmingly dominant position, whose persistence is partly caused by its ability to manipulate elections, FRELIMO has been able to easily rein in the country's business community, which has been deprived of any credible alternative to protect its interests. In the *quid pro quo* at the heart of this patronage system, the FRELIMO machine was oiled by the money obtained from the rents it itself awarded to supporters-turned-businesspeople as a result of an internal competition process. In other words, the corruption money and equivalent in-kind advantages flow up and down the ladder of political clientelism and, as long as the gives and takes are predictable, a corruption equilibrium is well-established.

The awarding process takes place at the level of presidential primaries, in which business leaders seek political frontmen with whom to forge an alliance while party insiders willing to stay in central organs and obtain high offices in the government reciprocally look for men with money to achieve their ends. The winner of the internal political contest becomes the president of FRELIMO, who automatically becomes the President of the Republic. Precisely because of the logic of competitive clientelism prevailing inside FRELIMO, its *de facto* character of a single party state offers no guarantee of intertemporal policy continuity.¹⁸ To sum up, at the beginning of the reform process initiated at the behest of external forces (international organisations), FRELIMO was in a strong bargaining position, reminding us of the KMT's position in Taiwan. It held the most important cards in its hands and was apparently able to manipulate election results in its favour. It could therefore have chosen to use party discipline and its leverage over the nascent business community to launch the country on a consistent development path. Unlike the KMT, it chose not to follow that line and instead promoted a competitive clientelistic system from which transient leaders would emerge. In the end, it is perhaps the lack of a strong and enlightened leadership at the head of the party that best explains why the option of a developmental state was ignored.

The discovery of oil and gas reserves in Cabo Delgado (during the years 2006–2010) did not help. The existence of these valuable resources created new rent opportunities, real or anticipated, that considerably raised the stakes involved in the struggle for political power and influence. In this context, it is not surprising that the trend towards improvement of governance indicators was reversed, and that huge scandals occurred, such as the hidden debt scandal (2016), which deeply affected the country's economic and political climate and its relations with the international community.¹⁹ Given the weakness of anti-corruption institutions and their lack of independence from political influence, it is hard to think there will be significant improvements in this situation in the near future.

Bangladesh

In Bangladesh, two political parties, the Awami League and the Bangladesh National Party, have dominated national politics until recently: they correspond to two groups with unclear ideological differences but neatly differentiated identities defined by strong leaders known as the two *begums*. The stands of these two parties have always reflected the deep personal antagonisms between Sheikh Hasina (the daughter of Sheikh Mujib, the founder of the

¹⁸ A vivid illustration is provided by the difficult transition from President Guebuza to President Nyusi, who was not Guebuza's preferred candidate and had a different approach to policy and reform.

¹⁹ To be more precise, in the final years of Guebuza's second term, three semi-public entities, owned and controlled by a very small group of individuals and closely linked to the security sector, took out over US\$ 2 billion in loans from private foreign banks without submitting them to the Assembly for approval. Upon learning about the existence of these loans, the IMF suspended its support to Mozambique and much foreign aid, including all direct support to the state budget, was frozen or significantly reduced.

nation) and Khaleda Zia (the widow of General Zia), and their winner-takes-all approach to politics. The year 2008 witnessed the end of regular rotation of these two parties in power as the Awami League was able to take full political control of the country. What our study of Bangladesh reveals about state–business governance is the important political leverage of the textile business sector. This sector is no doubt one of the main drivers of economic growth and exports in the country. It is nevertheless striking that the textile business elite, thanks to their intimate connections with influential politicians, have been able to extract enormous advantages in a variety of forms: tax exemptions (textile exporters are exempted from import duties on intermediate products), export performance benefits, subsidies of various kinds, export guarantee schemes, and lax labour laws allowing for low wages, long working hours, the absence of regular contracts, and poor working conditions (as epitomised by the Rana Plaza disaster, in which more than 1,000 workers died when the factory building they were working in collapsed). With trade unions suppressed and union organisers intimidated, workers' rights have no chance of being properly protected.

It can be argued that, since they are part and parcel of an industrial policy, and this policy has proven to be remarkably successful, the above measures evoke those adopted by the governments of Taiwan and South Korea to encourage economic development, and manufacturing growth in particular. Two remarks are nevertheless worth making here. First, and unlike in Taiwan and South Korea, the government support for the textile sector has been rather exclusive in the sense that it has not been justified as a component of a comprehensive economic development strategy aimed at the diversification of manufacturing and export activities. There is therefore a legitimate suspicion that the favourable treatment of the textile sector and the relative neglect of other sectors have been the outcome of the disproportionate political influence of the textile lobby. Second, it is even harder to understand why the well-being of the labour force operating in the favoured sector has been so much ignored by the authorities, hence reinforcing the suspicion that politicians serve the interests of the textile firm owners rather than the whole sector. The compliance of the former is explained by the regular donations they receive from the latter for their political campaigns and other purposes.

8.3 Conclusion

In the foregoing analysis, primary attention has been given to the oft-observed predicament of state capture by business interests, and the conditions under which it is likely to occur. An important and thought-provoking proposition is that, other things being equal, the extent of state capture is larger when political competition is more fierce in the sense that the number of contenders is higher. By implication, a change of political regime that opens up the political space and sparks political competition may have the paradoxical effect of increasing the capture of the state by powerful business people. And to the extent that their private interests are at odds with the collective good, their capture of the state can set the country upon a wrong development trajectory and lead to precedence being given to rents over social efficiency.

On the other hand, the experiences of Taiwan and South Korea, as well as those of the People's Republic of China and Vietnam, testify that a state immune to capture by business interests and able to devise and implement enlightened development policies can acquire legitimacy over time and thereby contribute to reinforcing national integration. Conversely, a

charismatic leader enjoying a good measure of initial legitimacy may waste it if he adopts misguided policies, which ignore long-term objectives, the necessary role of individual incentives, or the need to strengthen national cohesion through income redistribution and poverty reduction.

As illustrated by the lives of Nyerere and Nkrumah – though not Kérékou and so many other autocratic rulers – strong leaders can retain some popularity thanks to the aura they gain as the ‘father of the nation’, if they achieve positive results on the social and political fronts. Progress in health and education, and immunity to corruption, are examples of the former and the latter, respectively. The fact remains that the dire economic situation of a country resulting from their disastrous economic policies creates a difficult challenge for their successors who do not have their charisma and pedigree as ‘father of the nation’.

Leaving aside extreme cases of economic disaster following policy attempts at centralised planning, we must admit the existence of potential trade-offs between economic and political objectives. In particular, the nation-building project may arguably impose constraints on the extent to which efficient economic policies can be pursued. This is especially true at the critical time when varied population groups with particularistic interests need to be morphed into a national entity with sufficient cohesion. This being acknowledged, there is no doubt that, over the long run, national integration and the legitimacy of a regime depend foremost on the implementation of viable and effective development strategies.

Consisting of heterogeneous elements in spite of a common language and ethnic origin, the Taiwanese nation was not ‘a given’. Like Pakistan, it was the result of the mixing of immigrants and indigenous population groups: Han Chinese from mainland China and (mostly) Han Chinese from Taiwan in the case of Taiwan, and Muslims from India and Muslims from the Pakistani provinces in Pakistan. Unlike Pakistan, however, the KMT regime of Taiwan succeeded in gradually building up a strong nation thanks to an effective pattern of egalitarian and rapid development led by an autonomous state. By contrast, Pakistani politics has been continuously dominated by feudal or quasi-feudal forces, including religious authorities, which colluded with a powerful army exclusively preoccupied with exaggerated external threats. Beset by political clientelism, religious fundamentalists pandered to by the military, and a nation-building process gone astray, the country never found a consistent development path.

Bangladesh was also plagued by reactionary religious movements and entrenched political dynasties, although the latter are not rooted in rural areas as they are in Pakistan. Its government did not miss profitable external trade opportunities when they emerged, and this eventually allowed it to kickstart the country’s industrialisation process. The challenge, here, is double: how to rein in the influence of powerful textile business lobbies so that economic diversification can take place and the working population can obtain a higher share of the growth proceeds; and how to reduce the country’s dependence on foreign funds, remittances in particular.

Politics does not only influence a country’s development trajectory through leadership quality and the degree of autonomy of the state vis-à-vis business interests in particular: it also produces effects through the type of bureaucracy that operates and the way property rights are established or enforced. Yet these two aspects of state capacity cannot be exclusively

reduced to a political problem, hence the wider perspective that their analysis requires. This will become clearer as we proceed with our investigation in the next chapter.

Before embarking on that chapter, a question that comes to mind is what happens to countries which have proven unable to build a sufficiently strong state and a sufficiently integrated nation. It is here that the analysis of Charles Tilly (1985) provides valuable insights. His central point is that the end of World War II marked an important turning point in the sense that the independence of all sovereign nations became guaranteed by the newly formed United Nations. An immediate consequence of this is that failed or weak states are no longer allowed to disappear, be absorbed by a stronger neighbour, or split into several parts, under the action of external forces, military or political. Neither are they forced to transform themselves with a view to improving their performance and their capacity to withstand such forces, preserve their integrity, and simply survive. Countries which would have dissolved in the times preceding World War II may now persist, however woefully, thanks to internationally protected borders and foreign assistance. In other words, evolutionary changes of the Darwinian kind cannot spark institutional reforms – as they could do in modern European history, for example.