Business and the state:

economic policymaking in Africa’s neo-liberal era

Paper prepared for CPSA conference, June 2nd - 4th 2005
University of Western Ontario, London ON

Draft: Please do not cite or quote

Antoinette Handley
Assist Prof: Dept of Politics
University of Toronto

a.handley@utoronto.ca

For the last two decades, supporters of a neo-liberal model of economic reform have asserted that the most effective way to revive Sub-Saharan Africa's[1] moribund economies is to engineer the withdrawal of the continent's states from those economies and facilitate a more prominent role for the private sector in driving recovery and growth. In the 1980s analysts associated with the World Bank and IMF advocated the almost complete withdrawal of the state from any attempts at African development on the grounds that that state was ineluctably flawed and that only the forces of "the market" could restore sustainable growth. However, while studies of the failed African state abound, there is no similar embarrassment of riches for "the market". In Africa at least, this policy flirtation has not been informed by sustained empirical and analytical attention directed towards the continent's business sector. As a result, we know very little about the character of the formal indigenous business sector in Africa , and its capacity to play its apportioned role.

What is the character of the African business class? And does it have the potential to secure, in partnership with government, the necessary preconditions for long-run capitalist growth? This paper investigates these issues by considering the contribution of business to economic policymaking in four varied African countries (Zambia, Ghana, Mauritius and South Africa) during the 1990s, a crucial reform period. In each case, I will be focusing on the formal, indigenous business sector. Based on fieldwork conducted in each of these four countries, the paper seeks to review dominant assumptions regarding the character of the African business community and to develop a coherent analytical framework for considering its broader contribution to economic policymaking on the continent.

[1] Hereafter, for brevity's sake, I will refer to Sub-Saharan Africa as "Africa".

The History of the African Business Community

It is dangerous to generalise about a continent as large and diverse as Africa. Certainly, the processes of state formation and economic development were far from uniform across the continent. Some states adopted avowedly radical redistributionist – even socialist – approaches to economic development (for example, Tanzania, Mozambique and Guinea) while others (such as the Ivory Coast and Kenya) declared themselves for the free market model. Yet by the early 1990s, many African business communities shared some important features. These business communities were not only significantly smaller and weaker than those found elsewhere in the developing world, but many were also in thrall to a form of social organisation that emanated from the state, neo-patrimonialism.[2] How did this arise?

Because of the relative lateness of their capitalist development and colonisation, many African societies experienced near simultaneous encounters with two forms of social organisation: those which emerged from the political institutions of colonialism (principally the state) and those which emerged from a more intense engagement with a capitalist international market (among them a "capitalist class").

Under colonialism, the imperial state shaped the business community through institutions such as exchange rates, investment, tariffs, permits and marketing boards, as well as through generally mercantilist policies. Frequently, colonial regimes discouraged,

[2] I use the term "neo-patrimonialism" in its Weberian sense as Nicholas van de Walle does. He argues that in a neo-patrimonial state, "[o]outwardly the state has all the trappings of a Weberian rational-legal system, with a clear distinction between the public and the private realm, with written laws and a constitutional order. However, this official order is constantly subverted by a patrimonial logic, in which officeholders almost systematically appropriate public resources for their own uses and political authority is largely based on clientelist practices, including patronage, various forms of rent-seeking and prebendalism." van de Walle, N. (2001). <u>African Economies and the Politics of Permanent Crisis 1979-1999</u>. Cambridge, UK, Cambridge University Press.pp51,2

both directly and indirectly, indigenous entrepreneurs from establishing and growing their own businesses. As a consequence, few colonial governments facilitated fully-fledged capitalist development or the growth of a robust local business class.

A significant number of colonial administrators did not see the advancement of metropolitan businesspeople − or of capitalism − as part of their job. By the early 1900s, much colonial policy (especially British colonial policy) had a positively anti-capitalist bias. Herbst, for example, argues that in West Africa, colonial officials "did not see promoting the business interests of Britain-based firms as central to their mission."[3] Phillips describes West African colonial policy as built on three elements: resistance to European plantation estates, the restriction of private capital to anything beyond a merchant role, and the discouragement of private property in land. Peasant production was fostered while "officials often luxuriated in what seemed anti-capitalist bias, glorying in their self-proclaimed roles as guardians of a pre-capitalist order."[4] This tendency was reinforced by the predominance of merchant capital, which could rely on pre-capitalist means of production and exchange (peasant production of cocoa in West Africa, for instance).

This is not to say that metropolitan firms did not enjoy advantages over the locals. Indigenous entrepreneurs were handicapped in innumerable ways in their relative access to capital and markets.[5] The pressure to pander to metropolitan nationals was most

---

3

Herbst, J. (2000). States and power in Africa. Princeton, New Jersey, Princeton University Press.

4

Phillips, A. (1989). The enigma of colonialism: British policy in West Africa. London, James Currey.

5 See for example
Mclane, M. (1991). Railways and "development imperialism" in French West Africa before 1914. Annual meeting of the Western Society for French History. Also
Overton, J. (1987). "The colonial state and spatial differentiation: Kenya, 1895-1920." Journal of Historical Geography **13**(3): 267-282. As Herbst argues, currency and currency zones gave an important advantage to

obvious in colonies with significant numbers of white settlers. In Kenya for example, white settler capitalism “employed the state to preserve monopolies, subsidise transport costs and institutionalised government support for a dynamic and technically advanced capitalist agriculture” (which was almost entirely owned and run by white settlers).[6] In addition, there were often explicit government restrictions on participation by Africans in the economy (who were commonly limited to low-level trading). Phillips writes for example that "in the case of British West Africa, administrators discouraged … the formation of an African capitalist class, only reluctantly conceding the right to accumulate property in land and raise business loans."[7] This opened up opportunities for minority ethnic communities to engage in petty trading, such as the Asians in Uganda and elsewhere.

This may be the point at which South Africa began to look somewhat different from much of the rest of Africa. First, metropolitan entrepreneurs in that country were predominantly based in or around the mining sub-sector, rather than in trade or agriculture. Second, there were simply far larger numbers of white settlers in South Africa than anywhere else on the continent – and crucially, the bulk of these settlers stayed on after independence. South Africa's metropolitan entrepreneurs thus became South African entrepreneurs.

---

those firms that could freely exchange currency.
Herbst, J. (2000). States and power in Africa. Princeton, New Jersey, Princeton University Press.

6 Lubeck, P. M. (1987). The African bourgeoisie: Capitalist development in Nigeria, Kenya and the Ivory Coast. Colorado, USA, Lynne Rienner Publishers. There was nothing automatic about official support for settlers however. For a view counter to Lubeck's, see Woods' account of conflict between officials and settlers in Malawi:
Woods, T. (1989). "The myth of the capitalist class: Unofficial sources and political economy in colonial Malawi, 1895 - 1924." History in Africa **16**: 363 - 373.

7 Phillips, A. (1989). The enigma of colonialism: British policy in West Africa. London, James Currey. Phillips argues that the attempts by administrators to discourage an African capitalist class were largely unsuccessful. I argue below that they were all too successful.

While the rest of Africa may have been short of industrialists and manufacturers, those economies had no shortage of traders. Economists of the day were sceptical about the extent to which these traders constituted a "real" business class.[8] This dismissive view and a desire to do away with the "exploitative middlemen-speculators"[9] informed the decision to move towards marketing boards, as established by colonial governments in much of West Africa. Accordingly, farmers were obliged to sell their produce to monopsonistic marketing boards at below-market rates; these goods were then sold internationally at market rates. The substantial surpluses that resulted were intended to create a reserve to smooth out price fluctuations and improve the long-term welfare of the farmers. Increasingly they were used to subsidise government expenditure and to boost the economic stature and role of the state.[10] Marketing boards distorted the ability of prices to direct resources into the most profitable kinds of production, a process that was to continue after independence.[11]

The impact of colonialism on a nascent indigenous business sector was mixed. It both accelerated and intensified Africa's interactions with an international capitalist milieu. However, especially where colonialism supported peasant agriculture, primary

---

[8] It is significant that trading is perfectly compatible with pre-capitalist forms of production. The dominance of trading as an economic activity therefore, may well have retarded the process of explicitly capitalist development and hence the development of capitalist and market-based incentives and behaviour.

[9] Bauer, P. T. (1967). West African trade. New York, Augustus M Kelley.

[10] Ibid.
Bates, R. H. (1981). Markets and states in tropical Africa: the political basis of agricultural policies. Berkeley, California, University of California Press.

[11] In a number of regions the state also established cooperatives. Like the boards, the cooperatives had an unintended beneficiary – the state itself: "Officially, the main aim of these co-ops was to put an end to the exploitation of the peasants by private traders… In practice a more immediate effect was that, through these same organisations, the market …. came completely under government control."
Geschiere, P. (1985). Imposing capitalist domination through the state: The multifarious role of the colonial state in Africa. Old modes of production and capitalist encroachment: Anthropological explorations of Africa. W. van Binsbergen and P. Geshiere. London, KPI Ltd.

commodity production and trading over a capitalist mode of production, and where public investment outweighed private investment (as it did almost everywhere except in areas with strong mining potential), it may have laid the groundwork for a neo-patrimonial business sector.[12] The political authority of local chiefs and new rulers was bolstered, creating a new source of income for the emerging indigenous political elite, and a second track for indigenous accumulation, one based on more conventional capitalist and market relations, was constrained.

In South Africa, the increasingly rigid racial hierarchy that would be canonised by apartheid proscribed politics as a route to economic advancement for black South Africans. Instead, they were drawn into the economy as farm labourers and low-level workers in the proliferation of industries which sprung up in and around the mining sub-sector. As I will describe later, white and predominantly English-speaking South Africans came to dominate the emerging capitalist economy. Elsewhere the process was very different. Most observers agree that colonialism left Africa with a very weak foundation for the further development of sustainable capitalist accumulation.[13] In particular, the capitalist reorganisation of land and labour that South Africa saw, had not, by independence, occurred in many parts of the continent. The result, as Gann and Duignan argue, was that colonialism left Africa with "too few capitalists, rather than too many."[14]

On independence many African states continued this pattern. They had a variety of instruments available in an international context that warmly approved state-led and

---

12

13 Cf. for example
Phillips, A. (1989). The enigma of colonialism: British policy in West Africa. London, James Currey.

14

Gann, L. H. and P. Duignan (1968). Burden of empire: An appraisal of Western colonialism in Africa south of the Sahara. London, Pall Mall.

import substitution industrialisation (ISI) development models. These included state-owned enterprises (SOEs), nationalisation and indigenisation, and the authority to issue trading licenses and control foreign exchange. The result was often to privilege the fortunes of a small politically connected elite and to further restrict market-based incentives. Independent African states rolled out ambitious developmental plans as they sought to “catch up” with the rest of the world. They had inherited very weak, small indigenous business communities, but, in terms of the conventional wisdom of the day, this was regarded as no great obstacle. Decolonisation coincided with the heyday of development economics and there was wide support for the view that Third World countries could catch up with the developed world if only their governments would substitute for the failings of private capital markets.

Governments across the continent employed a range of strategies to this end. Some of these plans, like indigenisation, explicitly sought to reverse the impact of colonial economic policies on the racial and ethnic make-up of the business class. Most operated from the assumption that the state was an effective developmental tool and ought to apply itself energetically to the management of the economy. Many of the measures intended to advance industrialisation did also increase the dependency of the private sector on the state. Eva Bellin develops the very useful notion of “state dependence” to refer to “the degree to which private sector profitability is subject to the discretionary support of the state” and she warns of the neo-patrimonial consequences this can have.[15]

15

Bellin, E. (2000). "Contingent democrats: Industrialists, labor, and democratization in late-developing countries." World Politics **52**: 175-205.

While it had not handed down a healthy business class, colonialism had bequeathed to new African leaders the facade of a Weberian rational-legal state. Ostensibly, this state was endowed with functionally defined administrative and political offices, a chain of command and set of bureaucratic rules for the making of decisions. In reality, it functioned in terms of a patrimonial form of politics and social organisation, marked by personalism and patronage. In his discussion of newly independent Nigeria, for example, O'Connell argues that "[the politicians] paid small heed to the proper and relative autonomy of public corporations and saw no incompatibility between using these organisations as instruments of patronage and personal gain and using them as instruments of public investment."[16]

Chalmers Johnson developed a set of markers for the East Asian "capitalist developmental state":[17]

a) the top priority for state action is economic development;

b) the state is committed to private property and the market;

c) economic bureaucrats formulate policy instruments;

d) consultation with the private sector is an essential part of policy formulation and implementation;

e) state bureaucrats rule, politicians reign.

By contrast, I would argue that the following features mark a neo-patrimonial state:

---

[16] O'Connell in Kilby, Peter *Industrialisation in an Open Economy: Nigeria 1945 - 1966*, Cambridge University Press: London (1969) p378

[17] It is significant that he called it a *capitalist* developmental state. Cf. Johnson, C. (1995). Japan, who governs? The rise of the developmental state. New York, WW Norton and Co.

a) the top priority for state action is maintenance of the personal political power of those currently in charge;

b) those occupying the state are ambivalent about private property and the market; they employ the rhetoric (and policies) of the "free market" only so far as this facilitates their acquisition of wealth;

c) policy instruments are formulated by variety of actors including economic bureaucrats and international financial institution advisors, but, crucially, these are subject to idiosyncratic and self-interested interventions from the politicians;

d) consultation with the private sector takes place on a partisan and personalistic basis – it is directly tied to the interests of those who dominate the state;

e) politicians rule, state bureaucrats survive on the rents that they can exact. The level of these rents drop sharply below the upper echelons of the civil service.

Most of the literature on neo-patrimonialism focuses on the state. Neo-patrimonialism however is a feature, not only of many African states, but also of many African business communities; it shaped not only the political sphere but the nature of the market too. Boone argues that the same processes that promoted the rise of post-colonial states in Africa and of the ruling classes that would govern those states, compromised the possibilities for capitalist development. Her argument is a complex one but she asserts that the power of what were to become the new ruling classes "was rooted in control over the state itself, rather than in direct control over property or production." Those classes subsequently acted to protect the status quo at the cost, she argues, of changes that could have "cleared the way for the further development of capitalism."[18] It was not the case that a business-minded bourgeoisie seized control of the state and manipulated politics to its advantage. Rather, a ruling class created, shaped and controlled the emergent business sector, manipulating the economy to its advantage.

The result was a weak, conflicted African business community. In almost every case, while at least a section of the private sector was born out of and operated in terms of market principles, much of the sector instead (or in addition) operated according to neo-patrimonial incentives. In addition, state-based elites often went into business directly, on their own behalf. However, this process did not occur seamlessly or to the same extent in all African countries, as my four case studies below demonstrate. In the analysis that follows, I will focus on the policy interactions between government and business in the 1990s, before considering the cases comparatively for what they can tell us about the respective business communities.

The Country Studies:

Zambia

The course of economic policymaking in Zambia over the 1990s demonstrates the weakness of both the public and private sector in Zambia, with government characterised by a high level of neo-patrimonialism, and business, because of its almost complete lack

18

Boone, C. (1992). Merchant capital and the roots of state power in Senegal, 1930-1985. Cambridge England; New York, Cambridge University Press.

of autonomy from the polity, pulled closely into neo-patrimonial networks. [19] The policy outcomes speak to the shifting fortunes of these two sets of actors in economic policymaking in Zambia alongside a third, the international financial institutions (IFIs).

Following the first democratic elections in decades in 1990, the newly elected Movement for Multi-party Democracy (MMD) introduced significant changes in economic policy and in the overall way in which private enterprise was regarded in Zambia. Government moved away from decades of statism in a more neo-liberal direction. According to one Lusaka businessperson,[20]

> The MMD deserves praise for changing public perceptions of wealth creation. While it [wealth creation] is still not sufficiently understood by the broader public, it is at least no longer a dirty word. KK [Kenneth Kaunda] only conceived of getting rich as negative and inherently exploitative. He not only bad-mouthed those who were commercially successful but the leadership code explicitly forbade public-private partnerships.

Having said that, business qua business had little success in shaping economic policymaking over the course of the 1990s. (See Table 1)

What Zambian business said it wanted in 1990	**What it actually wanted**	**How business would rank what it got by the end of the decade**
Privatisation	Competition and new investment in the private sector; Rejuvenation of the Copperbelt	D D
Trade liberalisation	Export promotion; A staggered timetable of	F F

[19] There is in Zambia a significant degree of overlap between the organised business community on the one hand, and political and economic elites on the other. It is possible, indeed crucial, to separate them out however.

[20] Bull, T. (2000). Businessman and analyst; owner of Garden House Hotels. Lusaka, Zambia.

	trade opening; Macroeconomic stability; Competitive input costs	 C D
Deregulation	Freeing of prices Currency devaluation Investment friendly measures Financial deregulation	B B B- B

Table 1

If one only considered the left-hand column of Table 1, the "large print" policy measures that business pressed for in the early 1990s, business would score three out of three: by the end of the decade there had been significant levels of privatisation, trade liberalisation and deregulation in Zambia.[21] But in policymaking, as in so much else, the devil is in the detail, and it was in the details of how those broader goals should be implemented that business was unable to have any meaningful impact.

While government privatised the lion's share of its parastatal holdings, the bungling of the privatisation of ZCCM (the country's formerly state run copper mines) cost the Zambian government millions of dollars and potentially, the rejuvenation of the Copperbelt. The brutal and rushed nature of the trade liberalisation programme provided much in the way of the harsh winds of competition for Zambian enterprises but very little constructive support to enable potentially viable firms to increase their productivity and

[21] According to Mark O Donnell, the chair of ZAM, business associations had the greatest impact on policy in the areas of trade tariff reductions, cross-border trade issues, the reduction of duties and increasing competitiveness and, in the early days, limiting the number of bureaucratic hurdles. Again according to O Donnell, however, business was unable to maintain this level of influence. (Indeed he goes so far as to argue that business' biggest failure was its inability to halt what he termed "the abandonment" of the reform programme.)
O Donnell, M. (2002). President of Zambian Association of Manufacturers. Lusaka, Zambia.

regional competitiveness. Deregulation, probably the simplest reform in a technical sense, was more succesful. However, deregulation of the financial sector was overshadowed by a scandal surrounding the attempted bail out of the politically-well connected Meridien Bank.

Why Zambian business lost what it lost

At the beginning of the MMD's first term in office, it seemed possible to marry the interests of business, government and the World Bank; they all agreed that a broadly neo-liberal reform process was required. The MMD at first appeared enthusiastically in favour of business and profit making – indeed, perhaps a little too enthusiastic. According to one local observer, the MMD's first Minister of Finance Ronald Penza "epitomised MMD policy as well as formulated it. He did actively formulate policy. He also built his own fortune. Mostly this was done quite legally and adroitly. They [the MMD elites] are masters at creating economic opportunities – and then taking them."[22] Nonetheless, it was not immediately apparent that this would be a problem. It was not that neo-patrimonial behaviour among the political elite was absent in the early 1990s[23] but rather that it did not, at first, obscure the voice of legitimate business or damage the quality of economic policymaking.

As the reform programme unfolded however, differences began to emerge between all three actors. Disagreements also began to emerge within the business community itself on how reform should proceed. This weakened the ability of organised

[22] Anonymous (2000). Lusaka, Zambia.

[23] Indeed, there were credible allegations that Penza was able to advance his own business interests by means of policy, for example by adjusting the duty on beer imports. Anonymous (2002). Lusaka, Zambia.

business to push its policy preferences as these increasingly diverged from those of the IFIs and the governing elites.

Government's agenda also split between those genuinely committed to neo-liberal reform and those seeking to derive maximum personal gain from the process. The latter group won. While government had to appear at least to adhere to the broad outlines of the neo-liberal agenda, in the small details and implementation economic policymaking was increasingly driven by the need to secure new sources of funding for those elites. Such sources were found sometimes in the stripping of assets from soon to be privatised entities or from the acquisition of those entities themselves. They were found in the government contracts that were now to be awarded to private sector firms. They were found too in areas where the state continued to play a dominant role in the market, notably the energy sector.[24]

It is striking that those reforms that were technically easy and did not harm the interests of important actors within the state were the most swiftly accomplished.[25] In addition, those reforms that could win President Chiluba and his allies political support were also implemented, for example the sale of municipal housing to individuals. However those reforms, such as privatisation of the mines (and the wrangle over the forthcoming sale of the state-owned electricity supply commission, ZESCO) and reform of the public sector that would damage the interests of key individuals and politically important constituencies were impeded at every turn.

---

[24] Specifically the regulation of the petrol industry and Zambian Electricity Supply Commission (ZESCO) and National Petroleum Company. One observer went so far as to characterise ZESCO as "the new slush fund for government."
Anonymous (2000). Lusaka, Zambia. Allegations were also levelled about the purchase of sandy crude from Kuwait in the aftermath of the Gulf War at inflated prices.

[25] A cynic might be tempted to observe that those reforms that affected the living standards of the poor and vulnerable such as the lifting of maize and fertilise subsidies were the most easily done away with.

This neo-patrimonial behaviour on the part of state-based elites required the active co-operation of some in the private sector. Business' lack of autonomy from these political elites (and the membership in its own ranks of economic elites who survived the liberalisation process because of their closeness to the state) compromised the ability of business organisations to make a coherent corporate impact on policy. Instead individual businesspeople sought opportunity where they could find it, and, given the overwhelmingly patrimonial nature of the environment in which they found themselves, these opportunities frequently lay in a personal relationship with those close to political power.

This is not to argue that there were not market-minded members of the business community or that the business associations[26] did not attempt to represent their views. Ultimately however, these views could be safely ignored, whereas those of the IFIs could not. During the course of the 1990s, the business associations came to want more detailed or qualified interventions than the IFIs required. After welcoming the first wave of reforms, businesspeople became concerned with a number of lower order obstacles to broader economic recovery that were not being attended to. My interviews with large numbers of businesspeople revealed broad consensus across the private sector on what the obstacles to private-sector-led recovery were, and an inability to win this view with government.

Neo-liberal reforms are intended to shut down access to illicit rents via the state's involvement in the economy. Van de Walle has argued instead that the resumption of international financing by the IFIs in Africa opened up huge new potential streams of

[26] Such as the chamber of business association, ZACCI, or the manufactures' association, ZAM.

revenue for neo-patrimonial states in Africa.[27] This was certainly true in Zambia as the World Bank and IMF rewarded Zambia's initially significant progress on economic reform with renewed access to international credit and financing. This incentive privileged the voice of the IFIs in economic policymaking as governmental elites were forced to continue to reform just enough to ensure continued funding.

As a simple review of the flow of funds from and to Washington DC suggests, the role of the IFIs was substantial but popular perceptions may overplay the nature of their influence. For its part, business had no illusions about who was most important in shaping how policy actually got implemented. While the business associations did have intermittent discussions and contact with the resident IFI representatives over the course of the 1990s, there were no structured regular meetings, or even attempts to set up such meetings.[28] Instead, business continued to focus its lobbying energy on *government*, and in particular on the Finance Minister and Executive as the authors of economic policy.

I is not sufficient to consider the overall ideological outlines of economic policy to understand the dynamics of business-government interaction in Zambia. This would not explain how a supposedly neo-liberal government produced policies so contrary to what Zambian business wanted. What are crucial are the specific details of how reforms are effected as well as the implementation that actually follows. In Lusaka, there were profoundly affected by a dense personalistic network of keenly defended, overlapping economic and political interests that confound the capacity of business to develop a

---

27 van de Walle, N. (2001). African Economies and the Politics of Permanent Crisis 1979-1999. Cambridge, UK, Cambridge University Press.

28 O Donnell, M. (2002). President of Zambian Association of Manufacturers. Lusaka, Zambia.

coherent and effective articulation of its sector-wide policy preferences. Similar dynamics emerged in Ghana.

Ghana

Unlike Zambia, Ghana by the early 1990s was already regarded as a successful neo-liberal reformer.[29] However, after more than a decade of structural adjustment , a series of shocks demonstrated the continuing fragility of the Ghanaian economy. An energy crisis in late 1997 was exacerbated by the international effects of the Asian financial crisis and by declines in crucial commodity prices. Inflows from Ghana's international development partners reached their lowest level since the introduction of the ERP while prices for crude oil increased by almost 100%.[30] The economy's extreme vulnerability to these developments raised questions over the extent to which the Ghanaian economy had in fact been successfully restructured. What was business judgement of the decade's policy record?

As in Zambia, Ghanaian business sought policy goals that were broadly compatible with the neo-liberal agenda (see Table 2). Given the more advanced stage of the reform process however, Ghanaian business was concerned to secure what Zambian business had not i.e. sustained and institutionalised input into ongoing policymaking.

What Ghanaian business wanted in 1990	**How business would rank what it got by 2000**
Policy consultation	C
Conservative macroeconomic management:	D

[29] Under the leadership of Jerry Rawlings, the Ghanaian government had commenced structural adjustment in 1983, one of the earliest programmes adopted on the continent.
[30]
(2000). The State of the Ghanaian Economy in 1999. Legon, Ghana, Institute of Statistical Social and Economic Research, University of Ghana.

Access to credit Reduced government spending Lower inflation	C- F C
Divestiture	B

Table 2

It is a great irony of Ghana's economic reforms that although they were intended to put the private sector in the "driving seat " of the economy, Ghana's economic policy were largely state-driven, in both the 1980s and 1990s. Structured policy consultation between business and government in Ghana under the government of the P/NDC[31] was intermittent and, most often, the result of pressure from the IFIs. Any time that it looked as if this consultation would threaten the interests of government leaders, it was shut down. Instead, government tried to build patronage ties to select elements of the business community.

Beyond the process of consultation, what business really cared about was its lack of access to finance, and business associations[32] lobbied government continuously and largely unsuccessfully on this issue. Causes of the credit crunch that business faced are complex but are undoubtedly connected with government's own spending patterns and overall management of the economy. Government was again prepared to make gestures that might win it some political support – such as setting up a fund to grant financial assistance to certain firms - but was not prepared to amend its broader spending behaviour.

---

[31] The ruling Provisional National Defence Council restructured and renamed itself the National Democratic Congress in order to contest democratic elections in Ghana in 1992

[32] Such as the Private Enterprise Foundation and the chamber association, GNCCI.

Divestiture was an important policy area because it could potentially have reduced the overwhelming influence of government in the economy. The listing of Ashanti Goldfields was a success but the process more broadly was rife with allegations of patronage.

Why Ghanaian business won so little

There is no straightforward explanation for these outcomes. Business in Ghana was both stronger and more autonomous from the government than its counterpart in Zambia, but the Ghanaian state was also stronger and more neo-patrimonial than Zambia's. The result was a state-driven reform programme, dominated by rent-seeking and patronage despite the best efforts of the business institutions.

To start with business: Beyond the single issue of access to finance on which the entire business community agreed, the policy preferences expressed by Ghanaian businesspeople varied depending on the sub-sector in which they operated. At first glance, it appeared that some sub-sectors of the economy won more than others. The industrial and manufacturing sub-sectors faltered in the 1990s.[33] By contrast, things looked much rosier for the construction sub-sector, which positively flourished.[34] However the primary client of the construction sub-sector was the state, and state spending on roads for example remained robust throughout the decade.[35] On closer

[33]Manufacturing, which had grown strongly in the early days of the ERP (growing at 11% between 1984 and 1988,) slowed to 4.7% between 1989 and 1993. Those in manufacturing complained of de-industrialisation due to trade liberalisation.
(1994). The State of the Ghanaian Economy in 1993. Legon, Ghana, Institute of Statistical Social and Economic Research, University of Ghana.
[34] The construction sub-sector's growth rate in the 1990s averaged 6.1%.
(2000). The State of the Ghanaian Economy in 1999. Legon, Ghana, Institute of Statistical Social and Economic Research, University of Ghana.
[35] There was also construction by government in the health, education and housing sectors.

examination then, what seemed to be sub-sectoral differences were really differences in a political relationship with the state.

Some 15 years after the start of reforms, far from the extent of the state's involvement in the economy decreasing, almost the reverse had occurred. Having reviewed public expenditure patterns in Ghana in the 1990s, Wetzel concludes as follows:[36]

> The … data indicate that public expenditures are playing an increasingly important role in the economy. As in the early days of independence, it seems that the government is looking toward public expenditures to catalyse the country's economic growth in the absence of a strong private sector.

This growth in the size of government was "largely at the expense of private investment."[37]

Far from being a programme that privileged the role of the private sector in the economy, the Economic Reform Programme and the broad outlines of policy that followed were part of a *state-led* economic programme. One of the former economic advisors to the government expressed it as follows:[38]

> All along, the programme that we [the P/NDC] ran was a *government* programme. The private sector was not involved. It was not until 1995 that they started involving the private sector … and even then, it was reluctant consultation because they did not bring them [the private sector] fully into it. The government kept saying that the private sector was in the driving seat but it was not. The private sector has been marginal all along.

---

36 Wetzel, D. (2000). Promises and Pitfalls in Public Expenditure. Economic Reforms in Ghana: The Miracle and the Mirage. E. Aryeetey, J. Harrigan and M. Nissanke. Oxford, James Currey.

37 Younger, S. (1992). "Aid and the Dutch Disease: Macroeconomic Management When Everybody Loves You." World Development **20**(11).

38 Apea, S. K. (2001). Senior Fellow, Institute of Economic Affairs; formerly Deputy Governor of the Bank of Ghana, Deputy Secretary of the P.N.D.C. and Special Advisor to the Ministry of Finance (N.D.C.). Accra, Ghana.

Throughout, it was public expenditure that was central to government's economic recovery programme, and yet the private sector was expected to play its apportioned role as the engine of growth, without any of the necessary financial and macroeconomic preconditions having been secured. Aryeetey argues that[39]

> it is now generally acknowledged that one of the most severe drawbacks to the Economic Recovery Programme was its failure to generate adequate private sector response. The growth potential was lost due to tardiness in giving positive signals to the private sector, and by the contradictory nature of signals that were given. Some have delayed investment decisions while others have perceived an anti-private sector or anti-profit bias, resulting in low levels of savings, investment and capital flight.

This blunted the ability of business associations to have any coherent input into the policy process, despite their being relatively well-organised and representative of their members.

The style of macro-economic management under President Rawlings, levels of state spending, divestiture – these policy areas turned out as they did because it suited the ruling PNDC. Throughout the 1990s, those policy areas which could improve the access of the PNDC to international or local finance were privileged. As in Zambia, policy rents were secured by some compliance with the IFI's most urgent demands, such as for consultation or divestiture.[40] The NDC was clearly aware that the business community was a potential source of financial and political support, but the opposition NPP seemed to have secured the support of this constituency so the NDC resorted to more limited, patronage-based attempts to win particular support.

---

39 Aryeetey, E. (1996). Structural Adjustment and Aid in Ghana. Accra, Ghana, Friedrich Ebert Foundation.

40 Hutchful, E. (1995). "Why regimes adjust: The World Bank ponders its "star pupil"." Canadian Journal of African Studies **29**(2): 303-317.

An examination of economic policymaking in Ghana in the 1990s demonstrates two modes of interaction between business and government there: hostility or patronage. Hostility was easily secured by an identification with the liberal opposition. Patronage was more hit and miss: "Idiosyncratic factors rather [than] institutional rationality seem to be leading determinants of the access business associations have to the top echelons of policymaking."[41] If a firm were big or important enough, it could usually get an audience with the minister. Access to the president seemed to be much more idiosyncratic: family connections or long-standing friendship with either the president or his wife seemed to open sesame. By contrast, in Mauritius interactions between business and government were ongoing and thoroughly institutionalised.

Mauritius

Despite less than ideal conditions in its tourist and export markets, Mauritius enjoyed robust and steady growth over the course of the 1990s (above 5% for most of the decade). Over the course of the decade, the economy continued to move away from its former reliance on the primary sector of the economy as services became increasingly important to the GDP. [42] While the rate of growth was very even over the course of the decade The Mauritian Chamber of Commerce and Industry (MCCI) argued that, this hid

[41]

Hart, E. and E. Gyimah-Boadi (2000). "Business Associations in Ghana's Economic and Political Transition." Critical Perspectives(3).

[42] This was a continuation of decades long trends. In the late 1990s, the EPZ provided 66% of the country's exports, compared to 2% in 1970. By contrast, the share of the sugar industry had shrunk from 88% in 1970 to 18%. Tourism had grown steadily from almost nothing to provide 20% of export earnings.

a more complex story; in particular, that sources of growth and the distributional impact of growth shifted over the period.[43]

Some important and potentially damaging dependencies persisted. Within agriculture for example, a single crop – sugar - continued to dominate,[44] and exports were similarly dominated by a single category, garments and woollens. The Economist Intelligence Unit quipped that the "new economic structure of Mauritius [now] comprises not only a mono-agricultural sector but also a mono-industrial sector."[45] Likewise there was less diversification of markets than had been hoped for although there was some expansion into US markets.

In this rather different economic environment then, how much of what Mauritian business wanted did it get? (see Table 3) Here it is crucial to distinguish between the specific policy demands of specific sub-sectors.

The sugar sub-sector experienced significant reform as result of a significant restructuring led by Finance Minister Sithanen. While the taxation of the sub-sector was liberalised, there was not a similar liberalisation of the labour framework.

Tourism did not consider itself a big winner. The tourism sub-sector had long been demanding an increase in the number of airline flights to the island. By the end of the decade, there had been a little "give" on this issue from government, but not much.

---

[43] In terms of this analysis, growth between 1994 and 1996 was driven by consumption. It arose from the increases in real incomes that resulted from salary hikes. A large number of small businesses sprang up to service this demand, creating a good number of jobs. From 1997, the nature of growth shifted back to an export-led scenario driven by large firms.

[44] More than 90% of cultivated land was still under sugar. Good progress had been made on winning significant market share for profitable "special sugars" (such as demerara and muscovado) but the medium term planning of the sector assumed that the lucrative deal with the EU could be renewed indefinitely and that a depreciating rupee would further secure the sector's profitability vis-à-vis Europe.

[45] Economist Intelligence Unit (1999). E.I.U. country profile: Mauritius 1998-99. London, Economist Intelligence Unit.

Air Mauritius had increased its number of flights and government had allowed greater numbers of tourists than it had originally planned for but government remained committed to its low volume, high spending tourism strategy. The sub-sector had however won a reduction in taxes.

Manufacturing generally got its way as the table below demonstrates. What it did not win was an end to government's distinction between those who manufactured for domestic sale, and those who did so for exports.

This reflects broader developments. While business won many of the liberal macro policies that it sought, government did not even consider abandoning its broader role as manager of the economy. Government policy continued assertively to champion particular sub-sectors. While economy-wide business associations[46] opposed this, firms situated in the chosen sub-sectors had every reason to support the government in this role. Given the international trade concessions that the country has enjoyed for both sugar and for its clothing and textile sector, this is hardly surprising.

What the Mauritian private sector sought in 1990		**How they would rank what they got by 2000**
Sugar	Deregulation of the sector: Liberalisation of labour laws Reform of the tax regime Extension of "political price" for sugar	 D B+ A
Manufactured exports	Broadly liberal macro economic policies (but maintenance of access to EU markets) Greater access to credit for upgrading of equipment A more skilled workforce	B+ A B B

[46] Such as the chamber association MCCI or the Joint Economic Council

	Devaluation of the currency	B
Tourism	Reduction of taxes Policies for greater numbers of tourists	B+ C
The private sector as a whole	Broadly liberal macro economic policies End to discrimination by government across sectors of the economy	B+ C

Table 3

Crucially, many of the most important "wins" for Mauritian business were items it barely had to ask for, in particular, the continuation of the concessionary price for sugar paid by the EU, and preferential access to developed country markets for its knits and clothing exports. Under Labour's first Finance Minister, Bheenick, business was reminded that it could not take the ear of government for granted. Business was reassured by subsequent developments under his successor, Bunwaree, but throughout the decade it was evident that much of what business got, it got by favour of government or even by government initiative, rather than primarily its own.

Why Ghanaian business lost the big demand but won overall

In contrast with the previous two country studies, Mauritius' enjoys both a relatively strong developmental state and a vibrant and autonomous business community. Mauritius' particular policy outcomes can be explained by the quality of the Mauritian state. Although not free of corruption or personalistic politics,[47] the Mauritian state is

[47] The scandal that erupted over illegal purchases by the police force uner Comssioner Raj Dayal is one example of both personalism and corruption. This particular case was prosecuted because of ill-feeling between the Prime Minister and the Commissioner. Anecdotal evidence suggests that many more instances are not prosecuted with quite the same zeal.

nonetheless much closer to Johnson's (or Robert Wade's) developmental state than to the archetypal neo-patrimonial state that I outlined earlier. It has prioritised particular sub-sectors of the economy, designed programmes to develop these and carefully listened to firms within those sub-sectors.

This is somewhat surprising given the profile of business. When Mauritian business associations speak, almost invariably they represent a very particular ethnic voice viz. (white) Francophone capital – although this is truer of some sub-sectors, such as sugar and manufacturing, than others such as retail and restaurant trade. Historically the francophone community has been associated with the harsh treatment meted out to indenture Indian labour on sugar plantations earlier in the century. Given that government is dominated by the descendents of those labourers, it is no wonder that business is held at arm's length from government. As a result, the business community was not able to rely principally on kickbacks from government in order to survive.

In addition, the export orientation of the economy has forced firms to look to their own competitiveness. As a result, Mauritius has developed a range of well-institutionalised business associations, capable of taking a long-range view of the economy. All of this accounts for the ability of business and government to have serious policy discussions when out of the public eye.

Because of government's manufacturing and exports policy, the sub-sectoral divides within the business community are stronger and more evident than elsewhere. Recognising that these could weaken the economy-wide voice of business, associations have challenged this – mostly unsuccessfully. To do so, they would challenge the foundations of government's developmental approach.

The extent to which domestic business is dominated by a racial and ethnic minority is mirrored in the case of South Africa.

South Africa

By the year 2000, South Africa's recently elected black majority government, the African National Congress (ANC), had moved far from a reliance on slogans as a substitute for economic policy. The party had developed a nuanced economic position that acknowledged the policy constraints attendant on developing countries in a highly globalised economy. It had also moved beyond a blanket typecasting of (white) South African business as exploitative to a more considered position of how best the public and private sectors could work together. In his budget speech of 2000, Finance Minister Manuel acknowledged[48]

> that there are many areas of public sector responsibility in which the private sector is better placed to deliver effective services, perhaps because the dynamics of competition can be brought into play, or because technical capacity exists in the private sector or because the investment risks can be better managed this way.

Undoubtedly, economic policy in South Africa had shifted since 1990 and the economy began to respond to this shift. By the end of the decade, South Africa had begun to emerge from an extended recession (although growth rates were still lower than many had hoped). Inflation had dropped along with the budget deficit. Exports had expanded substantially although the liberalisation process cost the economy thousands of jobs.

Of the key reform areas proposed by South African business, which did it get? (See Table 4) Most agree that government delivered decisively and convincingly on

---

48 Manuel, T. (2000). " National budget speech 2000." 2001, from www.anc.org.za.

deficit targets, despite considerable strain on spending from provinces and increases in social spending. The deficit dropped steadily from 8% to 2% over the course of the decade. There was evidence of a real shift in government thinking – and behaviour - on this issue.

On privatisation, progress was more equivocal. Government moved in a very considered way. There had been a number of smaller privatisations and the telecommunications firm (TELKOM) had been restructured and commercialised but the financial press were scathing about the lack of any swifter progress in this area.

The third area, the labour framework, was probably the most important for business. Here there was, in the view of the broader business community, little positive progress; indeed many business people complained that labour legislation became increasingly restrictive over the course of the 1990s. Ironically, this was an area where business actively participated in policy negotiations. The outcome however was one that suited the interests of big business and not the broader business community

The fourth area was the liberalisation of trade and currency. Here there was a mixed verdict. Again business argued for the most part that, while there had been some lifting of exchange controls, there was much room for improvement. Government's achievements on trade liberalisation were much more positive. Trade and Industry Minister Alec Erwin is fond of arguing that South Africa has liberalised its tariffs at a rate faster than that required by the GATT and WTO.[49]

---

[49] Strictly speaking, this is true. However the real rate of trade liberalisation may be lower than it first appears. In the words of Rashad Cassim of the Trade and Industrial Policy Secretariat, "exchange rate depreciation … may have cushioned firms from the effects of tariff cuts."

What South African business wanted in the 1990s	How it would rank what it got
More conservative macroeconomic policy	A
Privatisation	B
Deregulation of the labour market*	C+
Promotion of exports; trade and currency liberalisation	B+

Table 4

Overall, the hysteria of a predominantly white, English-speaking South African business community at the start of the decade about a radically redistributionist black government had been largely assuaged and replaced with more mundane policy concerns. Business had moved from being terrified about a possibly socialist economic policy, to commending the performance of communists in the cabinet:[50]

> Surely one of the most telling [factors to be weighed up] is that the perceived failings of government since 1994 have had at least as much to do with *failures of delivery* as with any manifestations of leftist ideology. Many observers would go further and say that some of government's noted left-wingers have been among the most effective in implementing useful government programmes. … So why get so worked up about supposed policy differences?

Interview after interview with business people revealed similar sentiment.[51] The debate *had* shifted, away from early crude distinctions between state- and market-led approaches, into fine print questions of how to manage the economy.

Cassim, R. (Undated). The political economy of trade negotiations in post-apartheid South Africa. ISP workshop, Trade and Industrial Policy Secretariat.

* This "grade" of course depends on who in business is wielding the red pen. Big business would be more inclined to give government a B while small and medium-sized firms would probably want to give government a D. A high C then is probably the overall sense.

[50] For example, South African Communist Party boss, Joe Slovo, drew much praise as Minister of Housing. Parsons, R. (1999). The Mbeki inheritance: South Africa's economy 1990-2004. Johannesburg, South Africa, Ravan Press.

[51] Interviews conducted in Johannesburg, Durban and Cape Town, May and June 2001. See list of interviewees in appendix.

Why South African business won what it did

On way or another, organised business won much of what it sought by way of economic policy. Much of this was won indirectly, by the strength and responsiveness of the market-environment to policy signals from government, exercised through the effects of investor sentiment and fluctuations in the currency.

There is little doubt that the business community in South Africa is both powerful and autonomous from government. Unlike the situation in Zambia, there is very little overlap between South Africa's political and economic elites, and business in South Africa is not dependent on government for its profitability. This is the upside of autonomy. However, business is also handicapped by its ethnic profile and political past. The all-white nature of business affects its broader political legitimacy and its interactions with government.

For its part, the new South African government is largely free of neo-patrimonial behaviour although there were concerns that the ANC's sympathies for Black Economic Empowerment (BEE) could sponsor a patronage-dependent black business class as Africanisation policies had done elsewhere. Nonetheless, business recognises the importance of the BEE programme to legitimise and popularise the role of business in the broader society.

While South African business won most of what it sought because of its autonomy and strength, it is ironic that what business lost (particularly the labour framework) it lost for the same reasons: namely the dominance of the big business in its ranks (from whence its strength) and its historic ethnic and racial origins (from whence, much of its autonomy).

Business and policymaking in the 1990s, comparatively speaking

Of my four country studies then, *Zambia* most closely approximates the neo-patrimonial model outlined earlier. The Zambian business sector is tiny, weak, and excessively close to the state. Historically there have been high levels of state intervention in the economy and a high degree of state ownership of the economy. The indigenization and nationalization policies adopted post independence stripped the business community and nascent entrepreneurs of any autonomy they may have enjoyed from the state. It also stripped ethnicity out of the equation as the business community came to be defined primarily by its relationship to the ruling party, rather than by any distinctive ethnic character.

This dynamic was strengthened by business' dependence on the state. Government was a major market for the private sector and in addition controlled the prices of many major input costs for business, such as transport, communication and energy. Levels of corruption were relatively high in Zambia, implicating both the public and the private sectors. The highly neo-patrimonial nature of the state exacerbated this lack of autonomy, despite the initiation of one of Africa's most radical neo-liberal economic reform programmes by President Chiluba's government in the early 1990s. By the end of the decade, personalism had reasserted itself and the corporate voice of business had been marginalized.

Ghana is a rather more complicated study because of the divided nature of the business community. Business' historical identification with a long-standing liberal tradition within Ghana bought it some autonomy and not a little hostility from government. Government under the PNDC, however, was strongly neo-patrimonial and constantly sought to close this gap by means of particularistic connections with a stratum of the business community. (Levels of corruption in Ghana were notoriously high.)

Ghana also had a high level of state ownership of the economy and the economy was very regulated so business' dependence on government was high too. Neo-liberal reforms ostensibly sought to change this. By the 1990s, Ghana had reached its "second generation" of economic reforms. This more technically complex phase of reforms required broad social support from society (and support from business in particular) to succeed. Despite this, and despite significant pressure from the IFIs to consult business, the overall level of business' influence was unimpressive.

These two cases are in stark contrast with *Mauritius*. On the face of it, Mauritius' business community was politically handicapped by its origins in the exploitative sugar industry and by its ethnic character. For the most part, business tended to lie low and to follow the strong developmental lead of the state. Nonetheless, behind closed doors business and government co-operated extensively. The quality of governance was high and the state exhibited very low levels of neo-patrimonial behaviour.

Despite its assertive role in policymaking, direct government involvement in the Mauritian economy was moderate: There were significant levels of regulation but low levels of state ownership. There was corruption, but nothing on the scale found in Zambia and Ghana. The overall result was a moderately high level of input by business, the content of which was reasonably broad-based.

South Africa's business community is the largest and most diverse (in terms of sub-sectors of the economy) on the continent and of my four country studies. As majority rule was won in South Africa, business quickly realised that it would have to negotiate economic policy with a new political elite, one with whom it historically had a somewhat hostile relationship. This hostility was, at least in part, because of business' distinct ethnic character. Despite this unpromising start, economic policy quickly came to reflect business' broad preferences for it.

The South African state exhibited low levels of neo-patrimonial behaviour. State ownership of the economy was at a low level: The state owned the railways, the airways, electricity provision and the telecommunication sector, but this was well within the international norm.[52] From the 1960s on, the South African state did intervene in the economy at a moderate level: South Africa pursued ISI, imposed trade tariffs and exchange control mechanisms, but again, not on the scale seen in either Ghana or Zambia. As a result of the country's ethnic and racial history, the political and economic elites barely overlapped. The South African government was not regarded as highly corrupt. The apartheid state did not have a broadly democratic history but politics in South Africa has long been relatively well institutionalised. Under apartheid, the state did attempt some centralisation of political power but, within the white community, the party system and parliament remained relatively robust. Within black politics, the African National Congress, the oldest liberation movement on the continent, was also relatively well institutionalised. Overall the impact of business on economic policy was moderate. Business' impact was generally economy-wide but was undoubtedly skewed in important cases toward the interests of big business.

[52] Parastatals contribute only 7% to the economy.
Rumney, R. (2002). Give us facts, not rhetoric. Mail and Guardian. Johannesburg, South Africa.

An assessment of the broad level of influence by business qua business, summarised in Table 5, separates the studies into two broad groups, namely those with a lower level of influence (Zambia and Ghana) and those with a higher level of influence (Mauritius and South Africa).

	Level of influence	**Content of influence**
Zambia	Low	Particularistic
Ghana	Relatively low	Mixed
Mauritius	High	Export-led
South Africa	High	Market-oriented; big business bias

Table 5: Business' Influence on Economic Policymaking

Explaining business' level (and type) of influence

In Zambia and Ghana politics served to bind business closely to a state that was highly neo-patrimonial.[53] The result was a low level of business autonomy as sectors of that community were drawn into a patronage-based relationship with the state. In both countries, despite the adoption of two of the most rigorous neo-liberal reform programmes on the continent, business associations were marginal to economic policymaking. Like the broader business community, business associations were weak and divided. It was not that businesspeople were entirely without influence. Over the course of the reform programmes in both countries, a stratum of business that owed its

[53] It is not that there was no ethnic differentiation between economic and political elites in these cases but that it was significantly less important than in South Africa and Mauritius. In Zambia and to a lesser extent in Ghana, indigenization and nationalization policies post independence had made the link to the state the primary definer of business, rather than its distinct ethnicity. Ethnicity was thus not sufficiently strong to preclude patronage of a state that was bent upon this.

existence and profitability to its connections with the state emerged or was rejuvenated. These businesspeople enjoyed influence, but it was personalistic and designed to secure very particular advantage.

Ghana and Zambia
Political patronage dominates business + Neo-patrimonial state ▼ Low levels of autonomy ▼ Low level of influence; Highly particularistic input into policy

Figure 1

It is difficult to generalise about Mauritius and South Africa as they differ in important respects. They share one striking and suggestive similarity though, namely the way that ethnicity separated out their respective political and economic elites. In each case, the ethnic group that dominates the economy is distinct from that which dominated the polity. “The Mauritius state’s autonomy” for example, “is evident in the fact that its bureaucrats were not recruited from the sugar oligarchy but from the Indian and Creole middle class, and that they did not formulate close ties to the landed elite.”[54] This gave the business community room to develop apart from the state. On a continent where the dominant model is the near fusion of political and economic elites and of neo-patrimonial modes of transacting, businesspeople in these two countries were not able to rely

54

Meisenhelder, T. (1997). "The developmental state in Mauritius." The Journal of Modern African Studies **35**(2): 279-297.

principally on patronage from the state for their profit making. They were instead forced to rely on more conventional market mechanisms.

In neither South Africa nor Mauritius was the state highly neo-patrimonial. While the two states are very different from each other, they have each created a more or less market-driven context in which business operates. The conjunction of this factor and the impact of ethnicity ceded business crucially higher levels of autonomy. The result? In both countries, business has had a significant impact on policymaking. The content of that influence generally has been economy-wide, although in each case there was a bias toward certain sub-sectors.[55]

Mauritius and South Africa
Ethnicity separates out business + Low levels of neo-patrimonialism in the state ▼ Higher levels of autonomy ▼ Relatively higher level of input; Economy-wide set of policy positions

Figure 2

A close examination of political differences among all four countries reinforces this general framework. In Mauritius and South Africa, the legislatures and party systems were undoubtedly important in policymaking, demonstrating the more institutionalised

[55] Note that the bias is toward sub-sectors, rather than to particular firms or individuals.

nature of these states. By contrast, in Zambia and Ghana, policy was almost exclusively the purview of the executive and those he[56] appoints. Again, in Ghana and Zambia, the IFIs were important in policymaking, and the rents that they could promise to political elites were extremely influential in shaping policy outcomes. While in Ghana the IFIs sought to promote the voice of the private sector, the effect of other of their policies was sometimes in the opposite direction. Jon Kraus, for example, describes how in Ghana World Bank policies "imposed highly restrictive credit ceilings which denied capital to the indigenous private sector, the Bank's 'engine of growth', while extending limitless loans to government."[57] South Africa and Mauritius by contrast were far less indebted and hence less amenable to instruction from the IFIs.

Business' character and political behaviour differs sharply between the two groups, but it differs within these groups too. In Zambia, the impact of the neo-patrimonial state was most marked on business. Here it was very difficult for businesspeople to openly support an opposition party and few did. In Ghana, while it was still difficult, many did so at great cost. In South Africa and Mauritius, financial support by businesses of political parties was far less consequential for firms' ability to do business. While in both countries there was generally a party that was more closely identified with business, individual firms supported a range of parties.

Ghana: Contingent capitalists?

---

[56] Historically it has always been a "he."

[57] Kraus, J. (2002). "Capital, power and business associations in the African political economy: a tale of two countries, Ghana and Nigeria." The Journal of Modern African Studies **40**(3): 395-436.

If one looks at Ghana's state, the country most closely resembles a neo-patrimonial model. If anything, Ghana's government is even more highly neo-patrimonial than that of Zambia. The picture changes however if one chooses to look instead at Ghana's business community. Both business' ethnic origins and its traditional liberal (oppositional) political loyalties push it away from the state. Ultimately, however, the Ghanaian state succeeded in pulling a section of the business community into a patronage-based relationship. Ghana's outcome looked similar to that of Zambia. How autonomous – and capitalist (rather than neo-patrimonial) – business is, then, depends on the state. Businesspeople may be "contingent capitalists."[58]

The case of Ghana demonstrates that in such a case, it is the neo-patrimonialism of the state that trumps, given the weakness in that country of the business community and of broader democratic processes. While much of the business community sought to defend its limited autonomy from the state, this was undermined by a series of economic policies post-independence that sought to involve the state ever more closely in running the economy. In addition, the weakness of the business community (reflecting more broadly the weakness of the economy) meant that business was not in a position to demand anything of government. With the infusion of capital that came from the IFIs, government continued to hold the upper hand. Sections of the business community then succumbed to the neo-patrimonial lure of the state.

When bad ethnic relations make good political economy

[58] This usage is derived from Eva Bellin's phrase "contingent democrats," used to describe how business' political preferences change in response to the nature and behaviour of the state. Cf.
Bellin, E. (2000). "Contingent democrats: Industrialists, labor, and democratization in late-developing countries." World Politics **52**: 175-205. I am suggesting that business'economic behaviour and preferences similarly depend on the nature and behaviour of the state.

South Africa and Mauritius suggest that a strong dose of ethnic differentiation and even hostility in the right place might have a beneficial economic policymaking outcome. This runs counter to the conventional wisdom of new institutional economists who argue that ethnic diversity is correlated with poor economic outcomes.[59] This literature is both intuitively appealing and strongly borne out by a large-*n* regression analysis, both for Africa and more broadly. The argument, however, fails to engage a number of questions crucial to the overall relationship between ethnic diversity and economic outcomes. First, while it considers a broad measure of ethno-linguistic diversity (ELD)[60] it does not consider a more finely calibrated measure of what this means for the power or influence of each respective group. Ratios and the weight of numbers matter here. It might be that the crucial element to consider is not the simple number of ethno-linguistic groups, but the ability of a single group or likely coalition of groups to dominate political power. This brings me to a second point, more pertinent to my argument. The ELD score throws very little light, in and of itself, on how power (both political and economic) is parcelled out. What is crucial in Mauritius and South Africa is not simply that the ethno-linguistic group that dominates the economy is one of four or eleven ethnic groups respectively. Rather what matters is whether the group that dominates the economy is different from and historically in opposition to the group that dominates the polity. All of my cases are ethnically diverse, but they differ substantially in terms of this dimension.

---

[59] See most especially
Easterly, W. and R. Levine (1997). "Africa's growth tragedy: policies and ethnic divisions." The Quarterly Journal of Economics **112**(4): 1203-1250. That ethnic diversity is correlated with ethnic conflict is also a common assumption in political science literature. For one of the most recent examples of this argument applied to ethnic minorities in the business community, see
Chua, A. (2003). World on fire: how exporting free market democracy breeds ethnic hatred and global instability. New York; London, Doubleday.
[60] Calculated as a figure between 1and 0 that indicates the likelihood that any two randomly selected members of a population will come from different ethno-linguistic groups.

Contributions to Theory

Rethinking "embedded autonomy"

The issues presented by these four cases speak to the debate about the optimal relationship between business and government and in this sense continue the discussion Peter Evans began about the embedded autonomy balance. Peter Katzenstein argues the centrality of "state-centred" policy networks to economic success in France and Japan[61] but my cases demonstrate that the success of such networks depends crucially on *what kind of state* one has. The state dominates policy networks in both Mauritius and Ghana, but with very different outcomes in each of these two cases. Likewise, there is a low level of autonomy between business and government in South East Asia but a very different kind of state to that which predominates in much of Africa, again with very different consequences. My country studies demonstrate that we must consider not just the level of autonomy (that is, the degree of embeddedness or autonomy) but also the kind of state in question (and hence the dominant form of political and economic organisation).

The key question is not whether there is any interaction or overlap between business and government. Inevitably there is some, even in liberal, highly industrialised economies. The real question is the quality of the state and the nature of that interaction. Here it is vital to distinguish between the fertile ground of embedded autonomy and the developmental bog of neo-patrimonial fusion. Weber suggests one means: he advises us to look at the quality of the state and hence at the nature of the market that results. For

---

61

Katzenstein, P. J. (1978). Between power and plenty: foreign economic policies of advanced industrial states. Madison, University of Wisconsin Press.

Weber, "*capitalism* and *bureaucracy* have found each other and belong intimately together."[62] This suggests that we should look again at the kind of market relations that emerge in the absence of Weberian bureaucracy. An understanding of the state takes us barely half way. We need to understand more fully the nature of the market, of the brand of "capitalism" that we are dealing with.

Neo-patrimonialism: Not just about the state

In this sense then, neo-patrimonialism is not just about the state. It has consequences too for business. In much of Africa, the business community does not look or behave as might be predicted by the neo-classical textbooks because the context that shapes the incentives that those firms face is far from a free market.

Mark Granovetter's argument on "embeddedness" places economic institutions (such as firms and markets) firmly within a social context.[63] In a rebuttal of both under- and over-socialised conceptions of economic life, the embeddedness argument "stresses instead the role of concrete personal relations and structures (or 'networks') of such relations in generating trust and discouraging malfeasance." As Granovetter points out, the opposite may be true too. Certain structures and personal relations may undermine trust and encourage malfeasance in the economic sphere. He continues, "both order and disorder, honesty and malfeasance have more to do with the structure of such relations

[62] Quoted in
Evans, P. B. (1995). Embedded autonomy: states and industrial transformation. Princeton, N.J., Princeton University Press.

[63] Granovetter, M. (1985). "Economic action and social structure: The problem of embeddedness." American Journal of Sociology **91**(3).

than they do with organisational form." Thus, "long term relations … generate standards of expected behaviour."[64]

This suggests that neo-patrimonial networks are likely to shape African markets, enterprises and entrepreneurs in distinctive ways. This is the case in Zambia and Ghana where state-based networks systematically engendered personalism, patronage, and corruption in the "private" sector too. Granovetter points out that "the anonymous market of neoclassical models is virtually nonexistent in economic life and that transactions of all kinds are rife with … social connections."[65] This is particularly true in much of Africa because of the dearth of private sector autonomy.

To argue that the market is mediated by the state is not novel. A distinguished line of thinkers that includes Polanyi, Gerschenkron, and Hirschman has long argued that the state is deeply implicated in the business of capitalist economic development.[66] We understand that ultimately all capitalism is political capitalism, but the generality of this assertion obscures as much as it reveals. The term "political capitalism" can encompass a wide range of business-government interactions and a multiplicity of states, from the felicitous developmental state, to varieties of corporatism, to the stranglehold of the neo-patrimonial state.

How are we to distinguish among these forms of "political capitalism"? In the same way that Evans developed a typology of the state's interaction with the market, we

---

64 Ibid.

65 Ibid.

66 Polanyi, K. (1944). The great transformation. Boston, Beacon Press,
Hirschman, A. O. (1961). The strategy of economic development. New Haven, Yale University Press,
Gerschenkron, A. (1962). Economic backwardness in historical perspective, a book of essays. Cambridge, USA, Belknap Press of Harvard University Press.

need a typology of the market's interaction with the state. This task should begin with a better understanding of the state. How power is distributed between state and market is important too, and ethnic identifications may play a crucial role here.

Ethnicity and the character of the business community

My country studies demonstrate that the ability of a business community to influence policy has less to do with the asset base or product cycle of that community and more to do with the way in which ethnicised identities do (or do not) shape the autonomy of that community.

There are obvious dangers in extrapolating the implications of this finding on ethnicity too widely or carelessly. We know that ethnic hostility can all too easily tip into devastating social conflict as it has, on occasion, in both South Africa and Mauritius. One need only think also of the expulsion of Asian traders from a number of African countries to be reminded of the potential costs to an economically dominant − but in every other respect weak – ethnic minority. Nonetheless, it is clear from my case studies that ethnicity in Mauritius and South Africa historically has served as a crucial political mechanism to drive a wedge between the political and the economic, restricting access to patronage and permitting the emergence of a healthier, more robust strain of capitalism. Of course, it is entirely conceivable that other, less destructive mechanisms could perform the same function as well, if not better. The Ghana case offers some clues in this regard. Here, one can argue that at least sections of the business community are ethnically distinct, but this is much more limited than in Mauritius and South Africa. Instead in Ghana, it is business' political allegiances that more obviously separated it from successive populist governments. On the face of it, this would present a more “liberal” alternative separation mechanism. The highly neo-patrimonial nature of the Ghanaian state does not offer much optimism that politically generated autonomy is sufficiently robust, but Ghana at least suggests the possibility of other, perhaps less volatile mechanisms.

Because it resembles South Africa so closely, Zimbabwe might be presented as a counter to that country’s experience, as an example of the obvious dangers of ethnic hostility. The comparison is an important one. Both countries had a “vocal, sophisticated, and diversified economic elite, which was predominantly white, and whose interests potentially conflicted with those of the newly enfranchised majority.”[67] However, I will argue that after majority rule in Zimbabwe in 1980, the state rapidly acquired neo-patrimonial instincts and that that imperative ultimately overrode business’ historical autonomy.

Because of the relative strength and diversity of the white private sectors in both Zimbabwe and South Africa, after the first democratic election that brought a majority black government to power, “it was easy for economic elites to play on fears that falling production would follow too rapid redistribution. … The potential for white flight … was probably decisive in limiting the changes made after independence. … The complexity of the economy, which was relatively developed by African standards, made it vulnerable to a loss of white confidence.”[68] In Zimbabwe after 1980, this worked for some time to

[67] This was the case in Zimbabwe as it would be later in South Africa too.
Jenkins, C. (1997). "The politics of economic policy-making in Zimbabwe." The Journal of Modern African Studies **35**(4): 575-602.
[68]
Ibid.

restrain the state from appropriating economic assets. Business and government seemed to cohabit quite harmlessly for a time, but this began to change.

After majority rule and the entrenchment of the ruling party in power, a state-based black elite developed rapidly, many of whom moved into the formerly white suburbs and began to identify with these lifestyles. What occurred then was the by-now familiar story of an elite, based in the state, that comes to occupy significant strata of economic power, and to wield political power in their own interests. "Increasingly the interests of the old white and new black elites began to converge. This had at least two consequences: it underlined their interdependence, further strengthening the position of whites, and it undermined the will to redistribute resources to lower-income groups."[69] The interests of the tiny white business community came to be associated with those of the political elite, rather than with the economic fortunes of the country more broadly.

During the 1990s, the Zimbabwean state grew increasingly corrupt and undemocratic. Power was increasingly personalised around the president and his wife, and Zimbabwe began to look more and more neo-patrimonial. The business community's ethnic makeup in this new context now made it vulnerable to populist harangues and worse. In addition, because the interests of the business community had come to be aligned with those of the political elite rather than with a broader constituency, the business community (and the white population generally) has proven extremely vulnerable.[70]

---

69 Ibid.

70 It should be noted that both the business community and the white population in Zimbabwe were far smaller than their counterparts in South Africa. Whites in Zimbabwe comprise about 1% of the overall population. In South Africa, whites make up around 15% of the overall population.

The case of Zimbabwe demonstrates at least two things. First, it points to obvious dangers for a structurally weak, ethnically distinct economic elite. While ethnicity historically may have functioned to carve out an independent sphere for business in Zimbabwe, there is no guarantee that it can safeguard that sphere indefinitely. What is vital here is the ability of business to bolster its power. This may be done politically (either by developing alliances with other ethnic groups or − preferably − by coming to be identified with the broader social good). Business elites could also achieve economic power sufficient that to threaten business would do immediate, obvious and significant harm to the functioning of the broader economy. Of course, even these safeguards are insufficient in the face of a radically neo-patrimonial state. Zimbabwe does not refute my argument for South Africa. Indeed, it bolsters my assertion of the dangers inherent in a fusion of the narrow interest of political and economic elites. What the Zimbabwe case does do however is to signal how fragile the autonomy of a business community may be, and the real dangers posed by a slide toward neo-patrimonialism.

Conclusion

Leys poses what is, for me, the stark, central dilemma:[71]

> The question that most needs to be asked is: How far has the class that has the greatest interest in surmounting and resolving the problems confronting capitalist development in Kenya [or elsewhere in Africa] identified these problems or shown itself able to tackle them?

He refers, of course, to the business sector.

It may be that the answer to this question is at once bleaker and more hopeful than we commonly perceive. The state versus market debate may leave Africanists feeling

71 Schatz, S. P. (1977). Nigerian capitalism. Berkeley, University of California Press.

hopeless, for the truth is that both the state and the market in Africa are severely flawed. Neither the state nor the market in Africa resembles the classical models closely. In addition, business in African is often plagued by an unhealthily close relationship with the state, by a dearth of autonomy. The good news may be that this tendency is not unique to Africa. In Asia, Latin America, the former Soviet Union and even in the advanced countries of the OECD, the relationship between political and economic actors is made up of two-way traffic. Complete independence is not necessarily the best condition for cultivating a developmental project. While Africa represents the extreme end of an autonomy continuum, a low level of state-society autonomy is not unknown.

In addition, as my country studies will demonstrate, there is nothing inevitable about the fusion of economic and political elites. Certainly not all African businesspeople are in bed with the state. A significant number of African entrepreneurs closely resemble Schumpeter's avatars. They work very hard, in a testing environment, to run their businesses with integrity and ingenuity in a way that is not dependent on the state. Further, not all African states are unremittingly neo-patrimonial. My four country studies display significant variation at the level of both state and society. Despite what I will argue about the preponderance of the state's logic and institutions, we are well advised not to overestimate the power and reach of the state. The African state is not strong in the sense that it is developmentally or technically effective. In terms of the standards of Weberian legal rationality the state is often weak. Yet, in many African countries, this state has successfully extended a neo-patrimonial logic to economic processes in society. The tragedy is that society and the business sector outside that state sector have all too often been susceptible to that logic. The challenge then remains one of how to build a more competent and responsive state.

References

(1994). The State of the Ghanaian Economy in 1993. Legon, Ghana, Institute of Statistical Social and Economic Research, University of Ghana.

(2000). The State of the Ghanaian Economy in 1999. Legon, Ghana, Institute of Statistical Social and Economic Research, University of Ghana.

Anonymous (2000). Lusaka, Zambia.

Anonymous (2002). Lusaka, Zambia.

Apea, S. K. (2001). Senior Fellow, Institute of Economic Affairs; formerly Deputy Governor of the Bank of Ghana, Deputy Secretary of the P.N.D.C. and Special Advisor to the Ministry of Finance (N.D.C.). Accra, Ghana.

Aryeetey, E. (1996). Structural Adjustment and Aid in Ghana. Accra, Ghana, Friedrich Ebert Foundation.

Bates, R. H. (1981). Markets and states in tropical Africa: the political basis of agricultural policies. Berkeley, California, University of California Press.

Bauer, P. T. (1967). West African trade. New York, Augustus M Kelley.

Bellin, E. (2000). "Contingent democrats: Industrialists, labor, and democratization in late-developing countries." World Politics 52: 175-205.

Boone, C. (1992). Merchant capital and the roots of state power in Senegal, 1930-1985. Cambridge England; New York, Cambridge University Press.

Bull, T. (2000). Businessman and analyst; owner of Garden House Hotels. Lusaka, Zambia.

Cassim, R. (Undated). The political economy of trade negotiations in post-apartheid South Africa. ISP workshop, Trade and Industrial Policy Secretariat.

Chua, A. (2003). World on fire: how exporting free market democracy breeds ethnic hatred and global instability. New York; London, Doubleday.

Easterly, W. and R. Levine (1997). "Africa's growth tragedy: policies and ethnic divisions." The Quarterly Journal of Economics 112(4): 1203-1250.

Economist Intelligence Unit (1999). E.I.U. country profile: Mauritius 1998-99. London, Economist Intelligence Unit.

Evans, P. B. (1995). Embedded autonomy: states and industrial transformation. Princeton, N.J., Princeton University Press.

Gann, L. H. and P. Duignan (1968). Burden of empire: An appraisal of Western colonialism in Africa south of the Sahara. London, Pall Mall.

Gerschenkron, A. (1962). Economic backwardness in historical perspective, a book of essays. Cambridge, USA, Belknap Press of Harvard University Press.

Geschiere, P. (1985). Imposing capitalist domination through the state: The multifarious role of the colonial state in Africa. Old modes of production and capitalist encroachment: Anthropological explorations of Africa. W. van Binsbergen and P. Geshiere. London, KPI Ltd.

Granovetter, M. (1985). "Economic action and social structure: The problem of embeddedness." American Journal of Sociology 91(3).

Hart, E. and E. Gyimah-Boadi (2000). "Business Associations in Ghana's Economic and Political Transition." Critical Perspectives(3).
Herbst, J. (2000). States and power in Africa. Princeton, New Jersey, Princeton University Press.
Hirschman, A. O. (1961). The strategy of economic development. New Haven, Yale University Press.
Hutchful, E. (1995). "Why regimes adjust: The World Bank ponders its "star pupil"." Canadian Journal of African Studies 29(2): 303-317.
Jenkins, C. (1997). "The politics of economic policy-making in Zimbabwe." The Journal of Modern African Studies 35(4): 575-602.
Johnson, C. (1995). Japan, who governs? The rise of the developmental state. New York, WW Norton and Co.
Katzenstein, P. J. (1978). Between power and plenty: foreign economic policies of advanced industrial states. Madison, University of Wisconsin Press.
Kraus, J. (2002). "Capital, power and business associations in the African political economy: a tale of two countries, Ghana and Nigeria." The Journal of Modern African Studies 40(3): 395-436.
Lubeck, P. M. (1987). The African bourgeoisie: Capitalist development in Nigeria, Kenya and the Ivory Coast. Colorado, USA, Lynne Rienner Publishers.
Manuel, T. (2000). " National budget speech 2000." 2001, from www.anc.org.za.
Mclane, M. (1991). Railways and "development imperialism" in French West Africa before 1914. Annual meeting of the Western Society for French History.
Meisenhelder, T. (1997). "The developmental state in Mauritius." The Journal of Modern African Studies 35(2): 279-297.
O Donnell, M. (2002). President of Zambian Association of Manufacturers. Lusaka, Zambia.
Overton, J. (1987). "The colonial state and spatial differentiation: Kenya, 1895-1920." Journal of Historical Geography 13(3): 267-282.
Parsons, R. (1999). The Mbeki inheritance: South Africa's economy 1990-2004. Johannesburg, South Africa, Ravan Press.
Phillips, A. (1989). The enigma of colonialism: British policy in West Africa. London, James Currey.
Polanyi, K. (1944). The great transformation. Boston, Beacon Press.
Rumney, R. (2002). Give us facts, not rhetoric. Mail and Guardian. Johannesburg, South Africa.
Schatz, S. P. (1977). Nigerian capitalism. Berkeley, University of California Press.
van de Walle, N. (2001). African Economies and the Politics of Permanent Crisis 1979-1999. Cambridge, UK, Cambridge University Press.
Wetzel, D. (2000). Promises and Pitfalls in Public Expenditure. Economic Reforms in Ghana: The Miracle and the Mirage. E. Aryeetey, J. Harrigan and M. Nissanke. Oxford, James Currey.
Woods, T. (1989). "The myth of the capitalist class: Unofficial sources and political economy in colonial Malawi, 1895 - 1924." History in Africa 16: 363 - 373.
Younger, S. (1992). "Aid and the Dutch Disease: Macroeconomic Management When Everybody Loves You." World Development 20(11).