BUSINESS AND ECONOMIC POLICYMAKING:

A STUDY OF FOUR AFRICAN CASES

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A DISSERTATION
PRESENTED TO THE FACULTY
OF PRINCETON UNIVERSITY
IN CANDIDACY FOR THE DEGREE
OF DOCTOR OF PHILOSOPHY

RECOMMENDED FOR ACCEPTANCE
BY THE DEPARTMENT OF
POLITICAL SCIENCE

June 2003

UMI Number: 3080847

ProQuest Information and Learning Company
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ABSTRACT

Why does the influence of business on economic policy making vary across countries? This study examines four African countries (Zambia, Ghana, Mauritius, and South Africa) focusing on the reforms of the 1990s. For these cases, two variables are crucial: first, the extent to which the state is neo-patrimonial and second, the ethnic character of business (in particular the extent to which this is distinct from that of the state). The significance of these two variables lies in their effect on the overall level of autonomy that business enjoys vis-à-vis the state.

African political economies are often characterised by a fusion of neo-patrimonial political and economic elites. In such a situation, economic policy is made in the interests of this small circle of overlapping elites. What become crucial then are factors that can increase the autonomy that business as a whole enjoys from government, and boost business' ability to secure its corporate interests.

The country studies split into two groups. In the first group (Zambia and Ghana), ethnicity played very little role in distinguishing the economic elite from the political elite. Instead for much of the business community, the ability to make a profit depended on clientelistic connections to a neo-patrimonial state. The consequent low level of autonomy meant that business was able to exercise very little corporate influence on economic policymaking and, where it did have influence, that influence was personalistic

The second group comprises Mauritius and South Africa. These countries share two striking features. In both, the business community is dominated by an ethnic minority that has a difficult relationship with the ethnic majority that controls

political power. Additionally, in both cases the state exhibits relatively low levels of neo-patrimonial behaviour. These two features serve to preserve a relatively autonomous sphere of incentives and social organisation for the business community. Here business has a much higher level of influence on economic policymaking. The content of that policy is also likely to better represent the broader corporate interests of the private sector.

ACKNOWLEDGEMENTS

In writing this dissertation I received valuable assistance from many sources. I gratefully acknowledge funding received from the Centre of International Studies (Princeton University), Council for Regional Studies (Princeton University), Fulbright Commission, Institute for the Study of World Politics, Irving Horowitz Foundation, Princeton University Graduate School, the South Africa Foundation, the Bradlow Fellowship of the South African Institute of International Affairs, Virginia Day Scholarship and the Woodrow Wilson Society of Fellows.

While this funding made my fieldwork possible, a large number of people contributed to making the fieldwork valuable. In addition to all those who answered my questions so patiently (many of whom are listed in Appendix A at the end of this dissertation), I would like to specifically thank a number of colleagues and friends. In Zambia: the library staff at the University of Zambia, Africana section and the Institute of Social and Economic Research as well as the late Theo Bull, David Gordon, Spencer Rahman, Guy Scott and Bhizima Phiri. In Ghana: the library staff at the University of Legon and at the National Archives, and James Akpo, Kathy Bunka, Earl Ofori-Atta, and Naunihal Singh. In South Africa: the staff of the Cullinan Library, University of the Witwatersrand, and the South African Institute of International Affairs, and Francis Antonie, Judi Hudson, Greg Mills and Neil van Heerden. In Mauritius: the library staff at the University of Mauritius and Sigrid Adriaenssens, Charles, Girindre Beeharry, and Hannah Green.

To Amanda, Giulio, Jenny and Josh, thank you all four, for your love, levity and wit. In addition, grateful thanks to Greg Mills, who urged me to look again at business-government relations in Africa, and to Jeff Herbst, for being a great friend and the best advisor a student could ask for.

ABBREVIATIONS

AAC	Anglo American Corporation
AGI	Association of Ghana Industries
AHRIM	Association of Hotels and Restaurants in Mauritius
ANC	African National Congress
BAF	Business Assistance Fund
BOZ	(Central) Bank of Zambia
CBM	Consultative Business Movement
CEO	Chief Executive Officer
CIBA	Council of Independent Business Associations
CPP	Congress People's Party
EAZ	Economics Association of Zambia
EC	European Community
ERC	Economic Review Committee
ERP	Economic Recovery Programme
EPZ	Export Processing Zone
EU	European Union
FAGE	Federation of Associations of Ghanaian Exporters
GEA	Ghana Employers' Association
GNCC/I	Ghana National Chamber of Commerce / and Industry
GNPC	Ghana National Petroleum Company
INDECO	Industrial Development Corporation
ISI	Import Substitution Industrialisation
JEC	Joint Economic Council
MCCI	Mauritius Chamber of Commerce and Industry
MD	Managing Director
MEF	Mauritius Employers Federation
MMD	Movement for Multi Party Democracy
MMM	Mouvement Militant Mauricien
MSM	Mouvement Socialiste Militant
MSPA	Mauritius Sugar Producers Association

MP	Member of Parliament
NDC	National Democratic Congress
NP	National Party
NPP	New Patriotic Party
PEF	Private Enterprise Foundation
PMSD	Parti Mauricien Social Democrate
PMXD	Parti Mauricien Xavier Duval
PNDC	Provisional National Defence Council
PSAG	Private Sector Advisory Group
SAP	Structural Adjustment Programme
SIT	Sugar Investment Trust
SOE	State Owned Enterprises
TUC	Trades Union Congress
UDF	United Democratic Front
UGCC	United Gold Coast Convention
UNIP	United National Independence Party
ZACCI	Zambia Association of Chambers of Commerce and Industry
ZAM	Zambian Association of Manufacturers
ZCCM	Zambia Consolidated Copper Mines
ZESCO	Zambian Electricity Supply Commission
ZIC	Zambian Investment Centre
ZIMCO	Zambian Industrial and Mining Corporation
ZNFU	Zambian National Farmers Union
ZPA	Zambian Privatisation Agency

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CHAPTER 1

THE AFRICAN BUSINESS SECTOR AND AFRICAN DEVELOPMENT

> It now seems to me less important that the domestic bourgeoisie should be efficient – technically, financially or otherwise – as capitalists, as individual accumulators, than they should be competent politically as a class: that they should, as a class, recognise the requirements of capital accumulation for capital as a whole and be able to see to it that these requirements are met.
>
> Colin Leys[1]

Introduction

In the comparative study of development, sub-Saharan Africa[2] is widely regarded as a failure. Moreover, this developmental failure is widely attributed to the weaknesses and failure of the state. These views direct us to the possibility that the private sector might play a more constructive role in promoting development on the continent. Such hopes are entertained in a variety of circles – among scholars, among Africa elites, and in the international financial and policy circles. They vest in a belief that an autonomous private sector is emerging or could emerge, and that this could herald a brighter future.

As most students of Africa also recognise however, business communities in Africa are frequently state-dependent and intimately connected with the neo-patrimonial[3] politics that accounts for much of this failed development. A broad question thus emerges: What are the prospects that the African private sector might play a constructive role in the long-run development of the region's economies? This

[1] Colin Leys, "Learning from the Kenya Debate," in *Political Development and the New Realism in Sub-Saharan Africa*, ed. David E Apter and Carl G Rosberg (Charlottesville: University Press of Virginia, 1994), 230.
[2] In this dissertation I will generally use "Africa" as short-hand for "sub-Saharan Africa."
[3] A neo-patrimonial state is one that outwardly conforms to some of the formal requirements of the Weberian rational state but in practice is driven not by bureaucratic procedures but by

dissertation investigates this issue by focusing on the contribution of business to economic policymaking in four varied African countries. Specifically, the question I seek to answer in this dissertation is: Why does the contribution of the business sector to economic policy differ, both in level and content, across countries? I examine this question in detail as applied to four African countries (Zambia, Ghana, Mauritius, and South Africa) during the 1990s, a crucial reform period.

The ability of business sectors to shape economic policy and the long-term prospects for development depends on the level of autonomy that business enjoys from government. By this autonomy I mean the capacity of business to define itself independent of the state and to organise in a cohesive manner to engage the state. This autonomy, in turn, can be shaped by a range of potential factors. My case studies point to two in particular. First, the autonomy of business is a function of how neo-patrimonial the state is. Second, business' autonomy may be a function of its ethnic character. More precisely stated, my country cases suggest that if the ethnicity of the business class differs from that of the political class, this can serve to separate out a country's political and economic elites (and their respective modes of social organisation) and thereby shape the overall degree of autonomy that exists between the business and government.

Comparatively Speaking: The Literature on Business and Government

This study forms part of a broader two-part enquiry in comparative politics into the ability of government and business, working together, to develop productive

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clientelist and patron-based relations. Cf. Bratton and van de Walle (1994) "Neopatrimonial Regimes and Political Transitions in Africa" in *World Politics*.

economic policies. The first part of this enquiry concerns the notion of "embedded autonomy," that is, what is the optimal relationship between state and society? Furthermore, how does the degree of autonomy between these two actors affect prospects for development in developing countries? Answers to these questions require some knowledge of the particular nature of the state and society (or sectors of the society, such as business) in each case. This investigation will proceed by examining four country cases in more detail.

In this sense then, this dissertation engages Peter Evans and, in particular, his notion of embedded autonomy. In the book by the same name, Evans argues that an optimal mixture of autonomy (from particularistic interests in society) and embeddedness (in the needs and specificities of industry) has allowed East Asian states to pursue successfully economic growth and industrial development. He examines Japan and the East Asian Tigers, cases that demonstrate the "indispensability of informal networks... to the *state's* functioning."[4] By contrast, I consider four African cases, and the indispensability of informal networks to the *market's* functioning. While he focuses on the state in the state-society interaction, I focus on business. My work is not a critique of Evans; rather, I take a closer look at the underplayed second half of his "embedded autonomy" equation.

The second part of the enquiry flows from the first: What is the nature of the business sector? What role is it equipped to play in establishing the political preconditions for successful capitalist development?

[4] Peter Evans, *Embedded Autonomy* (Princeton, New Jersey: Princeton University Press, 1995), 49. Italics mine.

The current literature on Africa is ill equipped to answer this question. Economic development is frequently regarded as a two-player game. Pundits usually back one of two players, the state or the market. An early generation of developmental theorists argued that in the Third World in general and in Africa in particular, the markets on their own were insufficient to accelerate development because of a low level of industrialisation relative to that of the rest of the world. The state would therefore have to substitute for an imperfect market. This championing of the state had at least two consequences: a burgeoning literature on the Third World (and African) state and a bewildering variety of state-based development strategies. The "governed market" was a strategy that worked relatively well in East Asia where there was a very particular kind of state.[5] The strategy was, however, a resounding failure in Africa and gave rise to soul-searching about the capacity of the African state to lead development. A number of respected observers of Africa subsequently argued that the African state is flawed in numerous ways and hence unable to fulfil its developmental role on the continent.[6] Accordingly, some pundits opted to back the market instead.

In the 1980s neo-liberals, for example, 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

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[5] Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, New Jersey: Princeton University Press, 1990).
[6] For example Robert H Bates, *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies* (Berkeley, California: University of California Press, 1981), Richard Sandbrook and Judith Barker, *The Politics of Africa's Economic Stagnation* (Cambridge, UK: Cambridge University Press, 1985).

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 toward the business sector's capacity to play the necessary role.

In an authoritative report, the World Bank coined a pithy characterisation of the African business sector as the "missing middle."[7] The gist of the Bank's argument was that, between the informal sector on the one hand and large multinationals on the other, the modern small- and medium-scale enterprises that usually make up an indigenous business sector were strikingly absent in Africa. The designation has stuck because it captures two essential truths about the African business sector. First, it is "missing" in the sense that it is weak and small and, on the face of it, barely resembles business sectors elsewhere. But business is also missing in a second sense: Africa's private sector is relatively understudied in the academic literature, particularly when one considers its supposed centrality to economic development. The bitter but largely unresolved battle over Kenya's indigenous capitalist class in the 1970s aside, the subject is also under-theorised.

We would do well to assume that there is nothing automatically pro-reform (or even pro-market) about the business sector. African businesses, like their Latin American and East Asian counterparts, may be important supporters of, or obstacles to, attempts to restructure the broad outlines of an economy. Their positions on reform may be determined by the overall nature of their relationship with the state or by the specific policy preferences of different sub-sectors of the private sector. Whatever the case, it is vital to develop a better understanding of the political nature

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[7] World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth* (Washington D.C.: World Bank, 1989).

of the business sector and the consequences of that nature for economic policy — precisely the task of this dissertation. What does the existing literature suggest about business' impact on economic policy?

Two broad sets of writing inform our analysis of the relationship between business and government on matters of economic policies: those drawing on the Marxist tradition that focus on underlying structural developments in the economy and those drawing on the Weberian tradition that focus on the state (including political developments and the impact of regime change).

Strictures and structures: How the economy shapes business

For those writing within a broadly Marxist tradition, policy debates reflect broader developments in the economy (the structural basis of business). On the face of it, the overall level of economic development – and consequently the relative size and strength of the private sector – would seem to be an obvious explanation for the ability of business to shape economic policy. This, it might be argued, would account for the higher levels of business influence in Mauritius and South Africa than in Ghana and Zambia. However, it should be borne in mind that the jostling over economic power on which this dissertation focuses is *relational*. The strength and capacity of the business sector has to be seen in relation to that of the state. While business in, say South Africa, may be relatively strong, well-institutionalised and coherent, so too is the South African state. There is thus nothing foreordained about how a tussle between these two actors would be resolved. Business and the state should therefore be judged in relation to each other.

A rather more convincing approach is to be found in the cluster of arguments made about factor or sub-sectoral endowments:[8] The political behaviour and preferences of the private sector (and the state), it is argued, are dependent on which economic sub-sector dominates the economy. The political economy of states that are reliant on mining, for example, will look very different to a country that has a well-diversified manufacturing base. These scholars argue that if we wish to understand how business will attempt to shape policy, we need look only to which sub-sectors dominate the economy. While I find some evidence that such features as asset base can shape the character of the business community, I conclude that ultimately the state drives the organisation and shapes the nature of the private sector.

Another group of writers maintains this focus on the economic sphere but instead of examining underlying structural constraints, considers business' capacity to organise itself. Much of this work is focused on the organisational or institutional details of business associations. For example, Brautigam et al. argue that three characteristics of business associations will determine their capacity to build a "growth coalition": "the capacity of groups to credibly engage the state in technical policy discussion; the size, composition, and resources of the group; and their access to selective, non-public benefits that are linked to performance."[9]

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[8] See Jeffrey A. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America 1965 - 1985* (Princeton: Princeton University Press, 1991), Terry Lynn Karl, *The Paradox of Plenty : Oil Booms and Petro-States, Studies in International Political Economy ; 26* (Berkeley, California: University of California Press, 1997), Michael D Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States* (Ithaca, USA: Cornell University Press, 1994).

[9] Deborah Brautigam, Lise Rakner, and Scott Duncan Taylor, "Business Association and Growth Coalitions in Sub-Saharan Africa," *The Journal of Modern African Studies* 40, no. 4 (2002): 522.

A related set of writers focuses on the question of what organisational form business associations take. Whether business associations can fulfil their half of the developmental compact may have to do, they argue, with how comprehensively these associations represent a range of businesses across all sectors of the economy. Durand and Silva, for example, look to the transformation of business toward "encompassing" business associations (EBAs). The studies in their book suggest that "EBAs more than any other form of business organisation played a significant role in raising and publicly articulating demands for market-oriented policies."[10] Business' power and autonomy vis-à-vis government depends, they argue, on its ability to unite across the private sector.

Broader associations tend to have better outcomes because they force an economy-wide aggregation of interests. This can force business associations to act as real private sector representatives, rather than seeking particularistic rents for certain members. But there is another reason. According to Ben Ross Schneider "if states provide selective benefits then there is even more reason to expect a divergence between 'natural' member interests and the 'artificial' preferences expressed by their associations. Encompassing associations are by definition mechanisms designed to push members away from their narrow sectoral interests toward intersectoral consensus."[11]

In his discussion of business support for neo-liberal reform in Latin America, Peter Kingstone considers how business is represented formally. He concludes that

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[10] Francisco and Eduardo Silva Durand, ed., *Organised Business, Economic Change and Democracy in Latin America* (Miami: North-South Center Press, 1998), 22.

business organisations are important because they shape the question of whose interests (within the business community) are represented and how effectively. This brings him back to the state, which he regards as dominant in establishing the context within which business organises. "Organisational factors," he argues, "are less determinative of business influence than the regime structure and electoral politics. The way that the regime structures access [for business] determines how much influence business has over what issues and how business exercises it."[12]

What many of these scholars assume, however, is a relatively autonomous business community. This, as I will argue, does not pertain in much of Africa. In many African societies the greatest rewards for profit seeking do not lie in a "market" that is somehow disembodied from the state. Rather, access to economic power is mediated by the state in myriad direct and indirect ways. It is important then to consider more closely the nature of that state.

The state of the state: How government shapes business

We are unaccustomed to thinking of Peter Evans and Theda Skocpol as being "on the same side" as neo-liberals, but these writers all share a focus on the state. Both of these broad sets of writings approach the question of business-government relations primarily via the state by considering the primacy of the state in structuring the political economy.

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[11] Ben Ross Schneider, "The State and Collective Action: Business Politics in Latin America" (paper presented at the Meeting of the Latin American Studies Association, Chicago, Illinois, September 1998), 25.
[12] Peter R Kingstone, *Crafting Coalitions for Reform: Business Preferences, Political Institutions and Neoliberal Reform in Brazil* (University Park, Pennsylvania: The Pennsylvania State University Press, 1999), 245.

Neo-liberal writers working in the 1980s developed a devastating critique of the limitations of the state.[13] However, they frequently failed to consider the way in which the market too may lack the requisite capacity to drive long-term processes of development. In the early days of the "Washington consensus", supporters of neo-liberal reform programmes applauded policies that were designed to facilitate the introduction of markets into previously state-run sectors.[14] They trusted that market-driven competition would introduce new incentives and efficiencies into areas that were previously distorted by state-driven reasoning and incentives. Proponents of such policies often assume that business (defined in opposition to government) is the best available incarnation of the "invisible hand." What happens, however, when the invisible hand is attached to the arm of the state?[15]

Another collection of distinguished works argues that development fails to occur where there are overly strong private interests (business or other) and a too weak state.[16] This group, inheritors of the Weberian position, comes from a rather

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[13] See, for example, Robert H Bates, *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies* (Berkeley, California: University of California Press, 1981), Robert H Bates and Anne O Krueger, eds., *Political and Economic Interactions in Economic Policy Reform: Evidence from Eight Countries* (Massachusetts: Blackwell, 1993), Rudiger Dornbusch and Sebastian Edwards, "Macroeconomic Populism," *Journal of Development Economics* 32 (1990), John Williamson, *Latin American Adjustment : How Much Has Happened* (Washington, D.C.: Institute for International Economics, 1990).
[14] World Bank Group, "Accelerated Development in Sub-Saharan Africa: An Agenda for Action," (Washington D.C.: World Bank, 1981).
[15] Thanks to Joshua Greene for this point.
[16] Cf. Peter Evans, "Predatory, Developmental and Other Apparatuses: Comparative Political Economy Perspectives on the Third World State," *Sociological Forum* (1989), Charles Edward Lindblom, *Democracy and the Market System, Scandinavian Library* (Oxford: Oxford University Press, 1988), Joel S Migdal, *Strong Societies and Weak States : State-Society Relations and State Capabilities in the Third World* (Princeton, N.J.: Princeton University Press, 1988), Joel S Migdal, Atul Kohli, and Vivienne Shue, *State Power and Social Forces : Domination and Transformation in the Third World, Cambridge Studies in Comparative Politics* (Cambridge England ; New York: Cambridge University Press, 1994),

different section of the ideological spectrum and coalesced around the movement to "bring the state back in" in the 1980s. The notion of "state capture" lies squarely within this second tradition and epitomises this diagnosis of a weak state and strong society.[17] This dissertation attempts to shift the conceptual focus to the business community. As I outline this research project below however, it will become obvious that it does not take long before one is forced to look again at the role of the state.

The Research Framework

The business sector is an obvious choice of partner for governments embarked on economic reform, particularly when those reforms are intended to restructure the role of the private and public sectors in the economy. Established ideological traditions within both politics and economics, namely liberalism and neo-classicism, have long considered the market indispensable to broader processes of capitalist economic development. Even those approaches that regard business in a more ambiguous light, such as Marxism and dependency, see the sector as central to capitalist growth.

C. Wright Mills, *Power, Politics, and People; the Collected Essays of C. Wright Mills* (New York,: Oxford University Press, 1963).

The business-government relationship in the Philippines, often regarded as an archetypal instance of "state capture," lies squarely within this tradition: Rapacious elites, situated in civil society (in this instance in the private sector and in the banking sub sector in particular) exploit their political connections to the state to extract as much revenue from the state as possible. The result is a "developmental bog"; no developmental compact between business and government seems likely. Instead, the business sector is dominated by a predatory oligarchy, rooted in banking, which extracts privilege from the state. Paul Hutchcroft calls this booty capitalism. (Paul D Hutchcroft, *Booty Capitalism: The Politics of Banking in the Philippines* (Ithaca, USA: Cornell University Press, 1998).) It is a classic depiction of an underdeveloped state, and overdeveloped private interests.

[17] Migdal's analysis of the "uncaptured peasantry" in Africa is another example. Joel S Migdal, *Peasants, Politics, and Revolution : Pressures toward Political and Social Change in the Third World* (Princeton, N.J.: Princeton University Press, 1974).

It is not self-evident that all business sectors will automatically play this progressive role. Indeed, much of the evidence from Africa suggests that a rather different role is being played by the business sector. This dissertation investigates the input of the business sector into economic policymaking. How does the nature of the business class affect the mechanisms it employs to this end, and how do these mechanisms shape both its capacity to inform policymaking and the content of its contribution?

Origins of capitalist class

▼

Dominant form of social organisation

▼

Mechanisms and institutions employed by business to influence government

▼

Input of business into policymaking

Figure 1. Causal Logic of the Investigation

Matters of definition

Before proceeding, I will define my key terminology.

Business

I use the term "the business sector" as a proxy for the private sector. This dissertation will focus on the formal business community and on the local (indigenous) business sector in particular.[18] An important part of understanding business is disaggregating its component parts and considering how they might differ on questions of economic policy. In my country studies, I consider ethnic and racial divisions as well as the salience of political loyalties and the role of sub-sectors such as finance, services, manufacturing, mining, retail, and heavy industry.

I use the term "economic elite" to denote those key individuals and families who comprise the topmost economic stratum of their society. Such people are situated most often within the business sector but also include those occupied in large-scale agriculture and those associated with international capital. The economic elite overlap, but are not strictly coterminous with, the business sector.

Public sector

I use the term "government" as a proxy for the public sector. I am concerned, not with the entire administrative and political structure of the state, but principally with those sectors of the state that exert the greatest influence over economic policymaking. This includes the cabinet, those top-ranking politicians who deal with matters of economic policy, and high-level civil servants in the appropriate ministries (such as finance, trade and industry).

As with the relationship between the private sector and the economic elite, the public sector can be distinguished from, but often overlaps with, the political elite.

[18] This definition thus excludes both international business (such as multinational companies) and those local entrepreneurs who are working exclusively in agriculture or the informal sector. It is not that these elements are unimportant. On the contrary, they form a vital part of African political economies. They have been relatively well-studied however, in contrast with the indigenous formal, urban business community and will be discussed occasionally but only as necessary.

The political elite include those commentators, advisors, analysts, and family members who are not necessarily formally associated with the state, but who exercise decisive influence over key policy-makers within the state.

Neo-patrimonialism

I use the term "neo-patrimonialism" in its Weberian sense as Nicholas van de Wall does. He argues that in a neo-patrimonial state,[19]

> [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.

Chalmers Johnson developed a set of markers for the East Asian "capitalist developmental state":[20]

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:

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[19] Nicholas van de Walle, *African Economies and the Politics of Permanent Crisis 1979-1999*, ed. Randall Calvert and Thrainn Eggertsson, *Political Economy of Institutions and Decisions* (Cambridge, UK: Cambridge University Press, 2001), 51, 52.

[20] It is significant that he called it a *capitalist* developmental state. Cf. Chalmers Johnson, *Japan, Who Governs? The Rise of the Developmental State* (New York: WW Norton and Co., 1995).

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. In this dissertation I argue that neo-patrimonialism is a feature, not only of many of African states, but also of many African business communities.

The dependent variable

The dependent variable for my study is the impact of business on economic policymaking. Two elements are important here: first, the extent to which the business sector is able to influence the economic policy agenda (i.e. *how much* influence does business have?), and second, the content of the policies that business has successfully incorporated into government's agenda (i.e. *what kind* of influence does business have?). The dependent variable for this dissertation, then, is simply the policy adopted by government and the extent to which this incorporates the views and preferences of the private sector (or parts of the private sector).

The level of influence that business has on economic policymaking HOW MUCH INFLUENCE ?	The content of the influence that business has on economic policymaking WHAT KIND OF INFLUENCE?

Figure 2. Dependent Variable

The independent variables

The independent variable comprises two elements that fundamentally shape the nature of the private sector. This requires a consideration of the broader background of the development of the business community. What are its origins? Can it be described as a capitalist or an entrepreneurial class that is distinct in its interests and membership from the political ruling class? Is there a coherent, sector-wide view on economic policy? If not, in what ways do views differ and which predominate?

Two factors emerge as key explanatory variables from my specific country studies. First, the centrality of the state in shaping the nature of the business community. In particular, the extent to which the state displays neo-patrimonial behaviour has a vital impact on business' ability to shape economic policy. How centralised and personalistic is the exercise of political power? To what extent is corruption and patronage a feature of the state's functioning? To what extent too has the state sought control and influence over the private sector?

A second factor, ethnicity, also emerges as important. Where business is dominated by an ethnic group that is distinct from that which dominates the state, this could carve out a distinct sphere of influence and form of social organisation for the economic elite, insulating this community from the reach of the state.

Both of these factors matter because they not only shape the character of the business community but also set the tone for the private sector's relationship with the public sector. In particular, they influence the degree of autonomy that the business community enjoys from the state. One could look here to the degree of overlap between both the interests and the constituent membership of the business and economic elites.

The character of the business community and the degree of autonomy it enjoys will also be evident in the means and mechanisms by which business conveys its views on economic policy to government. Are these formal and regularised? Do they form part of a public debate over policy issues? Is there a broad-based sector-wide association that represents the views of business or is the sector fragmented?

These variables are depicted below. I will discuss case selection and the methodology I employ in the study before concluding with an overview of the chapters to follow.

DV: The input of business into economic policy

The extent / level of influence of the business sector on economic policy.	The content of economic policy, in particular the extent to which it is particularistic or broad-based.

Δ

Overall level of autonomy for business

Δ

IVs:

The ethnic character of the business sector	The degree of neo-patrimonialism in the state

Case selection

In accordance with accepted social science practice, my country studies were selected for variance on the dependent variable, namely the influence of business on economic policymaking.[21] In Zambia and Ghana, business has a low level of impact on economic policymaking; this is higher in Mauritius and South Africa. The content of that influence varies too across the four cases. (The variation is laid out in more detail in chapter seven.)

	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 1.

In order to address potential alternative explanations, I sought geographical spread within each of these two groups of countries (with Zambia in Anglophone Southern Africa and Ghana in largely Francophone West Africa in the first group, and South Africa in Anglophone Southern Africa and Mauritius with its dual colonial heritage in the Indian Ocean.) I also sought variation in terms of asset base and dominant sub-sectors of the economy in the two groups: Zambia is a mining-based

[21] See, among others, Gary King, Robert O Keohane, and Sydney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton, New Jersey: Princeton University Press, 1994), 129-36, Margaret Peil, Peter K. Mitchell, and Douglas Rimmer, *Social Science Research Methods : An African Handbook* (London: Hodder and Stoughton, 1982), 14-18.

economy, while in Ghana cocoa and agricultural production was historically more important. In the second group, South Africa, a historically mining economy has since diversified extensively. Mauritius, originally dependent on the export of sugar, has likewise diversified since.

Ghana is an important case in order to avoid co linearity in the independent variables, namely the ethnic character of the business community (in relation to that of political elites) and the degree of neo-patrimonialism. I argue that there is a constant push-and-pull dynamic in the business-government relationship. In three of my country studies, both independent variables tend either to push business away or to pull it close to the state. This is not the case in Ghana, where the ethnic character of the business community, along with its political loyalties, pushes the business community away from the state, winning it some limited autonomy. The neo-patrimonial character of the state, on the other hand, constantly seeks to pull business closer. It is thus an important case for my argument and for assessing the relative weight of the two independent variables. Before moving on, it might be useful for the reader to consider comparatively the following broad range of indicators for those countries. They confirm that Zambia and Ghana are low-income countries with a relatively poor state of political and civil rights. Mauritius and South Africa score a little higher in both these areas.

	Zambia	**Ghana**	**Mauritius**	**South Africa**
Freedom House Score[°]	Partly free	Not free	Free	Partly free
Corruption Perceptions Index[†] 1= totally corrupt; 10= corruption free	3.5	3.3	5.0	5.2
Life expectancy at birth, total (years) 1990[•]	49	57	70	62
Per capita GDP[•]	US$477	US$346	US$2,815	US$4,113

Table 2. All figures and scores are for 1990 with the exception of the Corruption Perceptions Index, which is for 2000.

Overview of This Study

This study begins with an attempt to explain variation within Africa: Why have some business sectors in Africa had a greater impact on economic policymaking than others? What can the nature of that sector and the relationship between business and government tell us about this? Chapter Two briefly explores the historical development of an indigenous business community on the continent before sketching out the particular histories, up till the late 1980s, in each of my four country studies.

[°] Rating for 1990-91 Freedom House, *Country Ratings* [website] (1990-91 [cited 2003]); available from www.freedomhouse.org.
[†] Rating for 2000; ratings for all four countries not available for 1990. Transparency International, *Corruption Perceptions Index* [web site] (Transparency International, 2000 [cited 2003]); available from www.transparency.org/cpi/2000.
[•] Figures for 1990. World Bank Group, *World Development Indicators* [website] (1990 [cited 2003]); available from http://devdata.worldbank.org/dataonline/.

Chapters Three to Six comprise the heart of the study – the individual case studies of Zambia, Ghana, Mauritius, and South Africa. I focus on the 1990s, a period of intense economic reform in all of these countries. The development and initiation of economic reform represents a critical juncture, a time when the broad outlines of the economy were under review. In particular, the roles of the public and private sectors in the economy were being renegotiated. In each case, I examine the size and nature of the private sector and economic elites; the character of the government and political elites; the character and intensity of the interaction between business and government; the nature of the economic reform programme(s) for which business and sub-sections of business were lobbying; and the extent to which these concerns were incorporated into the government's economic reform agenda.

To this end, I conducted interviews with representatives of the business sector and economic elites, including representatives of business associations such as chambers of commerce; representatives of government and political elites; civil servants in the economic ministries (such as finance, trade and industry) as well as the central/reserve bank and privatisation and investment agencies (where these exist); staff of the international financial institutions and key donors; and diplomats, journalists and analysts. (See Appendix A for list of interviews.)

In order to develop a clear picture of the business sectors' publicly declared preferences as well as the governments' economic reform policies, I reviewed major documents relating to economic policy and reform, especially written contributions by representatives of the business sector on matters of economic policy, national development plans (where these were employed), annual budget speeches and the minutes of parliamentary committees with oversight on economic issues; and national newspapers, especially the financial press (where this exists). Throughout, I sought to employ empirically-based findings from Africa to build theory.

Chapter Seven considers the outcomes of these country studies in relation to each other, and in relation to existing work on business-government relations. It closes by outlining the contribution that this dissertation makes to the broader study of comparative politics.

Conclusion

Leys poses what is, for me, the stark, central dilemma:[22]

> 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 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

[22] Sayre P Schatz, *Nigerian Capitalism* (Berkeley: University of California Press, 1977), 231.

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 chapter that follows considers the historical basis of this relationship.

CHAPTER 2

INTRODUCING THE COUNTRY STUDIES

Like Dr Doolittle's Push-Me-Pull-You creature, the business-government relationship is governed by a constant, dynamic tension. The state tries to pull business ever closer into its realm of influence, and business strains away to establish its own authority and secure its independent interests. At least, in an ideal world this might be how it works. In a less happy case scenario, much of this tension is absent. Instead, the interests of a small colluding group of economic and political elites converge, excluding any broader constituency.

A number of factors can strengthen the hand of either business or the state in this dynamic. This chapter will introduce the four country studies and consider the various push and pull factors attendant on business in each country. I describe the historical development of the business community and its relationship with government in each society up to the end of the 1990s, examining how they came to look so different from each other. (The country study chapters will pick up the story from there in Chapters Three to Six.)

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 looked remarkably similar to each other. These business communities were not only significantly smaller and weaker than those found elsewhere in the developing world, but they were also in thrall to a form of social organisation that emanated from the state, neo-patrimonialism. 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 the 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, 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."[1] 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."[2] 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.[3] The pressure to pander to metropolitan nationals was most 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).[4] In addition, there were often explicit government

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[1] Jeffrey Herbst, *States and Power in Africa* (Princeton, New Jersey: Princeton University Press, 2000), 210.
[2] Anne Phillips, *The Enigma of Colonialism: British Policy in West Africa* (London: James Currey, 1989), 4.
[3] See for example Margaret Mclane, "Railways and "Development Imperialism" in French West Africa before 1914" (paper presented at the Annual meeting of the Western Society for French History, 1991). Also John Overton, "The Colonial State and Spatial Differentiation: Kenya, 1895-1920," *Journal of Historical Geography* 13, no. 3 (1987). As Herbst argues, currency and currency zones gave an important advantage to those firms that could freely exchange currency. Jeffrey Herbst, *States and Power in Africa* (Princeton, New Jersey: Princeton University Press, 2000), 213.
[4] Paul M Lubeck, *The African Bourgeoisie: Capitalist Development in Nigeria, Kenya and the Ivory Coast* (Colorado, USA: Lynne Rienner Publishers, 1987), 19. 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: Tony Woods, "The Myth

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."[5] 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 very different from much of Sub-Saharan 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.

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.[6] This dismissive view and a desire to do away with the "exploitative middlemen-speculators"[7] informed the decision to move towards marketing boards,

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of the Capitalist Class: Unofficial Sources and Political Economy in Colonial Malawi, 1895 - 1924," *History in Africa* 16 (1989).

[5] Anne Phillips, *The Enigma of Colonialism: British Policy in West Africa* (London: James Currey, 1989), 162. 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.

[6] 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.

[7] P T Bauer, *West African Trade* (New York: Augustus M Kelley, 1967), 268.

as found 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.[8] 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.[9]

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 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. 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.

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[8] P T Bauer, *West African Trade* (New York: Augustus M Kelley, 1967), 263.

[9] 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."Peter Geschiere, "Imposing Capitalist Domination through the State: The Multifarious Role of the Colonial State in Africa," in *Old Modes of Production and Capitalist Encroachment: Anthropological Explorations of Africa*, ed. Wim van Binsbergen and Peter Geshiere (London: KPI Ltd., 1985), 124.

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 African 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.[10] 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."[11] Kay puts the same thought slightly differently: "Capital created underdevelopment not because it exploited the underdeveloped world, but because it did not exploit it enough."[12]

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 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

[10] Cf. for example Anne Phillips, *The Enigma of Colonialism: British Policy in West Africa* (London: James Currey, 1989).
[11] L H Gann and Peter Duignan, *Burden of Empire: An Appraisal of Western Colonialism in Africa South of the Sahara* (London: Pall Mall, 1968), 375.
[12] G Kay, *Development and Underdevelopment: A Marxist Analysis* (London: Macmillan, 1975), x.

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. 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. 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.[13] Many of the measures intended to advance industrialisation did also increase the dependency of the private sector on the state.

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

[13] Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52 (2000): 180.

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."[14]

Neo-patrimonialism shaped not only the political sphere but the nature of the market too. Boone argues that the 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."[15] 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.

[14] O'Connell in Kilby, Peter *Industrialisation in an Open Economy: Nigeria 1945 - 1966*, Cambridge University Press: London
(1969) p378
[15] Catherine Boone, *Merchant Capital and the Roots of State Power in Senegal, 1930-1985*, *Cambridge Studies in Comparative Politics* (Cambridge England ; New York: Cambridge University Press, 1992), 4.

The result was a weak, conflicted African business community.[16] 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. This process looked very different in South Africa and Mauritius. In each country history that follows, I will track evolving notions of the economic role of the state, alongside emerging political and economic elites in order to understand how business developed and how relations between business and government stood by the beginning of the 1990s. I begin with Zambia.

Zambia

Almost from its inception, the political and economic spheres overlapped to a remarkable degree in the territory that was to become Zambia. From 1890 to 1924, the territory of current-day Zambia was administered under the auspices of a commercial firm, the British South Africa Company. The politicians soon resumed control however. Under the more conventional British colonial rule that followed, indigenous entrepreneurship in Zambia was constrained by the racially skewed nature of policymaking. Most commercial activity was restricted to the ranks of expatriates and Asian traders.[17]

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[16] As outlined in chapter 1, the business community that I am interested in is the indigenous, formal sector, urban-based community of businesspeople. The assumption is also that it is those entrepreneurs operating in a capitalist milieu, although, as I will argue, the African political economy does not present a classical capitalist mode of production.

[17] Commercial activity by Africans was actively discouraged for fear that it would "spoil" the local labour supply by providing them with alternative means to earn the money to pay their taxes. Yona Ngalaba Seleti, "Entrepreneurship in Colonial Zambia," in *Guardians in Their*

The opening of the copper mines in the late 1920s and the mining boom that followed did galvanise the overall development of a market-oriented economy in Zambia. However African entrepreneurship continued to be hampered by a legal and social system in which "business was the preserve of whites in the first place and Indians in the second place… [Hence] while the economic environment enhanced opportunities for business, the social and political structures militated against the advancement of African business."[18]

There was another, rather more direct way in which the colonial regime shaped entrepreneurship so that ultimately the state itself became a source of profit. Chipungu argues that the Native Treasuries provided the material base for an emergent *Boma* (governing) class: "[B]eneath the surface of administrative responsibility to generate revenue for the colonial government lay an elaborate and often conscious process of capital accumulation. …"[19] as local elites discovered that the state was a potentially lucrative source of income.

Central to Chipungu's argument is his contention that civil service salaries enhanced the capital accumulation of the *Boma* class: "Native Authority personnel … showed remarkable interest in investing much of their earnings in productive ventures

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Time: Experiences of Zambians under Colonial Rule 1890 - 1964, ed. Samuel N Chipungu (London: Macmillan, 1992), 157.

[18] Yona Ngalaba Seleti, "Entrepreneurship in Colonial Zambia," in *Guardians in Their Time: Experiences of Zambians under Colonial Rule 1890 - 1964*, ed. Samuel N Chipungu (London: Macmillan, 1992), 160.(In addition, much of the wealth of the territory, instead of being harnessed for the development of that region, was being channelled south, to Southern Rhodesia with which it was then yoked in a federation.)

[19] Samuel N Chipungu, "Accumulation from Within: The Boma Class and the Native Treasury in Colonial Zambia," in *Guardians in Their Time: Experiences of Zambians under Colonial Rule 1890 - 1964*, ed. Samuel N Chipungu (London: Macmillan, 1992), 74.

while they were in employment."[20] These state agents tended to invest in whatever the dominant economic activity in their region was, be it fishing, hunting or agriculture. Thus even in these early days of the Zambian state, both individuals and spheres of economic activity in what may otherwise have been the "private sector" were being drawn into a relationship with the state.

Two important consequences flowed from this. First, the *Boma* class became an important economic class in its own right; most commonly, its members became property owners. Second, their new status began to shape their economic interests, and how they exercised their administrative responsibilities. Chipungu contends for example that[21]

> [a]s a property owning class, the *Boma* class shared special interest with the accumulating strata in the country. In the Southern Province, for example, having invested in cash cropping, the *Boma* class began to advocate the interests of the rich peasants. In particular, it began to push for land tenure laws that would encourage property development, as well as place the custody of the property with immediate family members ... in the event of death, as opposed to the practice of property being shared by distant relatives.

Three elements stand out from the colonial period: first, the tendency for the state to serve as the primary source of income for an important political and economic class; second, the related tendency for income derived from or via the state to become a key source of investment in significant sectors of the economy; and third, as a consequence policymaking that was directed at furthering the interests of that state-associated class of actors. After independence in 1964, these same three elements

[20] Samuel N Chipungu, "Accumulation from Within: The Boma Class and the Native Treasury in Colonial Zambia," in *Guardians in Their Time: Experiences of Zambians under Colonial Rule 1890 - 1964*, ed. Samuel N Chipungu (London: Macmillan, 1992), 82.

would re-emerge and be consolidated in relations between business and the new political elite.

Independent Zambia: "Humanist", not capitalist

Zambia's new president, Kenneth Kaunda, publicly declared that "as humanists we cannot allow Zambians to develop into capitalists at all."[22] He and his government were all too successful in this. Political battles within the ruling United National Independence Party (UNIP) increasingly pushed the state and economic policy in a direction that excoriated the private sector and promoted the role of the state and parastatals in economic development. Dynamic and entrepreneurial-minded Zambians moved into the state (as managers of parastatals) rather than into the private sector. One high-level state official described the milieu as follows:[23]

> In the First and Second Republics, capitalism was the devil, shunned as a greedy system with no human face. This did a lot to prevent the emergence of capitalism. It also promoted the development of speculative business because you had to have good relations with the government and the party. So you had people becoming entrepreneurs who shouldn't have been entrepreneurs.

From the start then, what private sector there was in Zambia[24] was forced into a political relationship with the state – and the state was set to increase drastically its reach. In a series of incremental steps beginning in the late 1960s, the Zambian state

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[21] Samuel N Chipungu, "Accumulation from Within: The Boma Class and the Native Treasury in Colonial Zambia," in *Guardians in Their Time: Experiences of Zambians under Colonial Rule 1890 - 1964*, ed. Samuel N Chipungu (London: Macmillan, 1992), 91.
[22] K D Kaunda, "Zambia's Economic Revolution" (paper presented at the Address by the President, Mulungushi, Lusaka, Zambia, 19 April 1968).
[23] Jacob Mumbi Mwanza, Personal interview with author, 17 August 2000 2000.
[24] And it was tiny. According to one observer, there were at independence "hardly any indigenous Zambians in the private sector of any significance." C Fundanga, "The Role of the Private Sector in Zambia's Economy" (paper presented at the Economic Policy and Development, Pamodzi Hotel, Lusaka, Zambia, 27-29 October 1986).

extended its control over major chunks of the economy by buying up existing firms, creating new ones and establishing parastatals. Following the Mulungushi reforms of 1968, structures such as the Zambian Industrial and Mining Corporation (ZIMCO) and the Industrial Development Corporation (INDECO) under the leadership of the wily Andrew Sardanis, were set up to co-ordinate and oversee the state's vast holdings.

Who would staff and manage all of these enterprises? There was a desperate shortage of human capital: at independence, the country had few indigenous entrepreneurs and only 109 university graduates. A large number from both of these categories were snapped up by the state to provide the management core for these enterprises, comprising what Sklar calls the "managerial bourgeoisie."[25] Many were happy to provide this service, motivated by the nationalist project and relatively high public sector salaries.[26] According to one such former manager, "[t]he parastatals were a breeding ground for transforming civil servants into managers. They offered us very good opportunities, for example of training at Harvard. Large numbers of the current generation of businessmen came through that system."[27] Increasingly, however, managers who cared about efficiency and making operational decisions on sound business principles chafed under the political imperatives that were imposed from on high, often in the form of a note from Kaunda himself. Increasingly, the parastatals were drawn into a web of patronage and clientelism and were used to

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[25] Richard L Sklar, *Corporate Power in an African State* (Berkeley: University of California Press, 1975), 199.
[26] Of course, a number also had no choice but to do so, having had their studies subsidised or funded by the state and thus being legally obliged to repay this.

allocate rewards and censure via appointments, contracting and the placement of factories.

In addition to shaping the individuals who were active in the economy, the predominance of the parastatal sector also shaped the overall nature of the incentives within that economy. One businessman has attributed the weakness of the Zambian private sector directly to this period: "At a time when it [the private sector] should have developed," he argued, "the predominant environment was parastatal. Supply and demand dynamics were thus targeted at building up relationships between parastatals."[28]

Zambia's economy was directed by a series of ambitious developmental plans. Those in government were eager to tackle the huge developmental deficit they had inherited at independence and authorised a ramp-up in state spending in order to address areas like education, healthcare and housing. At first, revenues from the then-flourishing copper industry easily financed this spending. Indeed in the 1960s the state's biggest fiscal headache was actually spending all the money allocated in the budget each year. UNIP eagerly adopted the view that government investment could and should substitute more effectively for private investment in the economy. Accordingly government investment for the first development plan period (1966-1970) represented a 100% increase over the figures for 1965-66.[29] Many of these

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[27] Abel Mkandawire, Personal interview with author, 11 August 2000. The last comment is borne out by an examination of the employment histories of prominent Lusaka businesspeople. See list of interviewees at the end of this dissertation.
[28] Muna Hantuba, Personal interview with author, 19 July 2000.
[29] Office of National Development and Planning, "First National Development Plan 1966-1970," (Lusaka, Zambia: Republic of Zambia, Undated), 11.

early investments were poorly thought through and badly managed. As a result, the returns were slow to arrive and costs were mounting in the interim.

The private sector was further restricted by the passing of the Leadership Code 1972 that forbade political leadership from being involved also in business. On the face of it, this measure should have constrained the emergence of a neo-patrimonial fusion of political and economic elites. Certainly Kaunda argued that the measure would reduce corruption. Did it? While corruption levels were relatively low in Kaunda's Zambia, it is not clear exactly why this was so. On balance, the code's impact on the overall level of autonomy between business and government was probably negative. In a country where the overall policy environment actively discouraged most kinds of capitalist enterprise or initiative, its effect was to further restrict the already tiny private sector. It came to seem that the only way left to make a decent living was via the state.

Given the structure of the Zambian economy and its dependence on both the overall revenue and the foreign exchange generated by copper, it was perhaps inevitable that the state should seek to tighten its control over the copper mines. The timing of this move was unfortunate. State seizure of the mines came only years before a dramatic reversal in the international terms of trade faced by Zambia, most importantly, with the hike in the price of oil and the plummeting of the copper price. It was assumed at the time that these shifts were temporary and the Kaunda government continued its ambitious programme of social and economic investment. In addition, years of economic mismanagement and underinvestment in the mines began to take their toll, resulting in lower output over time and compounding the effect of depressed international prices. At independence, the intention had been to use the revenues from copper to drive Zambia's economic development.[30] In the end, this strategy killed the copper goose.

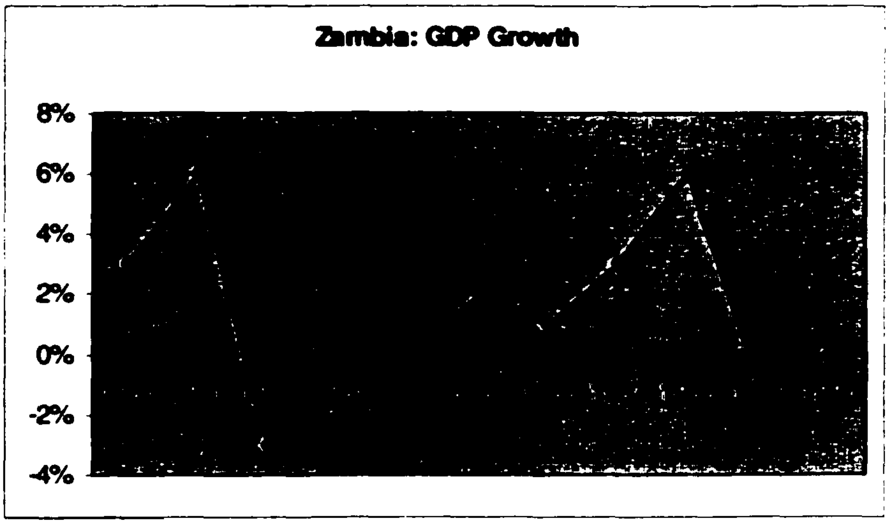

Figure 1. Source: *World Development Indicators,* World Bank Group

By the mid-1980s, international terms of trade had still not altered significantly in Zambia's favour, growth was uneven (see Figure 1) and the country was ensnared in a debt trap.[31] The private sector had shrunk and been forced, along with the parastatal sector, to operate in terms of a predominantly neo-patrimonial environment. Domestic manufacturing and industry were internationally uncompetitive, living standards had plummeted as government had been unable to maintain social sector spending and Zambia's traditional mainstay, the mines, had

[30] In the words of one observer, "[t]hey were using mining as a milk cow to finance everything else." Anonymous, Confidential interview with author, 28 June 2000..

[31] Some analysts argued that "the decline [in the terms of trade] since the 1970s is unmatched by any other country in the world. Over the 1974-1985 period a phenomenal drop of 70% was recorded. Export prices increased by 15% while imports rose by 991% over the 1980-1985 period."
Oliver S Saasa, Francis Wilson, and Lloyd Ching'ambo, "The Zambian Economy in Post Apartheid Southern Africa: A Critical Analysis of Policy Options," (Lusaka, Zambia: Institute for African Studies Consultancy Services, 1992), 32.

become both unproductive and costly to run. Calls for political and economic reform became ever more urgent. Chapter Three picks up the story of Zambia's transition to liberal democracy and a neo-liberal economy in the early 1990s, and examines business' capacity to impact policy in this volatile environment.

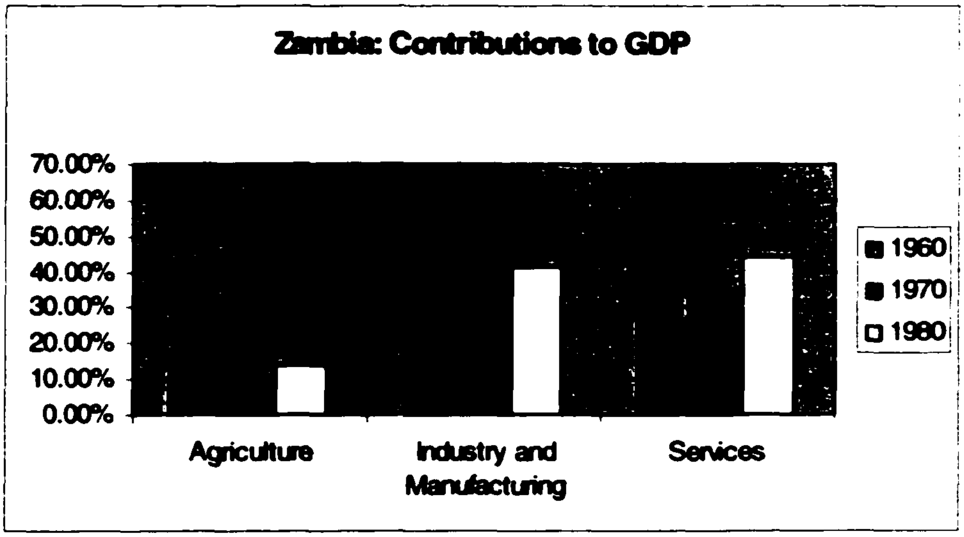

Figure 2. Source: *World Development Indicators*, World Bank Group

Ghana

Like Zambia, Ghana's business community was historically shaped by its relationship with the state. Unlike Zambia however, there was in Ghana a more promising foundation for an indigenous business community and a greater chance that it might retain some autonomy from the state. At the outset, a significant indigenous economic stratum lay outside of the state in colonial Ghana (then known as the Gold Coast) including the remnants of the Ashanti kingdom plus the cocoa farmers.

In addition, there was considerable coolness between the political powers and private sector entrepreneurs. The most prominent nationalist leader, Kwame Nkrumah, was schooled in radical politics and deeply suspicious of business people. Over time, tensions between liberal and radical factions split the nationalist movement, creating a political fissure that continues to characterise Ghanaian politics in the present. For their part, the liberals consolidated themselves in the United Gold Coast Convention (UGCC). Support for this grouping was profoundly middle class: business people, cocoa farmers and professionals. This faction, which became known as the Busia-Danquah school, has tended to regard business as "the principal engine of Ghana's economic development and to view the role of government as being to facilitate the activities of the business sector."[32]

Nkrumah assumed control of the radical faction, organised into the Congress People's Party (CPP). His support base was generally to be found among the working class, war veterans, some poor farmers and the unemployed. The Nkrumahist tradition vaunted a model of state-centred development. The CPP, while far from being a hard-line communist regime, was distinctly anti-capitalist. It saw the business sector as inherently exploitative and corrupt.[33]

As president of an independent Ghana, Nkrumah succeeded to a remarkable extent in transforming the Ghanaian economy. From an economy dominated by agriculture, it grew by the 1970s into one in which the single largest contribution to the GDP was made by the industrial sector (a feat that has not since been replicated).

[32] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 3.
[33] Jerry John Rawlings echoed these same themes later.

The early post-independence period saw a dramatic expansion of the economy, and of industry and manufacturing in particular, but these advances came at a cost. Like many other governments of newly independent states, the Ghanaian state did not have the capacity to play, either effectively or for any extended period, a dominant role in the economy. The result was both appalling inefficiency and corruption.

Corruption pervaded the usual array of governmental instruments, including control over access to foreign exchange:[34]

> Local elites ... lived or died on the basis of access to foreign currency. Thus Ghana's Ollenu Commission noted that import licenses were given out to government institutions, government corporations and companies that government, or government official had special interests in. Those who did not have privileged access through the government had to pay bribes of between 5 and 10 percent of the contract.

By all accounts, the level of the state's involvement in the economy gave rise to extraordinarily high levels of corruption.[35]

One might imagine that this would alienate the business stratum and to some extent it did. However, the relationship between business and government was not one of simple opposition. As in Zambia, entrepreneurs based in the state began to exploit their political access to acquire wealth; they moved with facility between the "public" and "private" sectors, blurring the identities of the two spheres. Victor Le Vine argues that [36]

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[34] Jeffrey Herbst, *States and Power in Africa* (Princeton, New Jersey: Princeton University Press, 2000), 218.
[35] In Zambia, the high regard with which Kenneth Kaunda was generally held as well as his own levels of personal integrity are generally credited with having kept corruption there at acceptable levels. Nkrumah's demise in Ghana and the chaotic array of inept leaders that replaced him provided no equivalent check in Ghana. Cf. Victor T Le Vine, *Political Corruption: The Ghana Case* (Stanford: Hoover Institution Press, 1975).
[36] Victor T Le Vine, *Political Corruption: The Ghana Case* (Stanford: Hoover Institution Press, 1975), 63.

> the [CPP] politicians showed great enterprise in maximising the new income opportunities to which their positions gave them access. A good many were small businessmen and contractors before they went into politics in the mid-fifties; these men simply continued and expanded their business activities while in public office. In addition, many who came to government from the civil service and professional ranks started businesses while they were in office.

This significantly shaped the emerging economic elite: [37]

> Ghanaians report that the country's rent-seeking officialdom benefited even amidst this decline. By the 1970s it had [become] painfully obvious that Ghana had become polarised into two fundamentally opposed classes. The division was not one of socio-economic class, as between capitalists and workers, but between political groupings. The operative socio-economic divide was between governmental officials who had access to rent-seeking opportunities and Ghanaians who did not.

The result was not only a bifurcated Ghana but also a bifurcated business community: one stratum was state-based[38] and sympathetic to the state-led model of development; the other was generally associated with the opposition, and concentrated in the professional and trading classes.

The economic and political decline that had commenced towards the end of Nkrumah's rule intensified after his removal from office. The coups and malgovernance that followed brought mixed fortunes for the business sector but never provided a significant period in which a full-blown recovery of that sector was possible. As Kraus argues, "some [of these] regimes supported capitalist accumulation and market mechanisms, but the ideas of egalitarianism, populism and a

[37] Victor T Le Vine, *Political Corruption: The Ghana Case* (Stanford: Hoover Institution Press, 1975), 14.

[38] In the sense that even if the individual businessperson in question was not formally employed by the state, the conduct of business and opportunities for profit were reliant on state-based activities.

dominant role for the state persisted."[39] Indigenisation decrees were passed in the late 1960s and the state acquired major shares in a number of enterprises. Deprived of much-needed imported inputs and investment capital, the capacity of industry and manufacturing shrank. Throughout, much of the business sector continued to be associated with the Busia-Danquah tradition, in opposition to populist/radical Nkrumahist strains. The state-based sector continued to expand, even as the "real" economy deteriorated. The result was constantly shrinking output and the increasing "informalisation" of the Ghanaian economy. As the economy approached collapse, the capacity of both the private and the state-based sectors to continue to support the ever-expanding networks of patronage and rent seeking decreased, inciting a series of political crises.

Enter Jerry Rawlings

The apparently miraculous way in which the government of Jerry John Rawlings managed to engineer the recovery of the Ghanaian economy after 1983 (see Figure 3 below) led some of his more enthusiastic supporters to dub him JJ or "junior Jesus." The tale of his first and second coming has been told often and only a brief recap will be offered here. Twice (in 1979 and then again in 1981) Rawlings the populist and revolutionary, came to power by military means on an avowedly anti-elite mission. He almost immediately attacked the wealthy and influential. Several market places were razed in major cities. Individual market women and members of the business sector were persecuted and interrogated about the source of their

[39] Jon Kraus, "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, no. 3

affluence. An embittered business community did not soon forget these interrogations, or the brutal assaults that often accompanied them. Rawlings developed a reputation for being "anti-business" and "anti-profit."

Beyond this, economic policy under Rawlings in this first phase was an intensification of the kind of populist and protectionist measures undertaken by the Acheampong regime. Because of the depth and severity of Ghana's economic crisis, these policies proved unsustainable. Policymakers of the ruling Provisional National Defence Council (PNDC) were driven into the arms of the IMF and World Bank, ushering in a new era under Rawlings.

This second period was characterised by fairly rigorous adherence to the broad elements of the Washington consensus on how to run an economic recovery programme (ERP). Between 1983 and 1986, the ERP, designed and directed by the small but influential Economic Review Committee (ERC), undertook most of the steps generally considered necessary to stabilise an economy in crisis.[40] 1987 saw the start of structural reform, intended to alter the shape and nature of the Ghanaian economy (exports in particular), and to advance price and currency reform.

By the late 1980s, however, it was evident that the task of reform was far from complete. Certainly the reforms had not brought about the long-anticipated recovery of the private sector. Restrictions on liquidity in the financial sector had severely

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(2002): 401.

[40] In the words of PV Obeng, the ERC "produced a diagnostic report on the economy. ... The departure of the ultra leftists paved the way for a more comprehensive debate and development of the structural adjustment programme which, after government approval, was implemented under the supervision, control and monitoring of the Structural Adjustment Programme Team." P V Obeng, Personal interview with author, 11 April 2001.

restricted the flow of investment to the private sector that was also hard hit by the international competition resulting from trade liberalisation.

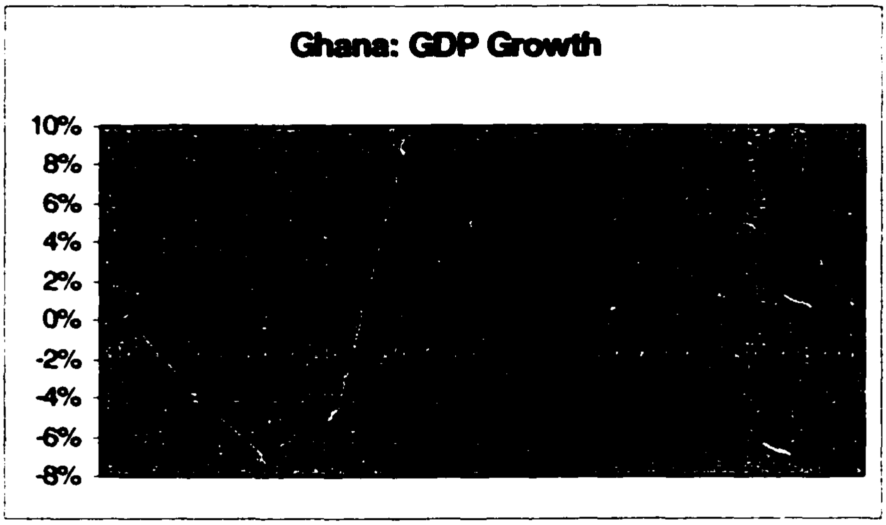

Figure 3. Source: *World Development Indicators*, World Bank Group

Structural adjustment had also done little to repair the relationship between business and government:[41]

> Even as Ghana worked its way painstakingly through the monetary, fiscal and structural reform agenda, however, it became painfully apparent that decades of rule by radical-populist administrations had created an atmosphere of deep mistrust between the government and the business community.

It was only as late as February 1988 that the PNDC first agreed to meet publicly with private sector representatives.[42] The suspicion was mutual, although once again, not uncomplicated. Nugent remarks[43]

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[41] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 4.

[42] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 29.

[43] Paul Nugent, *Big Men, Small Boys and Politics in Ghana: Power, Ideology and the Burden of History 1982- 1994* (Accra, Ghana: Asempa Publishers, 1996), 203.

that business remained ambivalent about the PNDC, while aspirant businessmen looked more kindly upon it. In view of the lengths to which the PNDC had gone to attract outside investment, the first half of this statement might occasion surprise. But there remained a legacy of suspicion towards the Rawlings regime that was born of the revolutionary phase and kept alive by Rawlings' periodic outbursts of populist hubris.

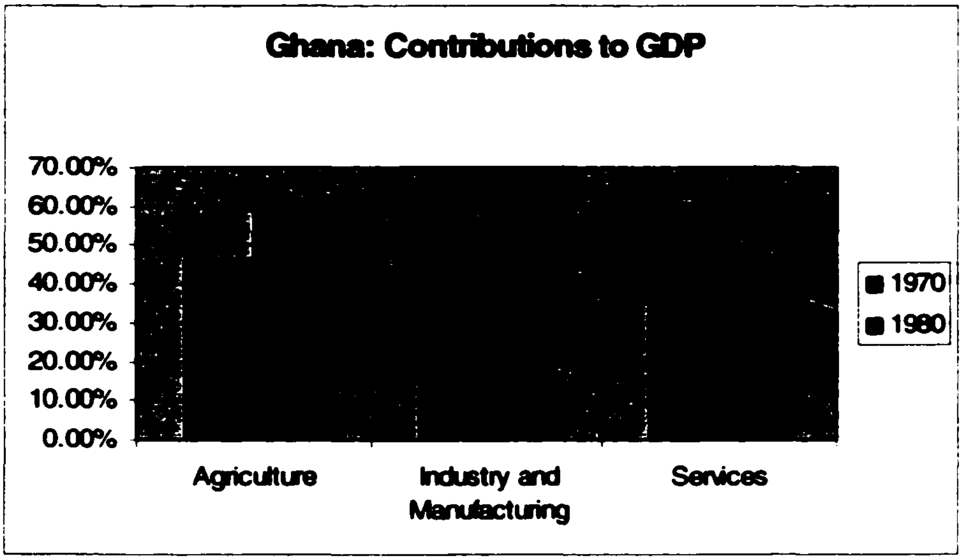

Figure 4. Note: 1960 figures not available. Source: *World Development Indicators*, World Bank Group

If, in Ghana, sections of the business community were estranged from government for political reasons, in Mauritius the business community was granted a significant level of autonomy as the result of historically based ethnic divisions.

Mauritius

The development of the Mauritian business community was shaped by sequential colonialism and business' ethnic origins within the sugar industry. In this section I will trace the emergence of the island's business sector from its origins in the sugar industry up until the new challenges the sector faced by the end of the 1980s.

William Miles makes much of the fact that Mauritius experienced "sequential colonialism": French colonial rule was succeeded by English colonial rule before the country achieved independence in the 1960s. British rule saw the British assume control of the political centres of the island. However, other than trying to nudge the sugar plantations away from their use of slave labour, the British chose to leave largely undisturbed the economic hegemony of the French sugar barons. This shaped the subsequent relationship between business and government by demarcating from the outset the economic and political spheres.

According to Miles, "[u]ntil independence... the colonised population was split over which model to choose: Educated Indo-Mauritians tended to be Anglophiles and upwardly mobile Afro-Mauritians to be Francophile." He continues[44]:

> Sequential colonialism then, required Mauritians to differentiate, if not to choose, between two distinct metropolitan models... Thus anticolonialism was not the clear-cut affair it was in monocolonial countries, for while the British represented political rule imposed from without, economic and cultural domination was wielded by Francophones...For Hindus and Muslims, British governance constituted a check on the Franco-Mauritian and upper-class Creole aristocracies; whereas for these latter groups, the French language provided a medium of resistance to British colonial usurpation.

This history is significant for two reasons. First, for the most part, ethnic groups tended to follow their linguistic preferences. English-speaking Hindus followed the English into the political sphere and particularly into government and the civil service. The white Franco-Mauritians retained their dominance of the economy, joined by a small number of Sino-Mauritians, a few light-skinned Creoles and later, some Indians and Muslims. Second, Mauritians developed the political capacity to constantly juggle and co-ordinate these two respective spheres of

[44] William F S Miles, "The Mauritius Enigma," *Journal of Democracy* 10, no. 2 (1999): 96.

influence. As Miles remarks, "[d]ealing simultaneously with *two* sets of colonial influences develops unusually sophisticated political skills."[45] The two spheres were clearly demarcated but also co-dependent; Mauritius could not thrive without some kind of accommodation between the two.

Following independence, the public sector was dominated by Hindus while the private sector was in the hands of non-Hindus – and in particular, in the hands of those historically associated with the brutal exploitation of Hindu labour on sugar estates. The stage would thus seem to be set for serious conflict between these two sectors. As Sithanen argues, for a long time the public and private sectors were "like two motorways with no access between the two."[46] And yet, despite occasional outbreaks of ethnic/communal violence, the Mauritian political economy was characterised more routinely by guarded interaction and cohabitation. This may have had something to do with the nature of the sugar industry, or, as former economic advisor to the prime minister Roland Lamusse said, "f you want to talk about the relationship between the business community and government in Mauritius, you have to start with sugar."[47]

Mauritius began as a monoculture colony, dominated by sugar and the social and economic institutions associated with the sugar estates. Over time, Lamusse argues[48]

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[45] William F S Miles, "The Mauritius Enigma," *Journal of Democracy* 10, no. 2 (1999): 96.
[46] Ramakrishna Sithanen, Personal interview with author, 6 August 2001.
[47] Roland Lamusse, Personal interview with author, 24 July 2001.
[48] Roland Lamusse, in *Economic Planning and Performance in Indian Ocean Island States*, ed. R T Appleyard and R N Ghosh (Australia: National Centre for Development Studies, Australian National University, 1990), 34,35. (What the quote illustrates also is the precedent for business-government co-operation.)

> [p]olitical and institutional factors... reinforced the predominance of the sugar industry. During the colonial era the plantocracy played a prominent role in the formulation and implementation of public policy through its representatives on the Council of Government. Indeed, the sugar industry from its inception could be described as a political partnership: the estate owners (mainly of French descent) provided the capital and management and, when it became necessary, a source of labour and the imperial government provided (with some interruptions) a protected market.

Say the word "sugar" in Mauritius, and generally what is evoked by this are the large sugar estates controlled by the notorious "14 families" of Franco-Mauritians. However, there are also a significant number of modest, Indian-owned estates:[49] "35,000 'petit planteurs' form a powerful and vocal constituency... [along with] the 40,000 sugar workers in the mills and larger plantations."[50] The extent to which Francophone Mauritians monopolise the economic sphere has diminished considerably since colonial times with the emergence of significant Chinese and Indian entrepreneurs. Nonetheless, the perception persisted that just one or two percent of the population controlled the economy and that this dominance was rooted in their position as "sugar barons."

Reinforcing dissatisfaction with the concentration of resources was popular resentment of the historical role of Franco-Mauritians, in particular their association with the brutality of indentured labour. This made it risky for any mass-based party to identify or project itself as "the party of business." Until the early 1970s, business was closest to the largely Creole Parti Mauricien Social et Democrate (PMSD).[51]

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[49] The historical basis for this phenomenon lies in the late 1800s when the world price of sugar fell significantly. White estate owners began to sell off small sections of their estates to the handful of Indians who could afford to make such a purchase. Cf. John Addison and K Hazareesingh, *A New History of Mauritius* (London: Macmillan, 1984), 53.

[50] Leslie Crawford, "Barons Braced for Rationalisation," *Financial Times* 1994.

[51] Ravi Gulhati and Raj Nallari, *Successful Stabilization and Recovery in Mauritius, Edi Development Policy Case Series. Analytical Case Studies, No. 5* (Washington, D.C.: World Bank, 1990), 2.

This is not as strange as it at first seems. Many Franco-Mauritians and Creoles opposed independence because of fears of what Hindu political domination would yield for their group.[52]

Beneath the public hostility though, there was a record of real engagement between the sugar industry and the political powers. Mauritians are wont to refer to the "political price" of sugar. This is a reference to the fact that most Mauritian sugar is sold to the European Union (EU) at prices usually significantly above those set on the world's markets.[53] These prices are determined not by the market but in a series of deals negotiated by both governments. In this sense then, the price received by the sugar industry is a political price, inflated above "market" levels.[54] Governments in Mauritius have always made sure then to extract their own price for this favour: by imposing high taxes on the sector to fund welfare and other projects and by imposing onerous labour provisions not applicable elsewhere in the economy.[55] In a real sense then, revenues accruing from the sugar industry have funded development in Mauritius and fostered the island's political stability.

[52] Perhaps for similar reasons, many Sino-Mauritians supported the PMSD at the time of independence. Indeed the PMSD's alliance with the Labour Party in the immediate post-independence period is regarded as an important part of the explanation for why the latter did not fulfil many of its more radical and left wing platforms. In addition, the prominent Creole politician Gaeton Duval, was a great champion of the business community, the free market and the prospects for tourism within the government. He almost single-handedly built a pro-business platform in the PMSD.

[53] Mauritius is almost certainly the biggest beneficiary of provisions for ACP countries under the Lomé Convention and the agreements that have replaced it.

[54] Although the truth is that it is difficult to argue that the international "market" level is a true reflection of any kind of market-driven prices given the extent of state subsidization in the sub-sector.

[55] The sugar sector pays the highest mandatory minimum wage on the island. The reader should understand however the distinction between big sugar estates and small planters - and their consequent obligations. The latter succeeded in winning important concessions from government that the larger growers did not escape for a long time, specifically with respect to onerous labour and wage regulation and taxes.

For all its economic benefits, the dominance by sugar of the Mauritian economy gave rise to three problems: first, a legacy of distrust and suspicion between the economic and political elite; second, an economy rendered vulnerable by its extreme dependence on a single commodity; and third, high levels of unemployment. Diversification into manufactured exports promised partial remedy to all three of these.

Exporting unemployment, importing growth

In the mid 1960s the government of Mauritius had adopted mildly interventionist, state-driven policies, similar to those being adopted elsewhere in the developing world. A small number of parastatals were established at this time although the state's foray into ownership was not on the same scale seen in many other African countries.[56] Government began to implement a sort of ISI, but given the small size of the Mauritian economy, the strategy had in-built limitations (not least the country's tiny internal market). Certainly it could not create the requisite number of jobs or create sufficient growth to solve the problems of a high-unemployment high-inflation economy.

The advent of political independence in the late 1960s provided an opportunity to switch economic direction. A professor at the University of Mauritius, Professor Lim Fat, is widely credited for the idea that an aggressive export drive via EPZs was the way for Mauritius to go. It was an inspired choice. Not only was the

[56] SOEs included Air Mauritius and the State Bank of Mauritius. Overall levels of state ownership were low. Even in the sub-sector that was politically most vulnerable (sugar), the only state-run enterprise was a sugar mill purchased from an entirely willing seller.

policy switch perfectly timed to benefit from international receptiveness to increased trade but, crucially, the decision to go the labour-intensive export route also exploited Mauritius' abundance of labour and solved the country's unemployment problem.

Again, sugar was to prove the country's cash cow but this time the sub-sector did not require punitive prompting by government. Lamusse estimates that between 1970 and 1983 Mauritian businesspeople provided almost half the total equity capital to the new sector and 47% of that local equity capital came directly from investment by sugar companies.[57] (This was a contrast to Ghana and Zambia where public investment dominated). In the space of a couple of decades, the export of knits and clothing had displaced sugar as the chief source of employment and foreign exchange earnings in the country.

After the initial spurt, growth slowed. It became evident that there was some need for structural adjustment if the export sector was to regain its earlier momentum. In 1982, the leftist Mouvement Militant Mauricien (MMM) came into power with a landslide vote. The party firebrand, Paul Berenger, was made Minister of Finance. To the surprise of many, he did not embark on any of radical policies he had advocated for so long. Instead in 1983 he launched a structural adjustment programme and revived the flagging export programme. Ultimately Berenger lost his job as Minister of Finance by making what were considered overly generous nods in the direction of the sugar barons without extracting any significant concessions from them in return.

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[57] Leading shareholders included (in order of size) the Espitalier-Noel family (major shareholders in Afasia-Esquel), the Currimjees (Bonair), the Dalais group, the Dookun group, Rogers, and the De Grivel-De Nanclas, Lim Fat and Ah Chuen families. Cf. Roland Lamusse (November 1989) p24

He was succeeded as finance minister by Vishnu Lutchmeenaraidoo who continued Berenger's pragmatic, centrist policies to restructure the economy. These measures paid off. Mauritius' structural adjustment is widely regarded as a success. It was fortuitous that the decision to go with an EPZ strategy dovetailed with the interests of Hong Kong enterprises and businesspeople who, at that time, were looking for access to European Community markets.[58] As with sugar, a political price of sorts was received for goods emanating from the EPZs. Under the Lomé Convention, Mauritius was granted duty-free access for knits and clothing (without quota) to the EU (by contrast, East Asian states were subject to the Multi Fibre Agreement).

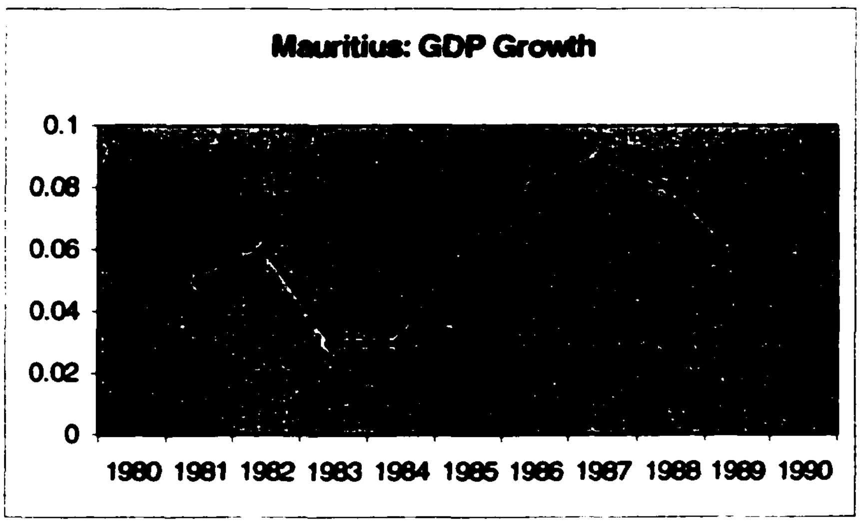

Figure 5. Source: *World Development Indicators*, World Bank Group

In the 1980s government began to recognise the potential offered by the tourism industry. The pro-business Creole politician, Gaëtan Duval, was a crucial

[58] Roland Lamusse points out that the restrictions that were particularly binding on Hong Kong were on knitwear and garments, the two areas where Hong Kong investors invested heavily in Mauritius. Cf. Roland Lamusse, "Adjustment to Structural Change in

figure dynamising government's response in this regard. Nonetheless, this was one of the few areas where the private sector in Mauritius played a lead role in developing a vision for its long-term development. (It was only as late as 1988 that government established a specific ministry for Tourism.)

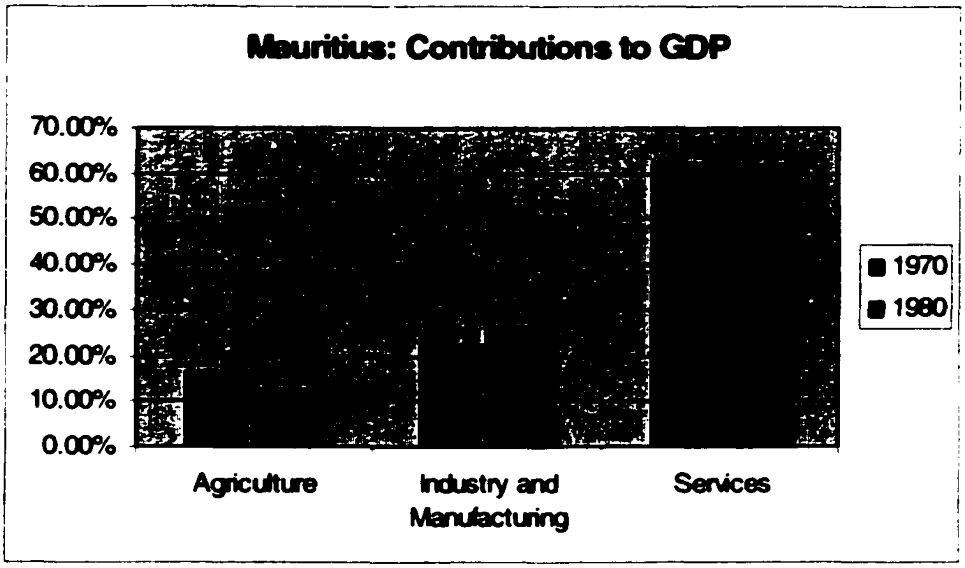

Figure 6. Note: 1960 figures not available. Source: *World Development Indicators*, World Bank

Manufacturing in a North-South Perspective," (World Employment Programme Research, 1989), 21.

The late 1980s found Mauritius in much better economic shape than either Zambia or Ghana, with a larger business sector that was distinct in both its social and economic origins from the state. In addition, despite their mutual antagonism, business and government had a history of discreet cooperation. The 1990s brought a new set of challenges. I examine these in detail in Chapter Five.

South Africa

The history of South Africa's business sector bears some surprising resemblances to that of Mauritius. In both cases, economic power developed out of the exploitation of a single natural resource and was historically concentrated in the hands of an ethnic minority, while a separate – sometimes hostile – ethnic group consolidated its hold on political power. South Africa's economic history however has been shaped by a more active and independent private sector while Mauritius' history was driven by what Robert Wade would call a developmental state.[59] And while Mauritius was built on sugar, it was mineral resources (gold primarily) that succoured early South African entrepreneurs. The South African economy has since diversified well beyond its mining origins and grown into the largest economy on the continent. As in Mauritius however, economic activity has historically been dominated by an ethnic minority, and race and ethnicity have carved out distinct economic and political spheres.

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[59] Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, New Jersey: Princeton University Press, 1990).

South Africa's white community is split roughly equally between English-speakers and Afrikaners. The conventional wisdom is that the former enjoy most *economic* power while the latter won *political* power through their dominance of the state.[60] While crude, this description was true for much of the country's history. Control of the economy by English-speakers dates back to the early part of the century when English-speaking entrepreneurs created and seized control of fledgling commercial and mining interests. The free-for-all economic liberalism of the "gold rush" economy was tempered by the development of a broader industrial and manufacturing sector and gave way to economic nationalism and the by now familiar ISI strategies.

Afrikaner state, English capital

The coming to power in 1948 of Afrikaner nationalists consolidated this division of power. The National Party (NP) was committed to fostering "*volkskapitalisme*" – people's capitalism. Of course, the "people" who were to enjoy the benefits of capitalism did not comprise all South Africans but was limited by race and ethnicity.[61]

Economic policy in Afrikaner nationalist circles at the time displayed a distinct ambivalence about capitalism (little wonder, given that capital was held mostly in English-speaking hands). From 1948, there was an intensification of

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[60] Allister Sparks describes English-speaking white South Africans as "a curiously helpless and rather pathetic community unable to identify with either side in the conflict of nationalisms withdrawing into the private world of business and home and sunlit leisure." Allister Sparks, *The Mind of South Africa* (London: Heinemann, 1990), 46,47.

policies designed to boost the economic status of poor whites, frequently Afrikaners. As elsewhere in Africa upon independence, this period saw the establishment of a number of large, state-run concerns such as ESKOM (the electricity supply commission), SASOL (a parastatal initiative to develop oil from coal), SAFMARINE (a shipping firm) and ALUSAF (aluminium production).[62] And again, as elsewhere in the continent, parastatals played an important role in industrialisation. According to Sadie[63]

> of special interest to Afrikaners was the assumption of the entrepreneurial function by consecutive NP governments by way of the establishment, and the expansion of existing, parastatals. ... Many of these became industrial or financial giants dominating their respective fields and served the role of prerequisites for the generation of economic growth. ... They created opportunities for Afrikaners they would otherwise have lacked. To head these enterprises Afrikaner scientists and others, who did not have access to English dominated firms in the private sector, were appointed. ...

One of the tools employed to promote Afrikaner capital was the award of lucrative government contracts.[64] In addition there was much resentment from English-owned banks of bailouts from the Reserve Bank (the country's Central Bank)

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[61] Nattrass and Terblanche describe this as "the mobilisation of ethnic forces to foster Afrikaner accumulation." Cf. Nicoli Nattrass and Elisabeth Ardington, eds., *The Political Economy of South Africa* (Cape Town: Oxford University Press, 1990), 12.

[62] It is of course not the case that all Afrikaner business developed or prospered because of its relationship to an Afrikaner state. While this is true of a large number of firms at their founding and in the heyday of apartheid, it became less true as the economy developed in the 1960s and 1970s. In addition, there are examples such as the strikingly independent Afrikaner entrepreneur, Anton Rupert of Rembrandt. Despite the fact that his company may have benefited from its association with the NP, he was publicly opposed to the colour bar. Other examples include Alton's Bill Venter and Pepkor's Christo Wiese, and serve as warning of the dangers of generalisation. Nonetheless, it remains true, that much of what became Afrikaner capital grew out of a very particular conception of ethnic advancement and the role of the state in fostering this.

[63] J L Sadie, "The Fall and Rise of the Afrikaner in the South African Economy," (Stellenbosch, South Africa: 2001), 76, 77.

[64] A frequently quoted example was the northern Afrikaans Press who received a large number of government contracts as result of political connections. J L Sadie, "The Fall and Rise of the Afrikaner in the South African Economy," (Stellenbosch, South Africa: 2001), 66.

to commercial Afrikaner banks such as Trust Bank, Bankorp and ABSA. Here perhaps was a germ of what led, elsewhere, to the yoking of political and economic power – yet this outcome did not pertain in South Africa.

While the NP came to power threatening to nationalise large swathes of industry, its actual policies were more moderate as successive governments reached an accommodation with the existing business community.[65] South Africa had what many of its fellow African economies did not: a robust, pre-existing, market-based and autonomous business sector. It was not only the state that had to reckon with the private sector; Afrikaner business did too. Despite its origins, Afrikaner capital ultimately had to learn to operate and survive in an environment that was predominantly market-based.

The 1950s and '60s saw rapid economic growth; they also saw the implementation of "grand" apartheid and, concomitantly, the growth of black resistance and repression. In response to government encouragement, a stronger Afrikaner business class began to develop. There was at this time some softening of relations between the English-speaking business community and Afrikaner government as racial solidarity against the black masses came to trump ethnic particularities within the white community.

Far-sighted elements of the English-speaking business community acted to foster a brand of Afrikaner business that was autonomous from the state. In perhaps the most dramatic illustration of this, in 1964 the giant Anglo American Corporation

[65] There are distinct parallels with perceptions, forty years later, about what the ANC's policies would be prior to its accession to power, and its actual policies whilst in power. More about this in Chapter Six.

(AAC) allowed an Afrikaner group to purchase General Mining, the first significant Afrikaner purchase within the mining sub-sector.

Over time Afrikaner business developed a higher level of autonomy from the state. Leonard Thompson argues that "[a]s Afrikaner business people became more numerous and more successful, they became committed to the market economy, and consequently less dependent on political patronage and less tied to the rigid racial ideology of the past." [66] As the white community prospered and the black political threat sharpened, "affluent Afrikaners increasingly became indistinguishable from other affluent whites."[67]

This is not to argue that the historical enmity between Afrikaners and English-speakers vanished. As apartheid evolved, estrangement on political grounds between the more liberal-minded elements of the (mainly English-speaking) business community and the more *verkrampte* (conservative) elements of the Afrikaner political community may have worsened. In 1982 for example, Harry Oppenheimer (perhaps the single most important businessperson in the country at the time) could not obtain an audience with the then Prime Minister Vorster without going through Afrikaans intermediaries. President PW Botha apparently refused even to be in the same room as him.

Some of this was doubtless posturing for public consumption. According to Louwrens Pretorius, "[t]he exclusionary nature of Afrikaner nationalism did not allow

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[66] Quoted by Anthony Sampson, *Black and Gold: Tycoons, Revolutionaries and Apartheid* (London: Hodder and Stoughton, 1987), 231.
[67] Heribert Adam, Frederick van Zyl Slabbert, and Kogila Moodley, *Comrades in Business: Post-Liberation Politics in South Africa* (Cape Town, South Africa: Tafelberg Publishers, 1997), 58.

consultation between the government and English-dominated business to be seen."[68] The exigencies of maintaining white unity in the face of growing international isolation and ever more determined levels of black resistance at home necessitated a strategic and increasingly public alliance with English-speakers and with the business community. In November 1979, PW Botha summoned business to the Carlton Centre Conference. Here[69]

> South African businessmen proved easy to manipulate...Many businessmen later looked back at the [Carlton] meeting with recriminations. 'What we rather naïve businessmen failed to realise was that we were, in fact, being "set up",' said John Wilson of Shell seven years later: 'that those conferences were nothing more than a forum for the propagation of government policies'.

From the 1970s, ever-larger numbers of black workers began to enter the "white" cities to provide labour. It became evident that apartheid would not be sustainable, either politically or economically and that ultimately business would be confronted with the need to become overtly politically engaged, on one side or the other.[70] Business was caught up in a highly political game and many threw their lot in with the apartheid government.

Black state, white capital?

In the spectrum of political views within the private sector, industrialists in South Africa tended to be more conservative than the bankers and hence more amenable to approaches from the NP. However the mining group AAC was a notable

[68] Quoted in Heribert Adam, Frederick van Zyl Slabbert, and Kogila Moodley, *Comrades in Business: Post-Liberation Politics in South Africa* (Cape Town, South Africa: Tafelberg Publishers, 1997), 170.
[69] Anthony Sampson, *Black and Gold: Tycoons, Revolutionaries and Apartheid* (London: Hodder and Stoughton, 1987), 133.
[70] The English-speaking business community traditionally regarded itself as "apolitical."

exception. Perhaps the (literally) sunken nature of its assets in the South African economy forced it to adopt a long-term approach, a view that recognised that a sustainable political solution to the country's problems was necessary if any kind of economic development was to occur. The corporation's chief executive officer (CEO) Harry Oppenheimer subscribed to a point of view that came to be known as the 'Oppenheimer thesis' namely that apartheid and economic growth were incompatible and that growth would "make apartheid wither away as blacks were drawn into skilled jobs and middle class life."[71] The corollary of this view was that the development of a prosperous black middle class would ensure the political and economic stability of the country.

This view was adopted, at least in public, by other elements of the business community. Bernstein argues that[72]

> the period late 1984 to mid 1986 represented a watershed in terms of the volume of business comment on political issues, the widespread and explicit rejection of apartheid [by business] and the greater clarity in enunciating principles and values on which a new order should be constructed. For the first time, organised commerce and industry, numerous individual businessmen across the English-Afrikaans divide, and two major foundations decisively rejected the essential principle of apartheid policy and the societal costs of enforcing such a policy.

This is undoubtedly true, but it certainly does not present the whole picture. The enlightened response that she notes was a minority position within the business community. In the face of growing international isolation in the 1980s that was

[71] Anthony Sampson, *Black and Gold: Tycoons, Revolutionaries and Apartheid* (London: Hodder and Stoughton, 1987), 95.
[72] Ann Bernstein, "Business and Public Policy in South Africa," (Johannesburg, South Africa: The Urban Foundation, 1998), 3.

harming business prospects, the majority of the business community implicitly, perhaps even unconsciously, entered into an "unholy alliance" with the state.[73]

Forward-thinking members of the business community realised that they could no longer restrict themselves strictly to business concerns but would need to involve themselves in the country's political life. A series of quiet, low-level initiatives were launched in the turbulent 1980s. In January 1985 David Willers of a leading business organisation, the SA Foundation,[74] met two representatives of the ANC in London. In 1986 a group of businesspeople convened out of concern "that the South African economy and society would deteriorate and polarise irreversibly if something was not done." [75] Mandated by this grouping, the businessman Christo Nel began to meet with, first, the United Democratic Front (UDF)[76] and then ANC leadership. The group was formally constituted as the Consultative Business Movement (CBM) in 1998. Ongoing contacts between CBM and ANC-aligned activists provided evidence that the "[m]ass democratic movement representatives accepted that they needed to develop contact with a small minority of willing if

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[73] Terblanche and Nattrass in Nattrass and Ardington (1990), *op cit.* p17

[74] Strictly speaking this is not the same organisation as the one with the same name figured prominently in the 1990s. The two organisations share many members but do not overlap in time, and have different constitutions, boards and missions. The SAF of the 1980s focused on "improving the international business environment for South African business. Commentators on the left accused it of being essentially a sanctions-busting outfit, intended to white wash the image of South Africa abroad. At any rate, its focus was on the international front. By contrast, the SAF of the 1990s essentially represents the views of South Africa's largest companies on macro-economic policy issues to the South African government. It is therefore much more focused on domestic issues.

[75] T N Chapman and M B Hofmeyr, "Business Statesman of the Year Award" (paper presented at the Harvard Business School Club of South Africa, 10 August 1994), para 2.

[76] The UDF was a wide-ranging association of civil society associations, closely aligned with the ANC (then banned and in exile) but not formally attached to it.

unsure business leaders. And the business leaders realised that they had to take a leap of faith."[77]

Figure 7. Source: *World Development Indicators*, World Bank Group

The CBM played an important role in a second, very different, Carlton Conference in May 1990 where Nelson Mandela headed up a 40-person ANC delegation to meet with senior business leaders. Here the parties began discussions on the controversial issue of nationalisation, business' chief fear. Chapman and Hoffman argue that at this meeting "[w]hat began to replace this rhetoric was a deeper debate about the nature of the mixed economy and ways to transform the political economy constructively and in partnership with each other."[78]

A number of business-minded think tanks were also established at this point, churning out policy recommendations for how best to reform the South African

[77] Harvard Business School Club of South Africa (10 August 1994) *op cit.* para 2
[78] *Ibid.* para 5. Several years later, the CBM leadership guided the establishment of the National Economic Forum in 1992, intended to play a role in developing a common economic vision between business, government and labour. CBM also played a significant role in the political transition, most notably providing secretariat services to the CODESA

political economy.[79] Whatever its failings, business had demonstrated that it was able to articulate independent interests from those of the ruling party and that it could and would act to secure a long term future for capitalist development.

What of black business people? Needless to say, apartheid had severely stunted the development of black entrepreneurship. Most black businesses were, at best, small (micro, even) or medium in size and restricted to petty trading and service provision.[80]

The racial profile of the business community (white and predominantly English-speaking) and its political relationship with the white minority government generated an extensive debate about whether apartheid contributed to or retarded economic growth and development in South Africa. At stake here were the political credentials of the business community: did businesspeople collude in, and profit from, the crime of apartheid (as many in the black community argue) or were they a liberal voice in favour of free markets and greater political freedoms (as many in the business community now assert)? Historically, the ANC and its allies had adopted the first view. As the ANC became more influential and moved into political power, the

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process, logistical support to mediation attempts to incorporate the Inkatha Freedom Party (IFP) into negotiations and playing a key role in the Peace Accord.

[79] There was an important respect in which government *did* heed the urgings of liberal business, namely government's decision to legalise the formation and operations of black trade unions. The AAC's Oppenheimer and Relly were important in lobbying for this change.

Individuals such as Bob Tucker who had been exposed to parlous conditions in black townships because of his work with the progressive Urban Foundation of Sanlam frequently played a prominent role. Other notable liberals included Tony Bloom of the Premier group and Chris Ball, the young managing director (MD) of Barclays Bank who had got himself into so much trouble for talking to the ANC in the 1980s.

[80] An important exception may be the development of the black taxi industry in the 1980s as restrictions on public transport were eased and/or ignored by the authorities.

way this debate played itself out became vital for business and its role in economic policymaking in the 1990s. This story is told in Chapter Six.

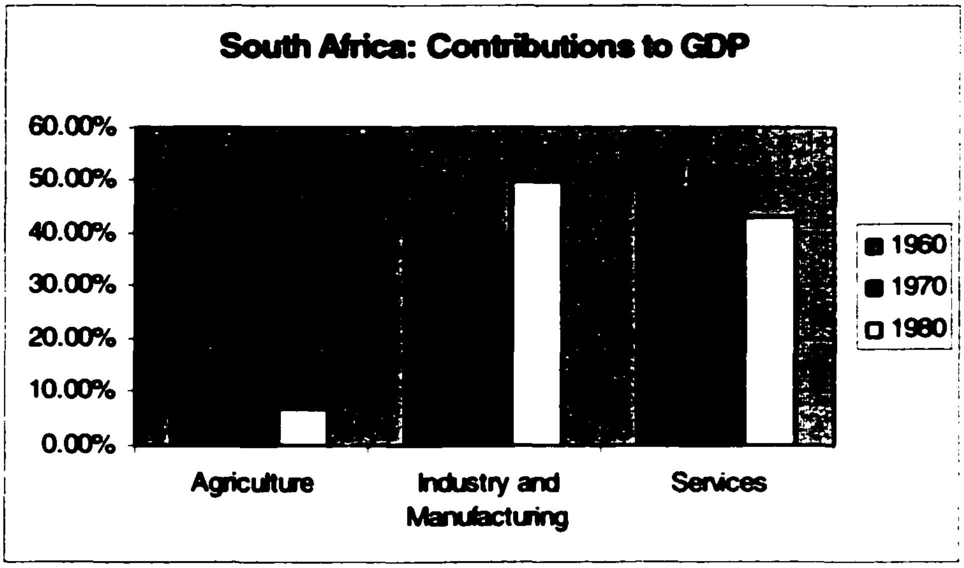

Figure 8. Source: *World Development Indicators*, World Bank Group

Conclusion

I have traced the development of the African business sector from its pre-colonial and colonial origins, through the optimism of early independence and into the decline of the 1970s and '80s. While the fortunes of the business sector rose and fell with those of the national economies, it was nonetheless evident that, in many cases, the African business sector was a sickly infant: small, weak and excessively dependent on the protection and favour of the state. It also came to resemble that state in important ways because of a context that was predominantly neo-patrimonial, rather than conventionally capitalist.

As is common for colonies, the modern economy of each of my four country cases grew out of some form of primary commodity production. Copper in Zambia, cocoa in Ghana, sugar in Mauritius and gold in South Africa all provided an important source of energy and capital for would-be entrepreneurs in each of these countries. While all four countries can be analysed as African political economies within the broad framework outlined above, a closer examination reveals important differences among them. The size and nature of the business community that grew from these origins was rather different in each case. In particular, the business communities vary in the extent to which business came to enjoy relative autonomy from government and in the extent to which business operated primarily in a market-driven context or one dominated by neo-patrimonial behaviour. It is this variation that I examine more closely in the next four chapters where I probe the respective capacity of each of these four business communities to shape economic policy in the 1990s.

CHAPTER 3

BUSINESS AND GOVERNMENT IN ZAMBIA:

TOO CLOSE FOR COMFORT

After decades of economic failure and decline in Zambia, the transition to multiparty democracy in 1991 presented Zambians with an opportunity to redraw their political and economic landscape. Despite an auspicious start to the reform process however, by the end of the decade there had been no fundamental revision of the role of business in economic policymaking. The puzzle that this chapter seeks to solve concerns this surprisingly low level of input by business into the economic policymaking of a government that had embraced, apparently fervently, an extensive role for the private sector in the economy. In particular, why was it that, despite a high level of influence in the formation of the Movement for Multi-Party Democracy (the MMD) as a party and in the early days of the MMD as government, the business sector as a corporate entity rapidly lost this level of influence?

My answer is two-fold. First, despite the apparent political revolution represented by the return to multi-party politics and the conversion to neo-liberal economics, government by the MMD rapidly reverted to an older, neo-patrimonial mode of governance in which the access of business to the state was personalistic. Second, the voice of organised business weakened over the course of the decade. This was due to the emergence over time of doubts within the business community about how economic reform was being implemented, to the centralisation of political power around President Frederick Chiluba, and to the overwhelming influence of the World Bank and IMF.

The argument is laid out as follows: The chapter begins with an outline of the nature of the Zambian economy, of the Zambian business sector and of economic policymaking in that country. I then proceed to the core question, namely the ability of the business sector to press successfully its policy preferences with government. In this, I consider a number of business' policy demands, principally the liberalisation of trade and privatisation. The chapter concludes with an assessment of what business won and lost, and why this was so.

The Zambian Political Economy

The modern Zambian economy developed around the country's copper mines. Despite the country's rich soil and mild climate, agriculture has long been neglected. By contrast, industry and manufacturing developed largely to service the mining industry. Both of these sub-sectors grew strongly in the two decades after independence, strengthened by the prosperity of the copper sub-sector, and by the state's import substitution industrialisation (ISI) policies. Chapter two discussed the collapse in the price of copper in the mid 1970s. As a result of that collapse and a lack of diversification, by the 1990s the entire economy had shrunk and Zambia was in a state of political and economic crisis.

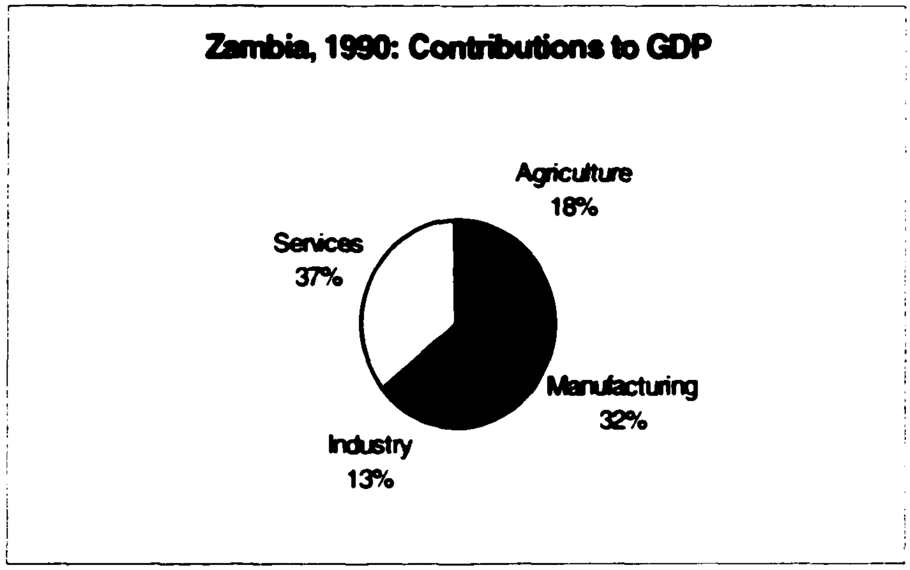

Figure 1. Source: UNCTAD *Handbook of Statistics*, 2000*

Membership of Zambia's business community cuts across all of the country's 70-odd ethnic, linguistic and racial groups. As outlined in chapter 2, at independence, parastatal enterprises and state-owned enterprises (SOEs) became an important incubator for entrepreneurs. Then-President Kenneth Kaunda, widely regarded as an astute manager of ethnicity, was careful to balance and diversify ethnic spread in his appointments to the state's parastatal empir As a result, business in current-day Zambia is not excessively dominated by any one ethnic grouping.[1]

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* The size of the industrial and manufacturing sub-sectors might surprise some, given Zambia's status as a low income, African economy. Two points should be borne in mind here. First, while they comprise a relatively large share of the GDP, the overall size of that GDP is small. Second, the share of GDP contributed by industry and manufacturing says more about the weakness and neglect of the agricultural subsector than it does about the strength of Zambia's industrial economy. Zambian development has long been disproportionately skewed toward the copper mines.

[1] There are allegations that President Frederick Chiluba's government in the 1990s favoured northerners (Chiluba is himself a Bemba from the North). There is however little evidence of significant and sustained ethnic favouritism, or that this shaped the business community in any particular way.

On the face of it, race might be a more salient issue for the business community. Kaunda did embark on a conscious policy to indigenise ownership and management of the Zambian economy, appointing large numbers of indigenous (black) Zambians to prominent positions in the SOE sectors and promoting the fortunes of Zambian firms. Despite these efforts, white and Asian businesspeople continue to be prominent in the business community.[2] Yet, while the business community is characterised by ethnic and racial plurality, these factors do not appear to be a major source of tension between business and government.[3] Rather, because those appointed by Kaunda after independence owed their positions and their affluence to political favour, historically these factors served to bind entrepreneurs to the state.

The primacy of these individual or firm-level connections to the state is the more important characteristic of the business community. There is, in Zambia, very little room for profitable business outside of a relationship with the state. As one businessman observed, "the whole framework of doing business is doing deals with government."[4] The dependence of business in Zambia on the state is unusually one-sided, in part because of the structure of the economy. Government has long received its revenue directly from copper and from its control of that sector through the state-

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[2] Certainly, whites and Asians have often served in leadership position within leading business organisations.

[3] Unlike in South Africa, racial divisions are not a major cleavage although "some latent racial hostilities persist." Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 147.

[4] Anonymous, Confidential interview with author, 14 July 2000.

owned Zambian Consolidated Copper Mines (ZCCM). It is thus not reliant on the fortunes of the broader business community.

For its part, indigenous business in Zambia is unusually small and weak. With the patronage power conferred by its purchasing and contracting budget, government is able to dominate the market as a consumer of goods and services. According to one observer, even under an MMD government, "[b]ig business is quasi-parastatal. You're supplying government and lending money to government. A huge proportion of the private sector milks the government for a living."[5]

Because of its control of the communications and energy sectors, government is able to control many of the input costs that business faces. Finally, and more difficult to specify, is the influence that government has in shaping the overall milieu within which business must be conducted. As one businessman told me: "If you are a businessman and you choose to go against government policy, you are on a highway to nowhere."[6]

Two business associations represent business in its formal and public interactions with government.[7] The Zambia Association of Chambers of Commerce and Industry (ZACCI) is an encompassing (that is, economy-wide) national body composed of local chambers of commerce. Since its founding in 1938, the chamber movement has collapsed and re-emerged several times and was renamed ZACCI in

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[5] Guy Scott, Personal interview with author 2000.
[6] Mark O Donnell, Personal interview with author 2002.
[7] ZACCI and ZAM are the most important and visible representatives of the business community in Zambia. While there are other sub-sectoral representatives, such as the Tourism Council and a board that deals with the insurance sub-sector, they are not nearly as high profile and barely feature in economic policy discussions.

1992.[8] As is typical of chamber movements, ZACCI represents a spread of businesses, large and small and from all sub-sectors of the economy. Around 20 corporate firms (some of the largest firms in Zambia) are direct members of ZACCI. On the whole however, ZACCI relies for its legitimacy and funding on the membership and reach of local chambers. As it is a coalition of chambers, most individual firms are members first of their local chambers, which are in turn members of ZACCI. The payment of membership dues is on an honours system and is not reliable. This has forced ZACCI to rely instead on donor support for many of its programmes.

ZACCI exemplifies the characteristics of the broader Zambian business community. While many of its members and office bearers are perfectly conventional businesspeople, others have close connections with government. For example, Ronald Penza (later Finance Minister) and Alex Chikwanda (later Presidential Chief of Staff) occupied leadership positions in ZACCI before the political transition and their subsequent involvement in government. MMD MP and one-time Minister of Foreign Affairs Vernon Mwaanga was also a ZACCI trustee until 1994.[9]

The Zambian Association of Manufacturers (ZAM) was founded in 1985 in order to address the more specific needs of Zambian manufacturers. It is thus more targeted in its policy demands than ZACCI. While there is significant overlap between the two organisations on their policy positions, ZAM is more inclined to

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[8] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 133.
[9] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 138.

seek such policies as reduced VAT rates or some manner of protection for manufacturers.

ZAM is both smaller and less well institutionalised than ZACCI. Unlike ZACCI, it has no permanent office or full-time secretariat.[10] ZAM's membership is more homogenous (in addition to members generally coming from the same sub-sector of the economy, ZAM's member firms tend to be Zambia's slightly larger enterprises). This facilitates consensus building within the organisation.

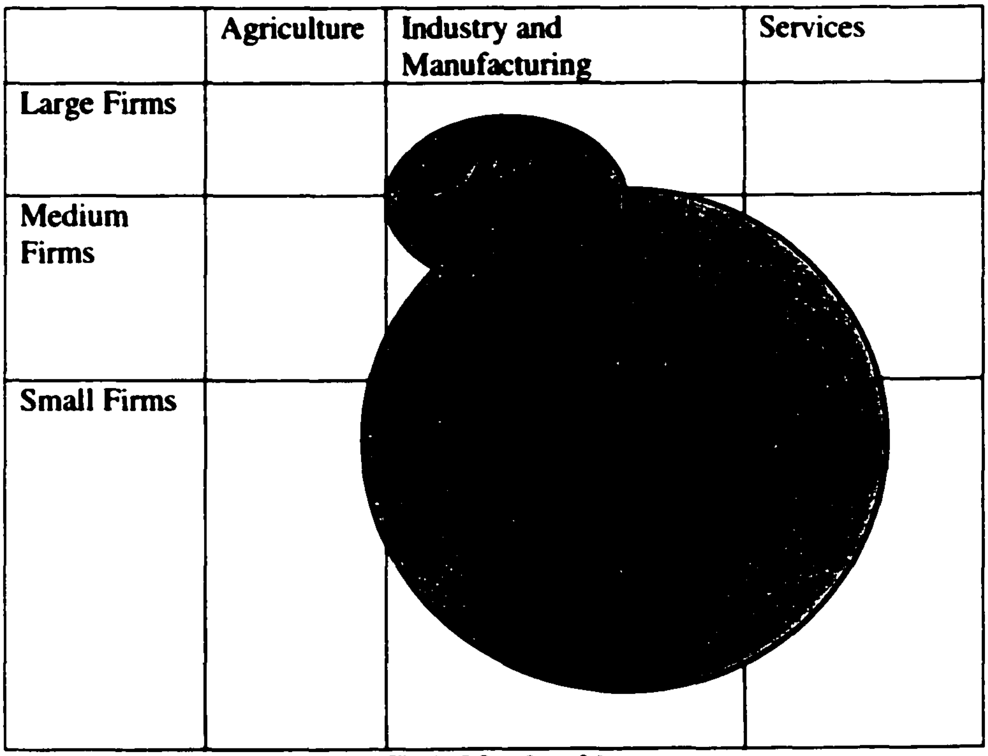

Figure 2. Business Associations and Their Membership

[10] Rather, ZAM is usually just run out of the office of whoever heads the Association up at the time. As a result, the Association has low overhead costs but its effectiveness varies, depending on the leadership.

Economic policymaking in Zambia

As in many highly centralised polities, the National Assembly and members of parliament (MPs) are marginal to the making of economic policy in Zambia. The transition to multi-party democracy in 1991 did little to change this. Accordingly, business continued to direct its lobbying efforts at the executive and the relevant ministries. Overall policy direction was generally dictated from the offices of the President, Finance and Commerce Ministers and senior members of the bureaucracy.

Because of Zambia's level of indebtedness, World Bank and IMF officials also had vital input into policymaking. This did not mean however that, during the 1990s, select Zambians were unable to shape the way that structural adjustment was actually implemented in their country – but they frequently did so in order to secure personal advantage rather than according to an alternative ideological approach.

Economic Reform in the 1990s

By the end of the 1980s, Kenneth Kaunda's United National Independence Party (UNIP), which had ruled Zambia since independence, seemed completely unable to resolve Zambia's political and economic crisis. Business concluded that economic recovery was dependent on political change. It looked, at first, as if they just might get both.

The business of political reform

In July of 1990 a number of leading businesspeople played a key role in founding - and funding – a new opposition movement, the Movement for Multi-Party Democracy (MMD). Weary of years of economic mismanagement and decline, the private sector quickly aligned itself with the demand for change in both the political and economic sphere. Business was thus closely associated with the MMD from the start.

The basis for what was to become the MMD's economic reform agenda was developed in a number of informal, broadly-based settings outside of the state. Perhaps the most organised and effective forum for such discussions was a discussion forum associated with the University of Zambia, the Economics Association of Zambia (EAZ). The EAZ provided a secure platform where reform-minded individuals from within government, the university and research institutions, and business could explore ideas for reforming the economy. Toward the end of the 1980s as the UNIP government continued to falter, these discussions turned increasingly in a business-minded and even neo-liberal direction. Many of the ideas that were to inform the MMD's economic policy in its first few years in office emerged directly from EAZ debates.

The manifesto of the MMD proposed a dramatic transformation of the governance of Zambia. Politically, the manifesto committed the new party to moving away from the centralised and personality-driven nature of UNIP-style politics. Economically, the document proposed a radical overhaul of the commandist economy to one in which government's involvement in the economy was minimal and limited to the most skeletal provision of social services.[11] Instead, a rejuvenated private sector was to drive the economy, rejuvenated by the privatisation, liberalisation and deregulation of the economy. In short, the MMD Manifesto presented an attempt to revolutionise relations between the public and private sectors.

What business said it wanted
Privatisation
Trade liberalisation
Deregulation

Table 1.

Organised business was not formally represented in the drawing up of the manifesto, but it seemed that it did not need to be. MMD activists were intent on overturning UNIP policy. For the economy, this meant moving away from a failed commandist model toward precisely the set of free market models that the major business organisations would have pressed for.

Despite the oppositional nature of the new MMD's manifesto, the MMD did not represent a complete departure from UNIP-style politics, or personalities. In the elections that followed, 20 of the MMD candidates for the National Assembly had previously served as UNIP MP's, including 12 who had served either in cabinet or on the Party's Central Committee.

[11] Dipak Patel, Personal interview with author 2000.

Nonetheless, embodying (as it appeared to do) the popular demand for change, the MMD swept to power in 1991, in the first multi-party elections in Zambia in decades. The new government under the leadership of the former trade unionist Frederick Chiluba embarked upon a radical programme of economic liberalisation. Business hoped to be a partner in that process.

The reform honeymoon

In the early years of the new regime, the urgency of the economic crisis provided an opportunity for a small number of key, reform-minded people within the cabinet and civil service to push through a far-reaching and breathtakingly rapid programme of economic liberalisation. Business was enthusiastic about the new government and what it was attempting. At the time, business' interests were in accord with the prescriptions of the international financial institutions (IFIs), and it seemed that government sought to please both these sets of actors.

It was during this period that Zambia earned its reputation as a star pupil of the World Bank. The MMD worked hard to establish the credibility of both the political and economic reform process and largely succeeded in this; in fact, the reputation of Zambia's government as one imbued with reformist zeal was ultimately to outlast the reality as, over time, government's commitment to a set of economic principles began to erode from within, replaced by politics as usual.

The MMD gets personal(istic)

In 1993 the MMD government imposed its first State of Emergency. The party defended the move as a response to a "subversive coup plot" hatched by elements within UNIP. The decision to impose a repressive State of Emergency was an indictment for a party that had come to power opposing precisely such measures.

In April of the same year, President Chiluba reshuffled his cabinet, ejecting a number of reform-minded ministers including Emmanuel Kasonde (Finance), Guy Scott (Agriculture), Humphrey Mulemba (Mines) and Arthur Wina (Education). The reshuffle was significant not so much for the way it shifted the balance of power between economic reformers and non-reformers[12] but for what it indicated of what lay ahead. Those who were axed were independent minded, not beholden to the president and vocal about what they saw as a creeping tendency to revert to the toadyism and patronage that had prevailed under Kaunda. Three other party stalwarts, including founder members of the party, (Baldwin Nkumbula, Akashambatwa Mbikutsita-Lewanika and Katongo Main) were also forced out of the MMD at this time as Chiluba and his supporters sought to consolidate their political power. A generational struggle within the MMD[13] was settled in favour of the old guard in March 1995 when Chiluba launched a public attack on the younger politicians and

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[12] There were neo-liberals who remained in cabinet and a number of the new appointees or promotions were also reform minded.

[13] On the one hand were the self-styled "Young Turks," a loose grouping of young, reform-minded politicians within the MMD with a commitment to the original MMD Manifesto who wanted to see the party move toward a more accountable and transparent mode of operating. (At the outset, this group included Katele Kalumba (later made Finance Minister), Dipak Patel, Eric Silawamba and Vincent Malambo). On the other hand, the old guard comprised those who had been prominent within UNIP and tended to bring many of the old ways of operating and transacting with them into the new government.

fired two deputy ministers identified with the "Young Turks," namely Derek Chitala and Dean Mun'gomba. Chiluba came to surround himself with supporters who were "absolutely ruthless" in pursuit of their own interests, according to a local businessman.[14]

By 1996, Zambian governance had become dangerously partisan and personalised. In that year, elements close to Chiluba passed a constitutional amendment intended to bar Kaunda from running again for president. In the same year, unknown political forces set off a series of bombs in the capital, and the state brought treason charges against the UNIP leadership. ZACCI became increasingly concerned about the impact of political repression on business confidence, investment, donor support and the economy more broadly. These reservations were discreetly expressed however. Organised business did not endorse the opposition, intervene directly in elections or make any statements that could have been construed as politically partisan.[15] The personalization of politics was not only bad news for political liberalization but for economic reform too.

Specific policy demands

As the economic reform programme unfolded, business' policy preferences moved beyond support for the broad outlines of reform, to engagement with the details of implementation. While ZACCI and ZAM did not publish a definitive or comprehensive list of business' emerging policy preferences, these can be broadly

[14] Anonymous, Confidential interview with author, 14 July 2000.
[15] The Zambian National Farmers Union, by contrast, was a lot more assertive. See Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998).

imputed from in-house documents, association publications and the statements of the associations' office bearers. Given the extent of state ownership in the economy and just how inefficient and expensive those state-owned enterprises (SOEs) had become, and given how important the recovery of the mining sector was to prospects for the overall recovery of the Zambian economy, the call for privatisation was foremost among business' demands for economic policy reform. The deregulation and liberalisation of trade, prices and the currency followed closely thereafter.

What business said it wanted	**What business actually wanted**
Privatisation	New investment in the mining sector; Rejuvenation of the Copperbelt
Trade liberalisation	Export promotion; A staggered timetable of opening; Macroeconomic stability; Competitive input costs including access to credit
Deregulation	Freeing of prices; Currency devaluation; Investment friendly measures; Financial deregulation

Table 2.

Privatisation

While it was a key constituency in support of the overall economic reform programme, Zambia's business community was not universally pro-privatisation. The best explanation for this is the contradictory and bifurcated nature of the Zambian business community: a small number of genuinely private sector entrepreneurs and a larger business class that rose to prominence through the state industrial sector.

Business associations, forced to consider the best interests of the private sector as a whole, could grasp readily the theoretical benefits to the economy of privatisation. Individual businesspeople were more inclined to hunt for individual profit making opportunities for themselves, and these did not always lie with a quick, efficient sell-off of state assets. Some resented the fact that few Zambian entrepreneurs could afford to purchase these assets. Abel Mkandawire, then chair of ZACCI, put it as follows:[16]

> The big disappointment has been that there was no market; no one was able to buy [privatised] companies as there are few Zambians coming from a business background with capital. Most of us have a background in the parastatal industries and we have no capital.

Further, while ZACCI and ZAM were consistently pro-privatisation throughout the 1990s, they quickly came to oppose the way in which this was being pursued. Specifically, business associations were perturbed by growing allegations of improper tendering procedures and of assets being sold to political insiders.

Even without these neo-patrimonial elements, however, it is likely that areas of disagreement would have emerged between business and government on how to pursue privatisation. Privatisations can be technically complex to manage and many different choices are available at each step of decision-making. It is not surprising then that there was some dissension about how the overall programme was undertaken. Business argued that the process should be undertaken in such a way as to inject new ownership, investment and higher levels of efficiency into the Zambian

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[16] Lise Rakner, "Reform as a Matter of Political Survival: Political and Economic Liberalisation in Zambia 1991-1996" (Dr. Polit Dissertation, Christen Michelsen Institute, 1998), 114.

markets and into the Copperbelt. What was disturbing for the associations was how instead neo-patrimonial logic began to dictate the course of the process.

Government began its privatisation programme slowly. Technocrats argued that it was important to start with the smaller sell-offs in order to prepare for the more important privatisations that lay ahead. Mostly however, this seemed to provide opportunities for bureaucrats in ZIMCO, the state's holding company to sabotage the process.[17] President Chiluba, under pressure from the IFIs to show results, ultimately transferred the responsibility for privatisation away from ZIMCO to the Minister of Commerce, Trade and Industry.

Privatisation subsequently picked up speed and, by the end of 1997, 213 out of a potential 331 entities had been privatised. These figures should not be read as proof of government's commitment to swift and efficient privatisation however. The privatised entities were mostly small companies[18] that netted for the state a paltry $70mn.[19] The really important privatisation, that of ZCCM, still lay ahead. It was obvious to all that ZCCM would be the centrepiece, not only of the privatisation programme, but of any economic recovery. Business hoped that the sale of the copper mines would revive the whole mining sub-sector and, in turn, rejuvenate all the firms that served the mining sub-sector.

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[17] They employed a wide variety of tactics, from personal attacks on the leadership of the ZPA, to lobbying various ministers, leaking sensitive information to the press, providing illegal retrenchments benefits to selected managers, and stripping assets.
[18] Zambian Breweries and the Zambian Sugar Company were notable exceptions.
[19] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 239-42.

All three of the major, private sector organisations, ZACCI, ZAM and ZNFU, were vocal in their criticism of the delay in the privatisation of the mines, and with good reason. Over the course of the 1990s, the condition of the mines had continued to decline while the international terms of trade for copper had worsened.

In preparation for its privatisation, the giant corporation was restructured into 10 packages that were offered for individual sale. The most important of these was the Nkana/Nchanga package, which accounted for over 50% of ZCCM's copper production and 80% of its cobalt production. Not surprisingly there was initially great interest in the purchase of the package. Serious negotiations were ultimately entered into with the Kafue Consortium, made up of Moranda, Phelps-Dodge, Avmin and the Commonwealth Development Corporation.

Chiluba personally appointed Francis Kaunda[20] to head up the government's negotiating team and initially Kaunda's role was a positive one. He succeeded in significantly improving the terms of the consortium's offer, both in terms of cash price and proposed investment in the mines, but he ultimately overplayed his hand. Officially, he continued to insist that the price being offered was still too low. Unofficially, rumours were that the kickback being demanded was too extortionately high to be seriously considered. In any case, by early June 1998, the deal was off. The consortium backed away and the mines were left begging a buyer.

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[20] Kaunda (no relative of Kenneth Kaunda) had been prominent under the previous UNIP regime. He had fallen from grace with the advent of the new MMD government but, by the time of the ZCCM privatization had been resurrected under the personal stewardship of President Chiluba.

To quote *Africa Confidential*, "[t]he timing could hardly have been worse."[21] The price of copper dropped dramatically almost immediately after the collapse of the proposed Kafue deal. Eventually, a deal was patched together with the South African-based mining giant, the Anglo American Corporation (AAC). It was, however, worth a scant 40% of the previous offer made by the Kafue Consortium.[22] Even at this bargain basement price, AAC was not able to turn the mines into a profitable concern and the company pulled out of Zambia in 2002. At the time of writing, the Copperbelt (and with it the rest of the Zambian economy) was still awaiting rejuvenation.

Throughout the course of the 1990s, although there were a number of allegations made about irregularities in the privatisation process (in particular the sale of privatised companies to government ministers) ZACCI made little direct public criticism of such practices.[23] The costs of such direct criticism may have been deemed too high – and prominent members of that organisation may have benefited from such practices. The voice of organised business was being constrained by the low level of autonomy between Zambia's political and economic elites.

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[21] "Africa Confidential," (1999), 8.

[22] The Kafue offer was for 88% of the assets for US$160mn in cash plus the assumption of US$150mn of ZCCM's outstanding debt. By contrast, AAC ultimately purchased 80% of the assets for US$90mn in cash, and, critically, it assumed none of the ZCCM's debts. South African Institute of International Affairs, "Zambia: A Shining Example of Privatisation?," in *Intelligence Update* (Johannesburg, South Africa: South African Institute of International Affairs, 1999), 2.

[23] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 309.

Trade liberalisation

In the early days of the MMD, business participated in external negotiations concerning regional trading regimes such as those for COMESA and SADC. However, this was both the beginning and the end of such discussions. After the initial spate of meetings, government barely consulted with business on how best to prepare firms for a liberalised economy.

There were a number of areas where input from business could have made the process more constructive. First, while there was significant liberalisation of imports, there was no concomitant push for exports: rather, "assistance in export development [was] sporadic and badly designed."[24]

Second, a more nuanced and staggered timetable of trade liberalisation could have been consulted with ZAM. While business commended trade liberalisation, the liberalisation of imports was not undertaken with a view to salvaging potentially viable Zambian manufacturers. Duties that were lower for the import of finished articles than for raw materials for example had a devastating impact on Zambian manufacturing, contributing directly to the closure of a number of concerns including Dunlop Tyres. It can be argued convincingly that, after decades of protection, much of the Zambian manufacturing sector was inefficient, indeed unviable. However the speed and radicalism of the reforms, their indiscriminate application and the fact that Zambia's trade liberalisation was not matched by equivalent measures from her trading partners in the region (such as South Africa) destroyed even those industries that could successfully have restructured themselves.

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[24] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 219.

Finally, ZACCI was concerned that liberalisation was undertaken in such a hurry that few of the macroeconomic conditions necessary for it to succeed had been secured. Of particular concern to industrialist and manufacturers, government never succeeded in significantly lowering interest rates and inflation. As Taylor argues, "Zambia has liberalisation without stabilisation, the results of which decimated manufacturers while disproportionally (but certainly not universally) benefiting traders."[25]

The result – a flood of imported goods – was popular with consumers and with politically influential traders (not coincidentally, a number of government ministers had invested in trading concerns) but it was not so good for manufacturers and those who were trying to export. When asked to describe the Zambian entrepreneurial class, one diplomat responded that it was made up of two categories: "Traders, and politicians who got rich. There is not much productive business around currently."[26]

In addition to laying the macroeconomic groundwork more firmly, business argued that government could have taken measures to improve business' access to credit and to reasonably priced electricity, services, fuel and transport. As it is, the particular combination of reforms that were undertaken meant that the production costs that Zambian manufacturers and industries faced in the 1990s were disproportionately high (at least again, in relation to those of their major trading partners and rivals) such that it became cheaper to import processed goods than to

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[25] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 180.
[26] Anonymous, Confidential interview with author, 14 July 2000.

produce them locally. This was good news for South African exporters and for traders in Zambia but not for the broader Zambian business sector.

The implementation of tariff liberalisation thus contributed to the revival of an old economic pattern, namely the dominance of foreign economic interests and politically-connected traders in the Zambian economy. One businessman commented as follows: "The MMD is focusing on trading not manufacturing, on trade liberalisation without industrialisation. ... These politicians, they live for the day, not for long-term development. [In fact, p]oliticians are the single greatest obstacle to long-term economic development."[27] Trade and state-centred acquisition once again trumped production and manufacture, just as it did in colonial times.

Not surprisingly, trade reform gave rise to divisions within business, with some firms calling for protection and subsidies. Nonetheless, despite their reservations, the business associations did not demand an end to the liberalisation programme. A good example was ZACCI's support for regional trade liberalisation and integration processes. Bilateral trade relations with South Africa and Zimbabwe were a particular source of concern to the business associations; ZACCI argued that Zambia's openness was being unfairly exploited by the South Africans. Nonetheless, ZACCI's response was not to demand protection but to argue the need to more effectively promote exports and to control smuggling. Indeed both ZAM and ZACCI consistently opposed bans on imports and advocated working within the framework of the WTO. There is evidence then that the business associations were doing their

[27] Abel Mkandawire, Personal interview with author, 11 August 2000.

job: aggregating their members' preferences and forcing the debate toward policy positions that were long term and broad-based in outlook.

In short, government and business in Zambia could have cooperated to ensure that Zambian firms were equipped to compete with other economies in the region. Instead, government implemented a doctrinaire and unbending programme, intended more to satisfy the loan conditions of the IFIs and the trading interests of MMD stalwarts, than to build up a viable and sustainable market in Zambia.

Deregulation

There was significant deregulation of the Zambian economy under the MMD but it quickly became clear that tariffs could be cut and regulations could be lifted in such a way that very particular advantage would accrue. The 1996 budget provides some good examples of this. On the face of it, the budget was not a bad budget and seemed to address the major planks of economic reform. The budget authorised substantial reductions in tariffs for example. Business was not absent from this process. On the contrary, certain people in business undoubtedly influenced the level and nature of tariff reductions, but these individuals were generally in the business of politics too. A number of those in the MMD cabinet owned commercial trading companies. And a number of government officials "had the inputs needed for their own companies ... reclassified at a lower rate of duty even though they are predominantly finished, consumer –ready goods that should attract the *highest* tariffs."[28] Taylor points to the "highly individualised and personalised level" of this

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[28] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and

policy response, arguing that it served to diminish the significance of the business associations.

Developments were not unremittingly negative. Business associations successfully lobbied on two fronts on an issue always close to business' heart, namely tax. First, they applauded the establishment of the Zambia Revenue Authority (ZRA) in 1996. The ZRA's attempts to cast the tax net wider and reduce smuggling were welcomed by organised business.[29] Second, ZACCI and ZAM championed the move toward VAT. The former tax regime had encouraged the consumption of imported goods and VAT was thus welcomed by domestic manufacturing firms.

The pattern in the area of the deregulation and promotion of investment is similar to that found in other areas of economic policy: lots of input from the business associations in the early 1990s but after the first three years of MMD rule, a cooling of relations and a diminution of their influence in favour of personalism.

In the early 1990s, individual businesspeople (including ZACCI and ZAM delegates) participated, at their own expense, in investment missions abroad. ZACCI and ZAM also pushed successfully for reform of the investment framework and the Zambian Investment Centre (ZIC) was set up, alongside the ZPA. The ZIC was initially well-regarded but did not live up to its early promise, largely because of subsequent amendments to the legislative framework.

Deregulation more broadly included the loosening of controls such as licensing and exchange controls. While the broad outlines of this policy were

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Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 229.
[29] While business worldwide is inclined to argue that they are taxed too heavily, in Zambia this may have been a legitimate grievance. Because of the narrowness of the national tax base, the Zambian formal business sector was in practice taxed very heavily.

welcomed by business, the implementation received somewhat more mixed reviews.[30] Currency devaluation, for example, was certainly necessary and was something business lobbied for but, given high interest and inflation rates, the overall impact of the move has been neutral or perhaps even negative. It turned Zambia into an entrepot for South Africans and Zimbabweans to exchange their own beleaguered currencies for US dollars. In addition, deregulation of currency markets opened up lucrative new opportunities for bureau's de change, seized by a number of those within government.

There was a significant level of deregulation of the economy including the freeing of prices across the economy. Much of this was in accord with the Washington consensus and with what Zambian business associations prescribed, but much of it also served the partisan agenda of the new MMD government. In fact as Rakner argues, the MMD's reform of the agricultural sector[31]

> may at least partially be explained by its interest in reducing UNIP's political networks to the grassroots by aiming to sideline the co-operatives and strip them of finances. A number of observers have noted that MMD politicians who otherwise might not have favoured liberalisation were easy to convince about the virtues in the instance of agricultural liberalisation because maize subsidies had long been provided through channels strongly linked to the UNIP.

So there was nothing apolitical or even non-partisan about the early generation of economic reforms. On the contrary, they were (at least in part) an attempt to shut off economic policy as a source of patronage for the UNIP. In this

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[30] Mark O Donnell, Personal interview with author 2000.
[31] Lise Rakner, "Reform as a Matter of Political Survival: Political and Economic Liberalisation in Zambia 1991-1996" (Dr. Polit Dissertation, Christen Michelsen Institute, 1998), 110.

early stage, the interests of the political elites within the new ruling party coincided with the interests and demands of both the IFIs and business as a whole. This happy coincidence did not hold for long as the ruling party discovered new ways to do as its predecessor had done, namely to use economic policy in order to ensure patronage resources for itself.

One of the most blatant instances of this occurred in 1993 in the financial sector, with the executive's treatment of the ailing Meridien Bank. Andrew Sardanis, the owner of Meridien, was an influential businessman who had previously headed up the government's parastatal empire. A key associate of Kenneth Kaunda, he had developed a network of loyal associates through his directorship of ZIMCO and continued to be a successful (and politically well-connected) businessman after the 1991 transition.

When Meridien ran into financial trouble,[32] highly placed individuals within the cabinet made frantic efforts to save the bank. Despite a negative internal assessment of Meridien's operations that pointed to a large number of irregularities, State House instructed the Central Bank of Zambia (BOZ) to try and save the ailing bank. Having failed to convince other commercial banks in Zambia to co-operate in a bail out, BOZ itself poured millions into Meridien to try and restore the confidence of

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[32] Meridien began as a Lusaka bank. Sardanis' subsequent purchase of the West African *Banque Internationale de l'Afrique Occidentale* (BIAO) represented an attempt to create a truly international African bank. However, this purchase brought Meridien more than just continental reach. A number of the West African banks included in the purchase were chronically indebted and even Sardanis' legendary business acumen could not turn them around. They were ultimately to bring the rest of the bank's operation down as profits from other branches were poured into the West African black hole.

the bank's clients and the financial markets. The attempt failed, and Meridien ultimately had to be placed under receivership.

The government's handling of the collapse of Meridien Bank signalled a decisive shift in the relationship between business and government. As the group of politicians that centred on the presidency strengthened their hold on power, the voice of the legitimate business associations was muted and became less influential. Instead, political rationale linked to the fortunes of key individuals increasingly came to play trump card.

Business' interactions with government on policy questions

In the early 1990s, both business associations and key figures in the MMD agreed on the need to restructure interactions to be more regular and institutionalised. Dipak Patel, then Minister of Commerce Trade and Industry, instituted monthly meetings between ZACCI and his ministry. Business and government met in a number of public fora and businesspeople were invited to sit on government boards. This was not to last. The monthly ministerial meetings with ZACCI became quarterly meetings and then were dropped entirely. By the end of the decade, organised business had become marginal to policymaking.

Two related developments explain this shift. First, confronted with the reality of how reform was being implemented, the business community itself fractured. At the same time, other voices were being strengthened, in particular those of associates of the President, and the IFIs.

In the early 1990s both ZACCI and ZAM postulated strong support in principle for the MMD and for the panoply of neo-liberal economic reforms including privatisation, deregulation, and trade and forex liberalisation. Within a couple of short years however, this approbation began to fracture. One reason for this is the diversity of ZACCI's membership. ZACCI represented a wide range of firms, both in terms of size, export orientation and sub-sector of the economy. They were bound to be affected in very different ways by the liberalisation of regional and international trade. Taylor writes as follows about the evolving views of organised business in Zimbabwe and Zambia:[33]

> Without exception, those business associations that were firmly established by 1990-91 – the time at which proposals for structural adjustment reforms were being deliberated in each country – supported in principal the economic reform packages. However, it is particularly difficult to assess the current [1998] behaviour or general attitudes of the peak associations toward structural adjustment as an aggregate set of policies, precisely because they tend to be encompassing in their memberships. Quite simply, traders and commercial dealers have had a different general reaction to structural adjustment programmes than have manufacturers and larger peaks [peak organisations like ZACCI] count both constituencies among their memberships.

Business also began to differ with government on the course of the reforms. Obstacles to private sector development in Zambia by the end of the decade had come to include a crippling lack of access to medium- and long-term finance, the high cost of electricity and fuel, and the lack of local government services.[34] These concerns were not the focus of the IFIs nor, crucially, did they coincide with the particular interests of the political elites. The result was that the access of organised business to

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[33] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 177.
[34] Range of interviews including with Peter Armond and Moses Simamba, Personal interview with author, 22 June 2000. See full list of interviewees at the end of the bibliography.

government and its institutional input into economic policymaking became increasingly restricted and ineffective. By the year 2000, one businessman commented as follows: "This government fancies itself as the government of dialogue but it does not understand the meaning of the term."[35] While representatives of government and business continued to meet, these meetings came to be regarded as a talk shop. Toward the end of the 1990s, Taylor concluded that[36]

> ... the Zambian government has ... come to treat a number of business associations contemptuously. Moreover, the societal positioning of business associations has eroded; business associations' optimism about the 1990s – motivated as much by MMD pledges as by business' early influence on government – has been replaced by criticism [of government and] of missed opportunities.

During the course of the decade, economic policy and its implementation increasingly privileged political considerations in a way that did not advance the reform process but rather directly and materially benefited selected individuals – and the business associations failed to check this process. From 1993 on it became evident that the influence of interest coalitions located within government and the bureaucracy or closely associated with it were becoming more important than broad-based independent interest associations such as business. They were also becoming more important *within* such associations.

A vivid illustration of the extreme closeness of the political and economic elites concerns Vernon Mwaanga, an MMD cabinet member (and former UNIP heavyweight) and businessman who had also served on ZACCI's board. Stories had

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[35] Anonymous, Confidential interview with author, 14 July 2000.
[36] Scott Duncan Taylor, "Beyond Business as Usual: Business Associations, the State and Liberalization in Zimbabwe and Zambia" (PhD. Dissertation, Emory University, 1998), 124,5.

begun to surface about the involvement of Mwaanga and some of his associates in the illicit drug trade. As their illegal activities became ever more lucrative and blatant, business associations and the powerful IFIs pressed for their removal from government. Accordingly Vernon Mwaanga (then Minister of Foreign Affairs), Princess Nakatindi Wina (then Minister of Community Development and Social Welfare) and Sikota Wina (then Deputy Speaker) resigned from their cabinet posts. While the resignations pleased business, few harboured any illusions that this reflected a high level of responsiveness to their concerns. Rather it was seen as a concession to the donors and their cheque books. Moreover, it was a hollow victory: Mwaanga and the Winas continued to be active in the party behind the scenes and, at the time of writing, remained among the most influential and powerful members of both government and party.

The neo-liberal model optimistically predicts that, after an initial period of hardship, an economy like Zambia's that has undertaken the necessary reforms should begin to see a revival of growth and the emergence of new opportunities for entrepreneurship. What has transpired in Zambia has been less happy. Business opportunities continue to be monopolised by those with access to political power. In a discussion on the criticism of foreign domination of the economy, a prominent Zambian businessman argued as follows:[37]

> The criticism raised ... that most businesses are going to foreigners underlines the lack of understanding of the Zambian scene, namely that we simply have no money ourselves. Unless we sell to foreigners, the [MMD politicians] will take over the whole show. ... Again we are making a mistake

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[37] Quoted in Lise Rakner, "Reform as a Matter of Political Survival: Political and Economic Liberalisation in Zambia 1991-1996" (Dr. Polit Dissertation, Christen Michelsen Institute, 1998), 150.

> to let a small clique of government ministers get into business. ... I have been in business for twenty years and I have never seen the benefits these guys [in government] are now reaping. I simply cannot penetrate the market as all business opportunities are crowded out by government ministers monopolising business with government.

This sentiment is echoed by a comment from the President of ZACCI, Chamvera: "They [the MMD] have not created an enabling environment for business; they want to do business themselves."[38] By the end of the 1990s organised business was, at best, marginal to economic policymaking.

The Policy Outcomes

There can be no doubt that the MMD introduced significant changes in economic policy and in the overall way in which private enterprise was regarded in Zambia. According to one Lusaka businessperson:[39]

> 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. (See Table 3)

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[38] Lise Rakner, "Reform as a Matter of Political Survival: Political and Economic Liberalisation in Zambia 1991-1996" (Dr. Polit Dissertation, Christen Michelsen Institute, 1998), 151.
[39] Theo Bull, Personal interview with author, 3 July 2000.

What business at first said it wanted	What it actually wanted	What it got
Privatisation	Competition and new investment in the private sector;	D
	Rejuvenation of the Copperbelt	D
Trade liberalisation	Export promotion;	F
	A staggered timetable of trade opening;	F
	Macroeconomic stability;	C
	Competitive input costs	D
Deregulation	Freeing of prices	B
	Currency devaluation	B
	Investment friendly measures	B-
	Financial deregulation	B

Table 3. Policy Cases

If one only considered the left-hand column of Table 3, business would score three out of three: there were significant levels of privatisation, trade liberalisation and deregulation in Zambia.[40] But in policymaking, as in so much else, the devil is in the detail, and it was here that business was unable to have any meaningful impact.

[40] 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

While government privatised the lion share of its holdings, the bungling of the ZCCM privatisation, let alone the inefficiencies associated with the broader process) 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 regional competitiveness. Deregulation, technically probably the simplest area, had more successes. However, deregulation of the financial sector was overshadowed by the scandal surrounding Meridien Bank.

Why business lost what it lost

The 1990s demonstrate 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 of autonomy from the polity, pulled closely into these neo-patrimonial forms of behaviour.[41] The policy scorecard speaks to the shifting fortunes of these two sets of actors in economic policymaking in Zambia alongside a third, the IFIs.

At the beginning of the MMD's first term in office, it seemed possible to marry the interests of these three groups. They all agreed on the broadly neo-liberal nature of the reform process. According to one local observer, the MMD's first

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failure was its inability to halt what he termed "the abandonment" of the reform programme.) Mark O Donnell, Personal interview with author 2002.

[41] There is, as I have argued, 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.

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."[42] It was not that neo-patrimonial behaviour among the political elite was absent in the early 1990s[43] 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, 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 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

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[42] Anonymous, Confidential interview with author, 14 July 2000.
[43] 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, Confidential interview with author, 17 June 2002.

sector firms. They were found too in areas where the state continued to play a dominant role in the market, notably the energy sector.[44]

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.[45] In addition, those reforms that could win the President 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.

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

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[44] 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, Confidential interview with author, 14 July 2000. Allegations were also levelled about the purchase of sandy crude from Kuwait in the aftermath of the Gulf War at inflated prices.

[45] 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.

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 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 often 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 were 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 revenue for neo-patrimonial states in Africa.[46] 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.

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[46] Nicholas van de Walle, *African Economies and the Politics of Permanent Crisis 1979-1999*, ed. Randall Calvert and Thrainn Eggertsson, *Political Economy of Institutions and Decisions* (Cambridge, UK: Cambridge University Press, 2001).

A leftist explanation for the low level of impact by business might point to the allegedly overweening role of the IFIs. In a question about whether the IFIs were key players in economic policymaking, a formerly senior civil servant remarked, "yes, economic policymaking is interactive but the key design role is that of the IFIs because of their technical expertise and a lack of confidence on the part of the Zambian government."[47] 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 overplay 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.[48] 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 have argued that it is not sufficient to consider the overall ideological outlines of economic policy to understand the dynamics of business-government interaction in Zambia. What are crucial are the specific details of how reforms are effected as well as the implementation that actually follows. These are profoundly affected by a dense personalistic network of keenly defended, overlapping economic and political interests that confound the capacity of business to develop a coherent and effective articulation of its sector-wide policy preferences.

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[47] Mike Soko, Personal interview with author 2000.
[48] Mark O Donnell, Personal interview with author 2002.

Conclusion

Zambia has an inordinately long history of entrepreneurial-minded individuals being drawn to careers located in or around the state. Certainly, the racially exclusive pattern of economic activity set up under the colonial regime restricted economic opportunities for indigenous Zambians outside of the state. Post-independence nationalisation and the reliance on state-led industrialisation further reinforced this tendency.

1990 presented an opportunity to fundamentally reorder the relationship between business, government and economic policymaking and at first it seemed that the new MMD government had seized that opportunity. A number of factors appeared to herald a greater role for business within economic policymaking. These included the transition to multi-party rule which promised greater access to a range of interest groups to policymaking; the overwhelming level of support from the local business community for the MMD that presumably would render that community an important and powerful constituency for the new ruling party; and the rigorously neo-liberal nature of the policy advocated and adopted by the new MMD government, again which presumably would incline government to be receptive to input from the business sector.

In the early 1990s, business associations reported themselves well satisfied with both the level of access that they enjoyed to key government officials and with the way in which their views were ultimately incorporated into overall policymaking. However, during the course of the decade, two factors came to mute the input of the business sector as a whole into economic policy.

First, the impact of the business associations was weakened as business began to fracture within itself on the details of how implementation should proceed and, on occasion, to part company with the IFIs on the details. Instead, the particular voices of certain well-connected individuals rose above the sector wide hum of business.

Second, in a related process, power was increasingly centred on the presidency. Political power became increasingly concentrated and rigid, and political rationale increasingly came to triumph over economic rationale in government's economic policymaking. This resulted in the reassertion of long-standing personalist and client-driven relationships between individual businesspeople and particularistic elements of the business sector and government.

Indications are thus that the Third Republic resembled its predecessor in important ways. A former high-level government bureaucrat made the following observation about business-government relations and economic policymaking under Kenneth Kaunda: "The policy environment gave rise to particular allegiances between individuals within the public and private sectors that became crucial to the survival of a business. Economic policies in turn then became influenced by those allegiances. This led to the creation of certain sacred cows in the economy."[49] This description could be applied, verbatim, to Chiluba's economic policymaking. Zambian economic and political life continued to be dominated by a small number of elites who moved easily between business and government, between the "public" and "private" sectors in a political economy context in which success in one sphere was

[49] Mike Soko, Personal interview with author 2000.

dependent on success in the other. As before, "politics lead... the economy rather than vice versa."[50]

In short, ten years after the launch of a political project that seemed to hold out the promise for a revolution in relations between the state and the private sector and their respective roles in the economy, the observer is struck by the apparent triumph of old-style, Zambian "business as usual." However this set of practices and associations has less to do with "business" as the World Bank and neo-liberal theorists understand it, and more to do with a mode of transacting characterised by the drearily familiar practices of clientelism and patronage.

[50] Troy Damian Fitrell, Personal interview with author 2000.

CHAPTER 4

BUSINESS AND GOVERNMENT IN GHANA: BLOWING HOT AND COLD

By 1990, the Ghanaian government was considered by some a model World Bank pupil. The first generation of neo-liberal reforms to restructure the Ghanaian economy had been completed successfully and government was poised to introduce a second generation of reforms. It is common wisdom that this second reform phase is difficult, administratively and politically, to complete and, in contrast with the first phase of reform, that it requires for its success high levels of co-operation from broader society and from the private sector in particular. There were thus strong incentives for the Ghanaian government to step up its consultations with business, and the World Bank urged it to do so. In addition, the business community in Ghana was larger and more independent minded than its Zambian counterpart, or at least, much of it was. Despite all of these factors, business in Ghana had little influence on the course of economic policy in the 1990s. Why was this? On the face of it, Ghana represents an even more dramatic puzzle than Zambia.

The answer, I will argue, lies both in the nature of the Ghanaian state, and in the character of business' connections with that state. Business –government relations in Ghana are characterised by a peculiar combination of, on the one hand, excessive closeness and, on the other, hostility. The Ghanaian private sector comprises elements that can respectively be described as neo-patrimonial, as well as elements that occupy a more autonomous and combative relationship with government. The relationship between business and government in Ghana was subject to a constant push and pull as a highly neo-patrimonial state sought to pull sections of business closer through patronage. Some businesspeople responded. Many others sought to retain some distance while still trying to win government's ear for business' policy preferences.

The chapter opens with an outline of the shape of the Ghanaian economy and of the business sector in particular. I then undertake a more thorough analysis of business' attempts to shape economic policy in the 1990s. I argue that throughout the decade, management of the economy continued to be firmly lodged in the state and the impact of organised business on policymaking was relatively low.

The Ghanaian Political Economy: Short on the Middle

Ghana's economy provides an almost classic example of what the World Bank has described as "the missing middle": it lacks a sizeable and robust middle stratum of indigenous manufacturers and industrialists. Instead the Ghanaian economy is marked by the predominance of agriculture. The robustness of the services sub-sector is mostly due to the strength of first, retailing,[1] and second, the state's involvement in the economy. In this sense, Ghana's development trajectory diverges significantly from that of the modernisation model which anticipated that societies would progress from being agriculturally-based economies, to highly industrialised ones, and would only then mature into economies dominated by

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[1] In his consideration of these issues, Nugent eschews the use of the term "bourgeoisie" in Ghana: "A bourgeoisie, in the sense of a class whose capital is invested (and reinvested) primarily in industry, commercial agriculture and the financial sector, exists in only a truncated form in Ghana. ... The capitalists of Ghana tend to reside in the greatest number in the commercial sector – especially within the interstices of the import-export trade." See Paul Nugent, *Big Men, Small Boys and Politics in Ghana: Power, Ideology and the Burden of History 1982- 1994* (Accra, Ghana: Asempa Publishers, 1996), 8.

services. In Ghana, that apparently crucial "middle," the industrialisation phase, is largely absent. Instead, much of the economy revolves around the state.

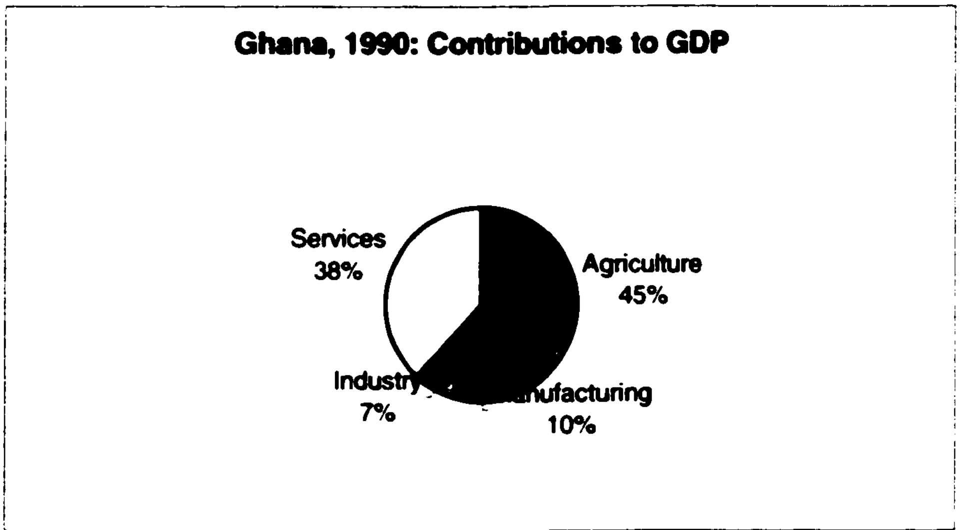

Figure 1. Source: UNCTAD *Handbook of Statistics*, 2000

Despite fierce fighting between minor ethnic groups in the north during the 1990s, ethnicity is generally not considered to play an overt part in the mainstream political process in Ghana[2] – at least, outside Asante. Few would dispute the claim that, historically, Akan speakers (associated with the Ashanti kingdom) have tended to be the most prosperous sector within Ghana because of their control over the cocoa, gold and timber industries. In the modern day, this has translated into a large Akan presence within the business community. Garlick's work in the 1970s suggested

[2] As in many previously colonised economies, the Ghanaian business community is racially fractured, comprising for the most part indigenous Ghanaians, with a sprinkling of Levantine and Indian businesspeople. This analysis will focus largely on the indigenous Ghanaians. They represent the biggest group and are frequently the most active, visible and organised in their interaction with government. This is not to argue that individual businesspeople from the other groups do not represent an important component of the business-government relationship. This element will be considered only briefly however.

that over 80% of the traders that he interviewed in Kumasi and Accra, the two largest commercial centres, were either Ashanti or Kwahu (both Akan speaking groups).[3] This figure would probably be replicated by a similar study today. Given claims that the Rawlings regime tended to favour the political and economic fortunes of the Ewe, the ethnic identity of many in business community reinforced their political estrangement from the Rawlings government.[4]

A more important division between business and government is political affiliation, and here the contrast with Zambia is striking. While many Ghanaian businesspeople are politically active, few have been employed directly by the state, either within the civil service or the state owned enterprise sector.[5] In addition, business in Ghana has long tended to be associated with Ghana's liberal political tradition (known there as the Busia-Danquah tradition, after two of its most famous local exponents) in direct political opposition to the mass-based Nkrumahist tradition.

While many in Ghana would vigorously contest Rawlings' assumption of Nkrumah's mantle, it was an identification that Rawlings and his supporters frequently made. There were strong elements that the two leaders had in common. Like Nkrumah's Congress People's Party (CPP), the appeal of Rawlings' Provisional

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[3] Peter C Garlick, *African Traders and Economic Development in Ghana* (Oxford: Oxford University Press, 1971), 29.

[4] This would however be less a factor than it is in either South African or Mauritius. See chapters five and six.

[5] This may simply be a function of timing and generations. Given that Ghana attained independence in 1957, the first African state to do so, many of those originally employed by Nkrumah's government have since retired or passed away. By contrast, Zambia's more recent independence means that many of today's most prominent businessmen are precisely those "bright young things" who staffed that country's first post-colonial government.

National Defence Council (PNDC)[6] frequently rested on populist, mass-based appeals to the "common" person. The basis of political support in both cases was the urban-based working classes. This could be contrasted with the liberal and frequently elitist tone of the Busia-Danquah tradition and its current incarnation, the New Patriotic Party (NPP). While figures on the funding of parties by business are impossible to come by, most observers speculate that the NPP was generously supported by business.[7]

Ghana has a well-developed set of business institutions, many of which are sub-sector specific. The Association of Ghana Industry (AGI), formed in 1958 as the Federation of Ghana Industries, is the oldest of these. Today, it boasts 1,500 members, mostly small to medium-size industrialists. In terms of policy preferences, the AGI tends to press for stability of the exchange rate, and is often more protectionist and opposed to trade liberalisation than are other associations.

The Ghana National Chambers of Commerce and Industry (GNCC/I),[8] represent an overlapping, if somewhat broader grouping. Established in 1961, the GNCC is an encompassing association whose membership includes a high proportion of smaller indigenous businesses. The GNCC and AGI have had a competitive relationship in the past and clashed on matters of policy. The merchants, traders and bankers who are members of the GNCC are more likely to be supporters of free trade and financial liberalisation than their manufacturing colleagues in AGI are.

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[6] The PNDC came to power in 1981 by means of a junior officer led military coup.

[7] While certain businesspeople funded the ruling PNDC too, the level of support for the opposition NPP is a striking contrast to the situation in Zambia.

[8] Commonly known just as the GNCC; this ellipsis betrays the extent to which the voice of the industrialists tends to be muted in this association; it is dominated by traders in the commercial sector.

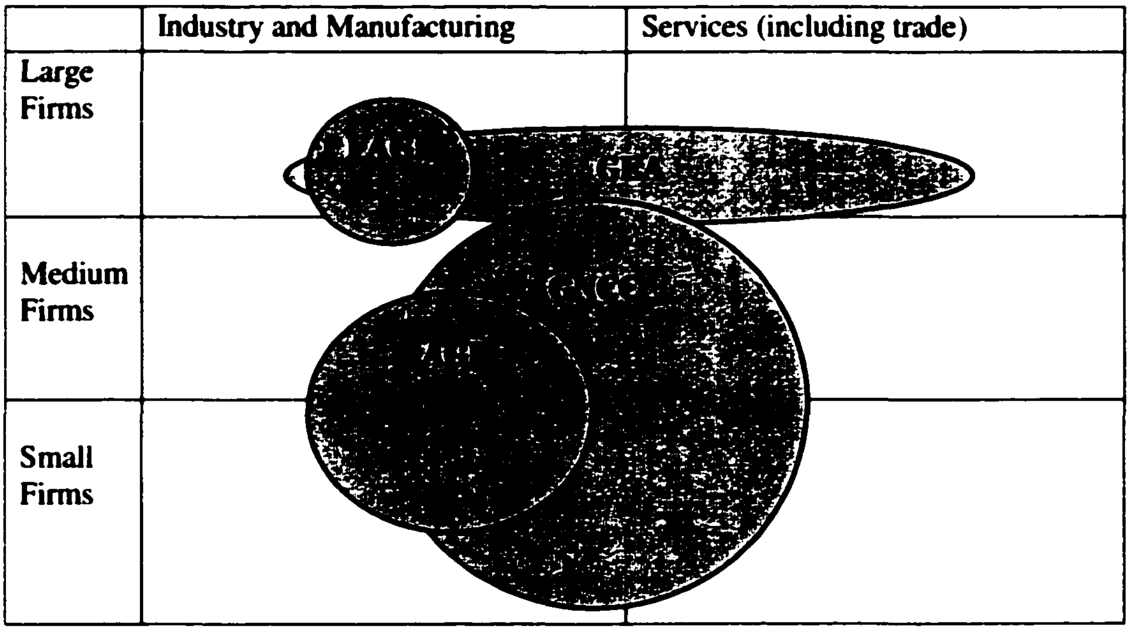

Figure 2. Business Associations and Their Membership

The Ghana Employers Association (GEA) tends to represent the interests of larger firms including multi-national companies. Like GNCC it draws membership from a range of sub-sectors of the economy. As the name suggests, the Association's interaction with government tends to focus directly on labour issues.

The more recently established (1992) Federation of Associations of Ghanaian Exporters (FAGE) emerged in response to the new opportunities opened up by the liberalisation of the previously moribund export market. FAGE generally pushes for further liberalisation of the economy.

Economic policymaking in Ghana

Although there was probably more meaningful debate in the Accra legislature than in Lusaka, parliament in Ghana was not particularly influential on economic policy matters. For his part, President Rawlings was not interested in the details of economic policymaking. This does not mean he was without influence. His broad preferences (and his suspicions about the political loyalty and moral standing of the business community) undoubtedly coloured economic policy. Over time he developed strong patronage ties with particular businesspeople and these connections became important in the implementation of policy. When the PNDC first assumed power, an informal "kitchen cabinet" was where economic policy was cooked up. The 1990s started with the reformers in a strong position in this cabinet although the PNDC policymakers were by no means unequivocal neo-liberals.[9] During the course of the 1990s, these reformers ran into an enemy that they were unable to defeat: the president's need to prime political support with government spending. Business' concerns about state spending were easily ignored in the face of this imperative. The section that follows examines particular policy areas of concern to business, beginning with a review of business-government relations.

The 1990s: One Step Forward, Two Steps Back

By the 1990s, Ghana had successfully achieved much of the "first generation" of economic reforms: "getting the prices right," currency devaluation and trade liberalisation. The next task was to embark on what is generally regarded as the more technically complex "second generation" of reforms that would, business hoped, institutionalise economic recovery.

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[9] See Chapter Two for an account of how the neo-liberal policy option triumphed.

Relations between business and government

I argued earlier that Ghana was marked by broad ideological differences between sections of the business community and the ruling P/NDC.[10] This coloured both parties' attitudes toward the reform programme:[11]

> Government leaders point with pride to sixteen years of far-reaching economic reform and ask why their economic motives are still the subject of deep suspicion, while business leaders point to the anti-capitalist rhetoric of a few outspoken government leaders, as well as to the still incomplete reform agenda and incidents of past mistreatment as evidence that key governmental officials still view business in adversarial terms.

This distrust was reinforced by the (party) political alienation of much of business from the NDC. Having said this, there were those who formed a close and profitable association with the ruling regime. The reform process had opened up potentially lucrative new opportunities for the well-connected:[12]

> Whereas the 'real' capitalists remained aloof, the PNDC cultivated support among the ranks of budding entrepreneurs, for whom the ERP [Economic Reform Programme] meant new opportunities to achieve personal prosperity.

The effects were such that

> [b]y the early 1990s, it was possible to distinguish a stratum of *noveaux riches* – people whose wealth had been acquired over a matter of years rather than decades. Whereas established wealth was orientated toward established political traditions, newcomers felt more comfortable within the embrace of the PNDC.

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[10] The Provisional National Defence Council (PNDC) changed its name to the National Democratic Congress (NDC) in order to contest the 1992 elections. It was, to all intents and purposes, the same party with the same office bearers and policies. In order to avoid confusion, I will generally use NDC unless I am referring only to the pre-1992 period.

[11] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 4.

[12] Paul Nugent, *Big Men, Small Boys and Politics in Ghana: Power, Ideology and the Burden of History 1982- 1994* (Accra, Ghana: Asempa Publishers, 1996), 204.

The NDC established the Council of Independent Business Associations (CIBA) as a "government-friendly" alternative to existing business associations. According to Sandbrook and Oelbaum[13]

> CIBA ostensibly represents the interests of 20 associations of small entrepreneurs before governmental agencies, promotes micro-enterprises through the construction of industrial estates, the provision of low-interest credit and the regularisation of tax collection from members. In practice however, CIBA is a creature of government, which likes to pose as a non-governmental organisation.

Few of the businesspeople that I interviewed saw CIBA as representative of the business community. Rather, they saw it as a cynical manipulation of business-government relations.[14] The Director General of PEF argued that CIBA was[15]

> started on the wrong premise. They [the NDC] wanted to create their own forum; they wanted to create a new private sector from the ranks of the NDC. ... It was highly politicised and they used government funds to fund what was supposed to be the private sector.

Sandbrook and Oelbaum elaborate:[16]

> CIBA appears to have acted as a major conduit of NDC patronage. Tax-farming is one means by which CIBA provides a material pay-off to associated organisation and their leaders and employees. ... [This] creates jobs for NDC supporters, as well as substantial revenues for compliant associations. In addition, the allocation of scarce credit, subsidised equipment, and work sites to small entrepreneurs gives ample political leverage to CIBA officials.

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[13] Richard Sandbrook and Jay Oelbaum, "Reforming the Political Kingdom: Governance and Development in Ghana's Fourth Republic," *Critical Perspectives*, no. 2 (1999): 20.
[14] Please see list of interviewees in Appendix A at the end of this dissertation.
[15] Kwasi Abeasi, Personal interview with author 2001.
[16] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999).

Political allegiance was closely associated with patronage for firms that were prepared to get close to government. Licensing, divestitures and government contracting practices were key sources of patronage.[17] In fact as the decade progressed, allegations of irregularities were made in almost every commercial arena where the government interacted with business.

Given this background, it is not surprising that elections in 1992 and 1996 led to a hardening of attitudes. Government became more sensitive to criticism from the business community while business grew increasingly cynical about government's commitment to market-based reform. Rather than viewing each other as partners in development, business and government came to see the other as standing on opposite sides of a political battle. The authors of a World Bank study on business-government consultative mechanisms in Ghana found that "[v]irtually every respondent for this study agreed that, with the arrival of multi-party politics, there arose an 'us versus them' element to the dialogue between the government and the private sector."[18]

In the 1996 elections, CIBA was once again used to import and distribute election paraphernalia and "gifts," including watches, sewing machines and bicycles. In the Eastern Region, election observers reported an NDC truck distributing colour

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[17] The oppositional *Ghanaian Chronicle* published allegations, for example about the award of timber export contracts to Mohammed Farouk, allegedly on the basis of his "powerful connections at the Castle."*The Ghanaian Chronicle* 4, no. 107 (1994). Allegations were also made about the legitimacy of awards of government contracts in the areas of prisons procurement, lands and COCOBOD, the government agency in charge of the purchase and marketing of the country's cocoa crop. *The Ghanaian Chronicle* 4, no. 111 (1994). These are just a few of the dubious contract awards that could be cited.

[18] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 43.

television sets to local villagers.[19] At the same time, the NDC made a short-term effort to woo members of the business community. Leading newspapers carried large advertisements explicitly directed at the Ghanaian business community and professional class, intended to reassure them of the government's commitment to macroeconomic stability. The NDC sought to project itself as the party of stabilisation and responsible fiscal management – an image increasingly at odds with the reality.

Financial support for the NDC did not seem to be coming in any great quantity from mainstream business; instead these resources were widely attributed to "kickbacks on government contracts, which were channelled into NDC coffers."[20] This period demonstrates a clear pattern in business-government relations: the NDC seeking the political support of businesspeople but alienating much of organised business by its partisan and corrupt behaviour.

In post-Rawlings Ghana, it is difficult to find a businessperson who will own up to having ever supported the NDC regime.[21] But there *were* significant, reciprocal ties between elements of the state and sections of business. Certainly, all evidence is that levels of clientelism, patronage and corruption climbed more steeply the longer the NDC was in office, and particularly after the return of party politics. I spoke to a member of one local family, prominent in the business community, who had formerly been associated with the opposition but had been forced to switch allegiance to the

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[19] Richard Sandbrook and Jay Oelbaum, "Reforming the Political Kingdom: Governance and Development in Ghana's Fourth Republic," *Critical Perspectives*, no. 2 (1999): 14.
[20] Richard Sandbrook and Jay Oelbaum, "Reforming the Political Kingdom: Governance and Development in Ghana's Fourth Republic," *Critical Perspectives*, no. 2 (1999): 14.
[21] Although clearly some firms did and individuals will happily report instances of others that they know about who supported the NDC.

NDC in order retain access to government contracts. He argued forthrightly that "[o]n paper, the [government's economic] policies were all the right ones, but behind the scenes there were all kinds of political manoeuvring and shenanigans. At the absolute minimum, you needed to be politically neutral to be allowed to do business with the government."[22]

Atu Ahwoi, a beneficiary of the liberalisation of cocoa marketing, answered as follows when I asked him about the impact of politics on the conduct of business in Ghana:[23]

> In Africa, politics permeates everything. We have not got a big private sector. Instead, the biggest supplier [purchaser] of contracts is the government. You have to know how to play your cards right. No matter what we say now, you had to deal with the fact that the government is everywhere.
>
> So, for example, to be able to buy cocoa, you have to register with COCOBOD and they have to approve your application. It is possible for government to pull the strings from behind in this regard.
>
> But it goes beyond that: because of the volume of money involved [in the purchase of cocoa], you will have to go to the banks for credit – and most of the banks are owned by government. …

What was crucial was how the state shaped the behaviour of business. Those businesspeople that insisted on autonomy or were associated with the opposition were castigated; by contrast support for the regime was likely to prove remunerative. (One newspaper described "mind boggling favouritism" in the award of government

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[22] Anonymous, Confidential interview with author, 21 March 2001.

[23] Atu Ahwoi, Personal interview with author 2001. Atu is a member of a highly influential family. Kwesi Ahwoi, his brother, served the PNDC as Secretary in various capacities and was a key member of the National Economic Review Committee. Kwesi also headed up the Investment Promotion Centre. A third brother, Kwamena Ahwoi, later served as Minister of Local Government and Rural Development and Director of the Divestiture Implementation Committee.

contracts.[24]) The situation was well described by Dr Nduom of CMC in an after-dinner address: "When members of the opposition are denied business opportunities and seemingly successful people are assumed to be supporters of the ruling government, then we face a much bigger problem as a nation."[25]

In the discussion of policy cases that follows, I refer to preferences of the mainstream business community as organised in formal business associations. Their first demand was simply to be seriously consulted on matters of economic policy.

What did business want?
Policy consultation
Conservative macro-economic management: Access to credit Reduced government spending Lower inflation
Divestiture

Table 1.

It's good to talk: Policy consultation between business and government

In the 1990s, challenges for the business associations were two-fold. First, they had to deal with the decimation of their membership by the rigours of economic liberalisation and the struggle to compete in a newly competitive environment. Second and perhaps more important, they had to negotiate a shift in their own organisational mandate. Previously an important function of business associations had been to "[m]ediat[e] negotiations between individual entrepreneurs and bureaucrats responsible for assigning import licenses and foreign exchange

[24] *The Statesman* 3, no. 38 (1995): 1.
[25] Quoted in *The Ghanaian Chronicle* (1995): 3.

allocations."[26] The dramatic shift in regulatory environment wiped out such formal negotiations:[27]

> Until the [Economic Reform Programme], membership in the organisation had not been officially mandatory, but had been functionally required of almost any businessperson desiring access to government-controlled resources, except those with special connections to the relevant officials.

Now they had to begin to carve out a new set of functions. Increasingly they were to shift their attention to the overall policy environment and trying to influence that in the interests of their membership. This would involve, among other things, lobbying for the diversification of exports, stabilisation of the macro-economy, divestiture of state assets and the deepening of the financial sector. Business began to call for government to broaden its focus in economic policymaking, away from recovery to broad-based growth driven by more meaningful consultation with the private sector. (See Table 1)

One of business' primary policy demands in the new decade was for institutionalised fora where it could press its policy demands with government. From 1983, despite government's rhetoric about the private sector as the engine of growth and despite the adoption of far reaching structural adjustment, business had barely been consulted by government. When consultation did occur, it was generally as a result of pressure from the international financial institutions (IFIs). The World Bank in particular had come to regard the participation of a country's private sector in economic reform as key to its long-term success. The IFIs began to pressure the

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[26] Elizabeth Hart and E Gyimah-Boadi, "Business Associations in Ghana's Economic and Political Transition," *Critical Perspectives*, no. 3 (2000): 5.
[27] Elizabeth Hart and E Gyimah-Boadi, "Business Associations in Ghana's Economic and Political Transition," *Critical Perspectives*, no. 3 (2000): 5,6.

Ghanaian government to enter into structured discussions with the private sector. And so government convened the Private Sector Advisory Group (PSAG) in February 1991.

PSAG was a small, tightly-knit grouping of some of the most powerful and public figures within the Ghanaian private sector, with similarly high-level representation from government, headed up by the redoubtable and firmly reform-minded Finance Minister, Kwesi Botchwey. It was closely associated too with the market-friendly PV Obeng, [28] then Chairman of the Committee of Secretaries and *de facto* Prime Minister.

The Group's mandate was tightly circumscribed: to examine the legal infrastructure that impeded the development of the private sector, and to recommend appropriate amendments. PSAG provided a prime opportunity for business leaders to speak directly with government on business' most urgent economic concerns. They spoke clearly, and with effect.[29]

In an attempt to build on this success, the Private Sector Roundtable was set up in June 1993 and met on and off for a year. Private sector representation at the Roundtable was larger both in scope and in numbers than it had been in the PSAG, and business hoped that the Roundtable would prove as fruitful as the Advisory Group had been. Initial signs were promising. The Roundtable was chaired by PV Obeng, the same Obeng who had been active in PSAG and had since been promoted to Presidential Advisor on Government Affairs.

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[28] He had been in the private sector himself prior to entering government.
[29] Government made a number of regulatory changes in 1992 to improve the environment for business including the repeal of price control laws and significant amendments to the Investment Code.

However, the forum proved unwieldy and its mandate too generalised to succeed. Business was unable to agree on or articulate clear, easily achievable demands to government. Any prospects the Roundtable might have had were doomed when relations between the President and Obeng began to cool. In November 1993 the Roundtable issued a report to government; it was received and acknowledged, but there was never any substantive policy response.

In 1996 key actors within the four major business associations (AGI, GNCC, GEA and FAGE) decided to establish a vanguard to articulate their growing concerns about the management of the macroeconomy. They established the PEF to "play a role in influencing policies and regulations of Government."[30] It was well-placed to develop and articulate, clear, economy-wide policy preferences and it quickly became the most important voice for business.

In March 1997, the new organisation flexed its muscles and convened its own gathering at Akosombo. This was followed in June of the same year by a second conference in North Carolina in the US. Both of these gatherings set out to "focus public attention on the recent poor fiscal performance of the Ghana government" and succeeded in this. The two conferences highlighted the extent to which high levels of

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[30] The Private Enterprise Foundation (PEF), established in 1994, is similarly liberal in outlook. Unlike the other business associations, which are chiefly funded by membership subscriptions and in response to sector-specific concerns, the PEF derives the major share of its funding from international donors. This has enabled it to develop a more organised and efficient secretariat, to rise above parochial or sector-specific policy problems and to develop a broader vision of economic policy. However, this has also raised questions about its legitimacy and the extent to which it truly represents local business. Designed as an umbrella body to represent the interests of the private sector as a whole, the PEF has generally succeeded in establishing a high profile for itself and its key office bearers. See Private Enterprise Foundation informational pamphlet, p1.

deficit budgeting were "impeding private sector growth."[31] The presence of the Vice President, Professor Atta Mills, was central to the success of these gatherings. Like Obeng before him, not only was he sympathetic to the private sector, but he was also on good terms with the president. Participants in these two conferences reported a growing, non-partisan sense of "Team Ghana" among the delegates, from the public and private sector alike.[32] This may have been the high point of business' policy interactions with government.

The PEF overreached itself with plans for a high-level follow-up summit in Ghana in September. Having built consensus on the main economic problems, the PEF hoped to pin government down to concrete solutions. This provoked alarm at the Castle. Trenchant criticisms of government policy had emerged from the earlier fora; another such gathering, it was felt, could only be intended to further embarrass government. Following the application of political pressure on PEF office bearers, the Foundation's plans for a grand summit were downgraded to a lower profile "forum" that was to be hosted, not by the PEF, but by the government's own (politically marginal) Planning and Development Commission. The National Economic Forum, as it was called, met to no great effect. Government was simply not listening. In the view of Ayee *et al*[33]

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[31] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 36.
[32] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 36.
[33] Joseph Ayee, Michael Lofchie, and Caroline Wieland, "Government-Business Relations in Ghana: The Experience with Consultative Mechanisms," (Washington D.C.: Private Sector Development Department, The World Bank, 1999), 37.

> [t]he convening of the National Economic Forum … showed that Ghana's problem was not the absence of a policy dialogue between the public and private sector. By the time the Forum was held, discussions between governmental and business representatives had been underway for nearly a decade and the key economic issues separating the two parties were well understood. … [However, p]olicy dialogue is one thing; policy reform, still another. The ability of Ghana's business community to use the policy dialogue to elicit a favourable policy response from the government remains very weak.

Some blame might be laid at the door of the business associations themselves. One could argue that they did not pursue the interests of their membership with sufficient vigour. There appeared to be some hesitation about aggressively confronting government, particularly as election-related political tensions developed. Certainly some have criticised the PEF, for example, for being overly accomodationist:[34]

> The Abeasis of this world [Abeasi is the Director General of PEF] go out of their way to avoid confrontation with government. Despite the fact that they were not getting results, they continued to favour behind the scenes manoeuvring rather than up-front confrontation. This perpetuates business' subordinate position vis-à-vis government. PEF has never mounted any serious challenge to government.

Another analyst expressed it thus: "Government dialogued with those it was comfortable with."[35]

The situation worsened in the late 1990s. In his last 18 months in office, Kwame Peprah, Rawlings' last Minister of Finance, did not meet once with business

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[34] Professor E Gyimah-Boadi, Personal interview with author, 13 March 2001.
[35] Kwame Pianim, Personal interview with author 2001.

representatives.[36] In an assessment of the impact of the 1999 budget on the private sector, Apea concludes:[37]

> Depending on whom one talks to, two main views do emerge. From the business community's point of view, one gets the impression that the Government has not been doing enough to promote and facilitate the development of the private sector. The official view, on the other hand, is that the private sector is generally not dynamic enough to take advantage of the facilitative environment which Government has provided and continues to improve upon.

By the end of the decade, little progress had been made on bridging the gulf in the perceptions of organised business and the NDC. I turn now to a closer examination of particular areas of policy reform.

The policy agenda

Access to finance

In each of my interviews with businesspeople, analysts and the representatives of business associations, I asked my respondent what the greatest obstacle to private sector development was in the 1990s. Almost without exception, a single answer shot back: "lack of access to finance." In newspaper stories, in written submissions to government, in public addresses, the message from the private sector was the same: "we have been crowded out of the financial markets by government borrowing." However, on this, the single most important issue to the sector, the combined efforts

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[36] It is not clear just whom the Finance Minister did communicate with during this period. It was widely reported that he also did not meet once with the President during his last 18 months in office.

[37] S K Apea, "The 1999 Budget and the Private Sector," *Legislative Alert* 5, no. 7 (1999): 3.

of numerous associations and businesspeople failed to have any discernible impact on government policy.

Since the start of structural adjustment, business associations had repeatedly petitioned government about the difficulties of accessing credit. In 1994, government set up the Business Assistance Fund (BAF). Funded by divestiture receipts, the fund was intended as a resource for troubled companies that had the potential to recover and compete in a liberalised environment. It was never clear just how that potential was to be judged, but the Fund was eagerly welcomed by business, and indeed was rapidly oversubscribed. Anecdotal evidence suggests that, in at least some instances, disbursements from the Fund served as political patronage.[38] Certainly the repayment rate was pitiful.

While the BAF was welcomed by business, it did not address the root causes of the credit crunch, namely government's fiscal and macro-economic policies. Instead government borrowing continued to shift toward the domestic market with a "grievous" impact on private sector growth. As the ISSER analysts conclude, "[t]he high interest cost to producers and the virtual take of government [sic] of all available loanable funds [were] detrimental to the performance of the private sector."[39] Government's crowding out of investment and the capital markets was to become the single most important policy issue for the private sector.

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[38] Government is not solely to blame for this. The PEF also sat on the management committee of the BAF. In this respect, as in so many others, "irregular" practices were found and tolerated within both the public and private sectors.
[39] "The State of the Ghanaian Economy in 1994," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1995), 14.

Getting and spending: government profligacy

On the revenue side, the Central Revenue Department (CRD) had achieved some success in increasing revenue collection.[40] Not so successful was the plan to introduce VAT at 15% in 1993/4: the introduction of the new tax was badly bungled, resulting in rioting and deaths. Insufficient consultation with business was not least among the reasons for its failure. Businesspeople did not understand how the new tax was supposed to work, or its supposed benefits for economy.

On the expenditure side, there were even more serious problems, for which some blame the return to multi-partyism. Again under pressure from the IFIs, the PNDC had decided to return the country to multi-party rule in the early 1990s. Perhaps the most serious impact of the impending elections was the effect they had on government spending and hence on financial markets. Faced with an urgent need to build political support, the Rawlings government acted as so many others have done and dramatically expanded government spending in the run up to the election. The first big unbudgeted expense was wage increases for civil servants.[41]

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[40] The CRD was led by the NDC lieutenant Atu Ahwoi. Hutchful describes how CRD investigations for tax evasion were used as a political weapon against opposition minded professionals. See Eboe Hutchful, "Why Regimes Adjust: The World Bank Ponders Its "Star Pupil"," *Canadian Journal of African Studies* 29, no. 2 (1995): 309.

[41] The series of wage increases began with raises for staff at the Bank of Ghana and for lecturers at the country's tertiary institutions. This set off a "rush for the cake" as doctors, pharmacists, nurses and staff of the railway corporation demanded similar treatment. *The People's Daily Graphic* (1993): 5. There has been some dispute about whether the wage increases awarded to civil servants in the run up to the election were justified. There can be little doubt that wages in the civil service were appallingly low – so low indeed that they are widely regarded as a key explanation for corruption. See for example Center for Democracy and Development, "The Ghana Governance and Corruption Survey: Evidence from Households, Enterprises and Public Officials," (Accra, Ghana: Center for Democracy and Development, 2000), 17. This survey, undertaken jointly by the World Bank and the Center for Democracy and Development, found that 80% of public officials saw low salaries as the chief cause of corruption. The survey goes on to concede the "generally abysmal" salary

Quite how badly fiscal discipline had slipped became evident only in the aftermath of the elections. Since 1986, Ghana had recorded almost continuous surpluses in government budget. In 1992 however, a "substantial" deficit was recorded.[42] The deficit, and government's emphasis on increasing its revenue rather than cutting its expenditure, became an ongoing bone of contention in business-government relations.

By 1995, the influence of business on the budget was muted by an unanticipated actor: government's own past decisions. State spending was increasingly recurrent so that government was locked into future commitments on the basis of its historical expenditure. Analysts pointed out that[43]

> without conscious efforts at planning and consistency in the stated objectives and direction of public expenditure, government cannot play its role as a facilitator of economic activity effectively.

For some time, Finance Minister Kwesi Botchwey had managed to mask spending trends and retain the confidence of the international community. However, these contradictions ultimately became too intense for the Finance Minister to manage. He became increasingly frank about shortcomings in government's management of the economy. In particular, he objected to the "woefully misleading and inadequate" projections that government was setting for itself. In addition, he

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levels. Many people would argue then that there was a legitimate and economically sound argument for reassessing wages. However, most agree that this should have formed part of a broader process of civil service reform that would have restructured and trimmed the service as a whole. Needless to say, this broader reform did not occur and there is little evidence that the wage increases were anything more than a thinly disguised bid for political support.

[42] "The State of the Ghanaian Economy in 1992," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1993), 10.

[43] "The State of the Ghanaian Economy in 1994," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1995), 19,20.

publicly criticised the "gross abuse" of the procurement system, arguing that corruption and lack of transparency in this regard was a major cause of government over-expenditure.[44] Needless to say, this criticism was regarded by many at the Castle (home of the executive) as disloyal. Botchwey was progressively sidelined in favour of such figures as Tsatsu Tsikata. Botchwey resigned abruptly in 1995, allegedly over the profligacy of the Ghana National Petroleum Company (GNPC), headed up by Tsikata.[45] Business had regarded Botchwey as an ally and was alarmed by this turn of events.

1996 brought another round of elections and, to business' further dismay, another round of election spending and wage increases. Government appeared to have learnt nothing and none of the budgetary macroeconomic targets bar growth were met in that year.[46]

Again in 1996 the inducements to vote for the NDC went beyond handing out knickknacks and household appliances; they extended to the deployment of the budget. Government spending for that year was an increase of 40% on the 1995

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[44] *The Ghanaian Chronicle* 4, no. 111 (1994).
[45] Tsatsu Tsikata was a childhood friend of the cousin of President Rawlings; indeed he was himself related to the President on his mother's side. Regarded as wily, even brilliant, Tsikata appeared to lack the knack of profitably managing the country's petroleum resources. The company was haemorrhaging cash as a result of poorly judged investments, despite several sizeable infusions of cash bailouts from the cabinet. Tsikata's closeness to the President rendered him unassailable however and, far from declining, his political fortunes prospered. He was invited to accompany the President on an investment-seeking trip to the UK, while the Finance Minister was left to cool his heels in Accra. Reading this as a direct snub, Botchwey submitted his letter of resignation shortly after the delegation's departure for London. (Tsatsu Tsikata is also related to Kojo Tsikata, Rawlings' notorious and powerful head of security. This is just one demonstration of how important personalistic connections were in the running of the Ghanaian state.)
[46] "The State of the Ghanaian Economy in 1996," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1997), 1.

figures – which had in turn represented an increase of over 50% on 1994.[47] Wage increases to civil servants were only the most obvious part of the story. Government's broad capital expenditure programme was primed to prove the NDC's commitment to politically important areas of the country. Perhaps the most cynical expression of this was articulated after the election in a disarmingly frank rebuke by Nana Rawlings, at Bonwire's Kente festival:[48]

> You people want to have development projects from us but you do not vote for us. How do we develop your area? You must know that the left hand washes the right hand whilst the right hand also washes the left hand. You did not vote for us.

While there was a reduction in lending to government by the Bank of Ghana in 1997, it was replaced by a six-fold increase in the rate of lending to government by commercial banks! Government spending spiralled upwards as new commitments piled on top of past purchases that still had to be paid for.[49] At the time of writing, the new NPP government was opening an investigation into procurements by the state-run water company, having discovered a contract for stationery supplies that were sufficient to last the company more than113 years![50]

Government spending quickly began to impede the ability of firms to conduct business via its effects on interest rates, inflation and the financial sector or, in short, the broader macro-economy.

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[47] "The State of the Ghanaian Economy in 1996," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1997), 29.
[48] Quoted in *The Ghanaian Chronicle* (1998).
[49] The problem was so serious that in early 2001 the incoming NPP government were unable to present a complete budget statement on Budget Day – they had no idea just what government still owed by way of arrears. "The State of the Ghanaian Economy in 1999," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 2000), 35.
[50] Joy FM, *Radio News Bulletin* (Accra, Ghana: 2001).

Macroeconomic management

The impact of government spending on inflation and other macro-economic indicators was not long in coming. In 1993 the annual rate of inflation almost doubled, precipitating an ongoing debate about the root causes of inflation in Ghana. This created a number of problems for business, namely dollarisation of the economy, depreciation of the cedi and high interest rates. In order to protect themselves, businesspeople adjusted their behaviour in ways that were often damaging for the economy:[51]

> Businessmen who make calculations based on the rapidly declining nominal exchange rate ... cannot accept arguments about the real [exchange] rate not having depreciated enough or even appreciating. They generally expect the nominal rate to continue depreciating, hence requiring them to make larger cedi outlays for traded goods and services. In that situation, the only way they can preserve the value of their assets is either to hold them in foreign currency or have their values denominated in such currency. The outcome is a situation where the exchange rate depreciation and inflation feed into each other aggressively. While causation works both ways, businessmen generally tend to see the relationship as a one-way stream of exchange rate depreciation causing inflation. They subsequently take action, which undermines the exchange further and fuels inflation.

The impact of this macro-economic climate and, in particular, high interest rates on the private sector should not be underestimated. In a submission to the Vice President, the AGI gave the following example of the impact of the current interest rates:[52]

> a company which borrowed an equivalence of 200 mn cedis in 1987 had an amount of 820 mn cedis outstanding in 1993 after having paid a total amount

[51] "The State of the Ghanaian Economy in 1995," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1996), 40.
[52] "Problems and Constraints Facing Industry in Ghana," (Accra, Ghana: Association of Ghana Industries, Undated), 42.

of 404 mn cedis in interest and principal payments. This firm did not only suffer from high exchange risk, it has also been exposed to an exorbitant domestic interest rate.

Botchwey's successor as Finance Minister, Richard Kwame Peprah, had previously served as Minister of Mines. He lacked Botchwey's political stature, his penetrating intellect and his charisma. Crucially, he also lacked Botchwey's dogged determination to stick to the reform course. Increasingly, the NDC's economic policy became fractured and directionless. The President, was not particularly interested in economic policy and economic policymaking increasingly came to rest by default with its implementers (senior civil servants) and with self-interested interjections from various ministers and the president's wife.

In 1996, in response to the concerns of the Trades Union Congress (TUC), government hosted a meeting on inflation with a variety of stakeholders, including business, at Akosombo.[53] The meeting attributed the high rate of inflation principally to government's fiscal deficit[54] – but all of the debate and prognostication had little impact on government behaviour. In the aftermath of Akosombo, government's domestic debt continued to grow and government made increased use of treasury bills that restricted the access of the private sector to credit.[55]

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[53] This should not be confused with the PEF's 1997 meeting at Akosombo.

[54] "Ghana's Economic Performance, 1990-1999: Lessons from the Analysis of Key Macro-Economic Indicators," (Accra, Ghana: Strategic African Securities, 2001), "The State of the Ghanaian Economy in 1996," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1997).

[55] The one bit of good news was that inflation did drop after this meeting: from 32.7% at the end of 1996 to 20.8% at the end of 1997, while average inflation had dropped from 46.6% in 1996 to 27.9% in 1997. What this did not address however was continued high interest rates. Ghanaian interests rates are notoriously sticky.

The problem was not macro-economic policy on paper. It was how government chose to conduct the day-to-day management of its own finances. In his response to government's 1995 budget Ishmael Yamson, chairman of Unilever Ghana and President of the GEA, argued that:[56]

> [that] year's budget [would] be able to address the short term economic problems of the economy. 'What is needed is that the government should stick to those measures without any deviation', he stressed. Commenting on some aspects of the budget in Accra yesterday, he said the budget will only be good *if the government will do what it has promised* with commitment.

Like the consultative meetings that preceded it, the Economic Forum in 1998 identified inflation as the most serious weakness of the Ghanaian economy and inflation, it was argued, resulted from government spending. Like previous meetings, these observations had little effect. The continued upward trend in interest payments reinforced the tendency in government expenditure away from capital spending and toward recurrent expenditure.[57] At the end of the 1980s, Ghana had been applauded for the improvement in its macroeconomic figures. By the early 1990s, it seemed that the much-vaunted reduction of the budget deficit had been achieved, at least in part, at the expense of a reduction in total capital expenditure.[58]

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[56] Quoted in *The People's Daily Graphic* (1995): 1. My emphasis.
[57] Capital expenditure reached the lowest level of the decade in 1997 at 17%. "The State of the Ghanaian Economy in 1997," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1998), 8.
[58] As Armah argues "[s]uch trends are cause for concern since capital expenditure is a key indicator of investment expenditure. Investment in turn is imperative for growth since it expands the productive resources of the economy. Thus, a decline in the growth of the broad deficit is trivial if it derives from expenditure cutbacks on the very goods and services that promote growth." Bartholomew K Armah, "Reflections on the State of the Economy of Ghana in 1999," *Legislative Alert* 6, no. 3 (1999): 3.

The 1990s were supposed to be the decade in which Ghana would move from economic recovery to accelerated growth. Business had looked forward to improved growth, higher levels of investment and a period of expansion and consolidation. Unfortunately this was not to be the case. Instead of the hoped-for improvement, "[v]irtually all macroeconomic indicators of a move toward accelerated growth were decidedly poorer [in the 1990s] than in the period before 1992. ..."[59]

Divestiture

Like greater consultation, divestiture was something that business in Ghana sought but that was probably won more by pressure from the IFIs than from organised business. Tangri agrees: "the prime reason for the PNDC accepting divestiture" he writes, "was that its political survival was clearly contingent upon implementing such reforms as advocated by the external agencies."[60] The PNDC was not instinctively supportive of privatisation but government's desperate need for the revenue the process could generate ensured that sales began and continued. Divestiture receipts were about the only thing keeping government solvent as state spending continued to increase throughout the 1990s.[61] And so, the divestiture process did move forward, albeit slowly and clouded in controversy.

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[59] "The State of the Ghanaian Economy in 1993," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1994), 1.

[60] Roger Tangri, "The Politics of State Divestiture in Ghana," *African Affairs* 90, no. 361 (1991): 526.

[61] Divestititure proceeds went straight into the government budget as regular revenue. These receipts were the only thing keeping government's "narrow" budget in the black. (The narrow budget is defined as the national budget minus the inflow of funding from the international funding institutions, which was generally incorporated in government budgeting.) Obviously, this situation was not sustainable. Business grew increasingly

Ghana's diversiture programme, led by the Divestiture Implementation Committee (DIC), began in the late 1980s with the sale of 32 unprofitable SOEs. The programme picked up scope and speed in the early 1990s. It was a process that Ghanaian business was mostly marginal to.

Ghanaian business had little input into how the divestiture programme should proceed. Tangri argues that [62]

> local business felt that it was not adequately consulted and involved in the process of economic decision-making. Economic policy, including divestiture policy, was determined by a small group of officials from government ministries and the World Bank and business remained on the periphery. This overall mutual suspicion between government and business (both foreign and local) contributed to the divestiture programme being so limited in its implementation.

Few Ghanaians were able to buy privatised firms, mostly because they were struggling to stay afloat in the risky liberalised environment and were unable to mobilise the funds needed. [63] Of 212 DIC divestitures, 169 were sold to locals. This may look like a high figure, but the firms sold to locals were overwhelmingly the smallest, least valuable firms and, in terms of value, may have comprised only 10% of the total.[64]

While business organisations continued to support privatisation, the broader public strongly opposed the sale of Ghana's economic assets to foreigners. The sale

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concerned, not just about levels of state spending but the breakdown of that spending too as the share of fixed obligations in the budget increased, squeezing discretionary spending. "The State of the Ghanaian Economy in 1994," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1995).

[62] Roger Tangri, "The Politics of State Divestiture in Ghana," *African Affairs* 90, no. 361 (1991): 531.

[63] Kojo Appiah-Kubi, "State-Owned Enterprises and Privatisation in Ghana," *The Journal of Modern African Studies* 39, no. 2 (2001): 209.

[64] Kojo Appiah-Kubi, "State-Owned Enterprises and Privatisation in Ghana," *The Journal of Modern African Studies* 39, no. 2 (2001): 218,22.

of government's shares in the Ashanti Goldfields Corporation (AGC), for example, was delayed for months when government was taken to court in an attempt by Ghanaians to stop the sale of the mine to foreigners. (In 1993, government had announced that it was going to sell half of its 55% stake in AGC.) As a sop to local opinion, 1.2 mn shares were reserved for sale to Ghanaians only.

The Ashanti divestiture attracted great interest from international investors. Through astute management and the use of new technology, Ashanti had tripled its gold production since 1986[65] and increased both its output and its earnings every year since 1988.[66] AGC was ultimately floated on the London and Ghana stock exchanges and share sales raised $454 mn for the Ghanaian government, significantly broadening Ghana's financial markets and deepening her financial instruments.

The President's relationship with Sam Jonah, the high profile chairman of Ashanti AGC illustrates some of the dynamics that drove the PNDC's relationship with mainstream Ghanaian business community. Initially Jonah was said to have enjoyed a warm relationship with the PNDC. He was regarded in many circles as a PNDC protégé and was, by some accounts, Rawlings' first choice for running mate in the 1992 poll.[67] He is alleged to have turned the offer down however. In addition, he began to display an unsettling independence of mind and attitude, for example

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[65] Anonymous, "Golden Shares: African Privatisation," *The Economist*, March 19 1994, 96.
[66] Priscilla Ross, "Ashanti Gold Glistens Again," *African Business*, March 1995, 27.
[67] *The People's Daily Graphic* (1995), Anonymous, Confidential interview with author, 21 March 2001.

hosting fortnightly breakfasts for the media. The Castle began to fear that he may have independent aspirations:[68]

> Rawlings operated on one basic principle: if you are not with, you are against us. The notion of an independent source of power was truly intolerable. As Jonah's status grew both nationally and internationally, the PNDC grew afraid of him; they came to see him as a political threat that could not easily be contained. The conflict between government and Jonah at the AGC was about clipping Jonah's wings.

The showdown between Rawlings and Jonah occurred after the latter had presided over several disastrous hedging decisions: AGC bet the wrong way on gold futures and was suddenly pressed for cash it did not have in a margin call. Rawlings used the opportunity to try to have Jonah removed as Chairman of the company. He failed and the two declared an uneasy truce.[69]

By 1999, some 70% of Ghana's public enterprises had been disposed of.[70] By some standards, the divestiture programme would seem moderately successful.

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[68] Professor E Gyimah-Boadi, Personal interview with author, 13 March 2001.It is striking that some of the President's most fraught interactions with businesspeople were with those *Ghanaian* businesspeople. By contrast he seemed to rather relish meeting international business figures. Some of the international businessmen that he publicly met with are Virgin's Richard Branson, Lonrho's Tiny Rowland and Sir Michael Perry, the Chairman of Unilever International. In addition, the President appeared to have a soft spot for Malaysian entrepreneurs. He justified special attention to Malaysia as a business partner on the basis of South-South solidarity; this may have influenced the award of an important telecommunications contract to a Malaysian consortium.

[69] In this story it is tempting to see Jonah as the private sector white knight, doing battle with a controlling and corrupt state. However in his business dealings Jonah may resemble a street fighter more than a knight in shining armour. Certainly, he runs AGC in a way that would be very familiar to the African *patron*.

[70] Kojo Appiah-Kubi, "State-Owned Enterprises and Privatisation in Ghana," *The Journal of Modern African Studies* 39, no. 2 (2001): 211.

Business' involvement in the divestiture programme overall however had been limited:[71]

> Private sector participation has been confined to the final stages when private investors have been invited to negotiations on their bids, Little official concern has been evinced as to whether business has the interest of the means to take up the opportunities created by divestiture, Moreover, in the absence of institutional mechanisms it has not been possible for much interaction to take place between the private sector and those senior officials concerned with macroeconomic politics which impinge on the interests of private business.

Serious questions have been raised about the manner in which many of the former state-owned enterprises were disposed of, with allegations of political favouritism and corruption exacerbated by a lack of transparency in tendering and awards.[72] There do appear to be valid grounds for the NPP's re-examination of a number of the sales that were made. Ghana's divestiture programme demonstrates then three important characteristics of the country's political economy: first, the hostility of the PNDC and Rawlings to independent-minded businesspeople, second, the marginalisation of the formal business associations from policymaking and third, the many opportunities that existed for those businesspeople close to the seat of political power.

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[71] Roger Tangri, "The Politics of State Divestiture in Ghana," *African Affairs* 90, no. 361 (1991): 534.

[72] The sales which have been fingered as potentially irregular include the divestiture of Automotive and Technical Services Ltd., later known as Sabat Motors, the sale of Aviation Handling to Lebanese company, Etounic, alleged to have financed the NDC in the 1992 election and the sale of the bus company Vanef STC. See for example, reports in *The People's Daily Graphic* (1998). *The Ghanaian Chronicle* 3, no. 53 (1994): 1. The sale of Continental Hotel to a majority-owned Libyan company and the lease of the Ambassador Hotel to a Palestinian company have also been described as political decisions. See Roger Tangri, "The Politics of State Divestiture in Ghana," *African Affairs* 90, no. 361 (1991): 533.

The Policy Outcomes

Toward the end of the 1990s, a series of shocks demonstrated the continuing fragility of the economy. An energy crisis in late 1997 was exacerbated by the international effects the subsequent Asian financial crisis and by declines in gold, timber and coca prices. Inflows from Ghana's international development partners reached their lowest level since the introduction of the ERP. Prices for crude oil increased by almost 100%.[73] The economy's extreme vulnerability to these developments raised questions over the extent to which the economy had been successfully restructured. What of the policy areas that business cared about?

What business wanted	What it got
Policy consultation	C
Conservative macroeconomic management:	D
Access to credit	C-
Reduced government spending	F
Lower inflation	C
Divestiture	B

Table 2.

Structured policy consultation between business and government 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.

[73] "The State of the Ghanaian Economy in 1999," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 2000), 14.

Beyond the process of consultation, what business really cared about was its lack of access to finance and business association 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 the BAF – but was not prepared to amend its spending behaviour.

Divestiture was an important policy area because it could potentially have reduced the overwhelming dominance of government in driving the economy. This is a mixed story, with some successes (notably the listing of Ashanti with positive effects on the Ghana Stock Exchange) but there also allegations of patronage.

Why business won so little

There is no straightforward explanation for Ghana's policy outcome. Business in Ghana was both stronger and more autonomous from 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 businesspeople varied depending on the sub-sector in which they operated. At first glance then, it looks as though some sub-sectors of the economy won more than others. The industrial and manufacturing sub-sectors recovery of the late 1980s, wavered in the 1990s.[74] By contrast, things looked much rosier for the construction sub-sector, which positively flourished.[75] However the primary client of the construction sub-sector was the state, and state spending on roads for example remained robust throughout the decade.[76] On closer examination then, what seem to be sub-sectoral differences are 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 the public expenditure patterns of the 1990s, Wetzel concludes as follows:[77]

> 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.

Aryeetey makes a similar argument in his assessment of the performance of the Ghanaian economy in the 1990s:[78]

> earlier growth [in the economy, prior to 1991] was made possible by large doses of public investments that would take off shortly afterwards. With the rather slow growth of private investments, continued growth is having to

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[74]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. "The State of the Ghanaian Economy in 1993," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 1994), 103.

[75] The construction sub-sector's growth rate in the 1990s averaged 6.1%. "The State of the Ghanaian Economy in 1999," (Legon, Ghana: Institute of Statistical Social and Economic Research, University of Ghana, 2000), 120.

[76] There was also construction by government in the health, education and housing sectors.

[77] Deborah Wetzel, "Promises and Pitfalls in Public Expenditure," in *Economic Reforms in Ghana: The Miracle and the Mirage*, ed. Ernest Aryeetey, Jane Harrigan, and Machiko Nissanke (Oxford: James Currey, 2000), 126.

[78] Ernest Aryeetey, "Structural Adjustment and Aid in Ghana," (Accra, Ghana: Friedrich Ebert Foundation, 1996), 4.

> depend on public investments and other expenditures, more than is desirable. In the event, economic policymaking has followed a more erratic path since 1992. ...

This growth in the size of government was "largely at the expense of private investment."[79]

Far from being a programme that privileged the role of the private sector in the economy, the ERP 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:[80]

> All along, the programme that we [the government] 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.

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[81]

> 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.

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[79] S Younger, "Aid and the Dutch Disease: Macroeconomic Management When Everybody Loves You," *World Development* 20, no. 11 (1992): 1593.
[80] S K Apea, Personal interview with author 2001.
[81] Ernest Aryeetey, "Structural Adjustment and Aid in Ghana," (Accra, Ghana: Friedrich Ebert Foundation, 1996), 39.

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, 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. Policy rents were secured by some compliance with the IFI's most urgent demands, such as for consultation or divestiture.[82] The NDC was clearly aware that the business community was a potential source of financial and political support, but the NPP seemed to have locked up this constituency so the NDC resorted to more limited, patronage-based attempts to win particular support.

Some analysts are inclined to blame these developments on the pressures associated with democratisation. It is a tempting explanation: not only do the dates of the slide in policy performance and the commencement of multi-party politics coincide neatly, but there is also clear evidence that much government spending was directly related to the NDC's desire to win elections. However, there was nothing inevitable about the way in which government chose to react to those pressures.

I have argued that parliament was mostly inconsequential; it was barely a source of pressure on policy. Where there *was* real pressure was from the president and his supporters. Faced with elections, the political elites could have chosen to build a political support base the hard way, by actually addressing the long-term

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[82] Eboe Hutchful, "Why Regimes Adjust: The World Bank Ponders Its "Star Pupil"," *Canadian Journal of African Studies* 29, no. 2 (1995).

needs and interests of their constituents. Instead, the neo-patrimonial system within which they were embedded presented an easier solution: bolstering support by means of patronage.

This was not inevitable. Sandbrook and Oelbaum argue that in fact there were two simultaneous responses to democratisation:[83]

> On the one hand, democratisation since 1992 has stimulated the resurgence of neopatrimonial institutions under the guise of liberal democracy – to the extent that the Rawlings regime in the mid-1990s resembled the regime of Kwame Nkrumah which Rawlings had once decried. Pervasive clientelism in 1992 predictably undermined macroeconomic stability as the government opened up the sluice gates of patronage to win the election. ... On the other hand, beneath the surface, and in tandem with the strengthening of middle-class civil associations, important institutional changes were underway that ran counter to the logic of neopatrimonial traditions. ...
>
> This contradictory outcome – continuity of neopatrimonial practices in combination with some liberal institution building – mirrors Ghana's contradictory historical legacies, we will argue. Neopatrimonial traditions are well entrenched in Ghana's political culture; yet liberalism too has extensive historical roots.

An examination of economic policymaking in the 1990s demonstrates two modes of interaction between these business and government: hostility or patronage. Hostility was easily secured by an identification with the liberal tendency or opposition parties. 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."[84] If a firm were big or important enough, it could usually get an audience with the minister. Access to the

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[83] Richard Sandbrook and Jay Oelbaum, "Reforming the Political Kingdom: Governance and Development in Ghana's Fourth Republic," *Critical Perspectives*, no. 2 (1999): 6,7.
[84] Elizabeth Hart and E Gyimah-Boadi, "Business Associations in Ghana's Economic and Political Transition," *Critical Perspectives*, no. 3 (2000): 21.

president seemed to be much more idiosyncratic: family connections or long-standing friendship with either the president or his wife seemed to open sesame.

Conclusion

It is evident that for all its private sector rhetoric, economic reform in Ghana was, first and foremost, a state-driven affair. In the end, perhaps the most devastating failure of the ERP was its inability to generate a robust private sector response. Throughout the 1980s and 1990s, the economy continued to be driven by periodic and increasingly partisan infusions of public investment and spending. Private investment by contrast remained paltry. The impact on the business environment was twofold, both in terms of restricting access to the credit markets and in terms of establishing and rewarding certain modes of economic behaviour and accumulation.

The new NPP government, elected in 2000, promised a "Golden Age" for business. From the experience of their predecessors in government, the NDC, it is evident that this will require more than a rhetorical commitment. This will need to go beyond improved public-private sector dialogue, to a transformation of the way that both the public and private sector do business.

CHAPTER 5

BUSINESS AND GOVERNMENT IN MAURITIUS:

PUBLIC HOSTILITY, PRIVATE PRAGMATISM

In contrast with Ghana and Zambia, there were few political incentives for the Mauritian government to consult seriously with its business community. Not only was the private sector dominated by an ethnic minority but it was dominated by the very ethnic minority that historically oppressed the group now in political power. Common sense, and much politics literature, tells us that this is a recipe for economic and political conflict.[1] Yet, despite a relatively high level of hostility between business and government, the business sector was able to exert a moderate level of influence on economic policy. Indeed, Mauritius has been described as "a case study in the successful management of an economy."[2] This chapter investigates the contribution of the private sector to economic policymaking in the 1990s.

I argue that while business' level of influence varied across the sub-sectors of the economy, the private sector overall had a high level of autonomy and generally received a surprisingly receptive hearing from government. Crucially, its challenge to government's leading role in the economy was ignored but as these leading roe has served business well, the outcome is positive. This chapter begins by laying out the background: the nature of the Mauritian political economy, and the country's economy and business associations. The bulk of the chapter considers the interactions between

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[1] For a recent example, see Amy Chua, *World on Fire : How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability*, 1st ed. (New York ; London: Doubleday, 2003).
[2] Tony Hawkins, "Investors Begin to Return," *Financial Times*, December 18 2000.

business and two successive governments on economic policy questions in the 1990s. The reader will quickly discern that much of the chapter is spent discussing government initiatives, rather than those of business. This is no accident. It is government that drives economic policymaking while business largely responds to the initiatives and proposals of government.

The Mauritian Political Economy

In Mauritius, the relationship between, on the one hand, the country's diverse ethnic groups, and on the other hand, distinct spheres of influence within that country's political economy are central. Former Finance Minister Rama Sithanen argues that three spheres of influence exist in Mauritius: first, the economic sphere, historically dominated by white Mauritians (especially Franco-Mauritians), second, the print media sphere, dominated by Creoles and third, the political sphere, dominated by Hindus.[3] In chapter 2, I argued that the Franco-Mauritian domination of the sugar sector, and in particular the history of exploitation of Hindu labour on the sugar plantations, laid the basis for a frosty relationship between the "economic sphere" and the "political sphere." Crucially, however it also introduced a vital degree of autonomy between business and government.

However, there was a second respect in which ethnically driven concerns facilitated development in Mauritius. Ethnic politicking favoured a diversification away from the much vilified sugar industry and toward export-led industrialisation. Today, Mauritius' economy looks relatively developed, with services as the dominant sector (reflecting the importance of tourism), followed by manufacturing and industry. (See

[3] Ramakrishna Sithanen, Personal interview with author, 6 August 2001. Of course, much of the capital in the print media sector is still Franco-Mauritian in origin.

Figure 1) Sugar remains an important foreign exchange earner, but in terms of providing employment as well as in overall contribution to GDP, it has been superseded by manufacturing.

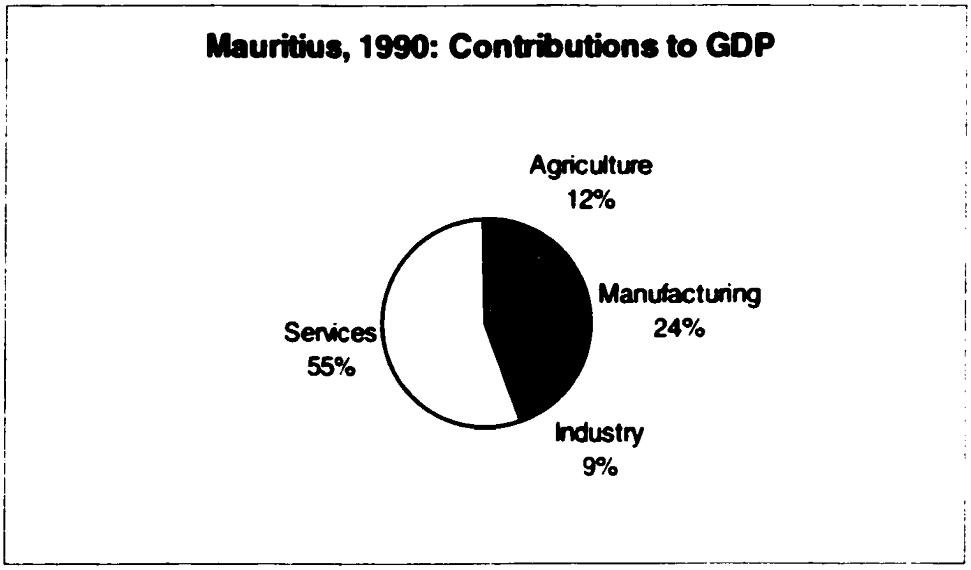

Figure 1. Source: UNCTAD *Handbook of Statistics*, 2000

Organised business associations (see Figure 3) go back a long way in Mauritius: the first Chamber of Commerce was established in 1851 and the Chamber of Agriculture followed just two years later. Business associations, like the economy, cluster around three sub-sectors, sugar, the EPZs and tourism.[4] They also reflect the almost oligopolistic face of Mauritian business. Despite some diversification of the "ethnic" or communal face of business away from almost exclusively Franco-Mauritian, economic power in

[4] Ganeshan Wignaraja and Sue O Neil, "S.M.E. Exports and Public Policies in Mauritius," (London: Commonwealth Secretariat, 1999), xi.

Mauritius remains remarkably concentrated, both in terms of its racial profile and in terms of broader ownership structures.[5]

Business associations, like the economy more broadly, are marked by the dominance of sugar. Not only is the processing and marketing of sugar a vital contributor to the Mauritian economy, but much business owes at least its origins to capital and to entrepreneurs based in the sugar industry. Sugar tends to straddle the divide between agriculture and industry. For this reason, it is difficult in Mauritius to separate out "business" as a component of the "private sector"; I will consequently talk more often about the broader "private sector" in Mauritius.

More so than in my other country cases, the salient division within the business community depend on which sub-sector of the economy firms occupy. This is reflected in both business associations and in policy preferences.

To begin with the oldest sub-sector: sugar. This sub-sector is represented principally through the Chamber of Agriculture, one of the oldest and most influential of the private sector institutions. The Chamber's policy positions usually call for less regulation of the industry. High taxes and labour regulations are key targets. Big sugar estates would, for example, like to be able to further mechanise the production process but this would require relaxation of the strict labour laws pertaining to the sector.

The Sugar Syndicate, the marketing organisation in charge of exporting all Mauritian sugar, exercises influence indirectly - through its participation, with government, in the negotiation of international agreements about sugar sales and prices.

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[5] In 2000, just four companies constituted half the market capitalisation of the Stock Exchange of Mauritius, namely the State Bank, the Mauritius Commercial Bank, Sun Resorts and New Mauritius Hotels. Tony Hawkins, "Investors Begin to Return," *Financial Times*, December 18 2000.

Its sister organisation, the Mauritius Sugar Authority, was established in the mid 1980s to co-ordinate relations between the Government, Ministry of Agriculture and the various sugar industry institutions. These three institutions, the Chamber, the Syndicate and the Authority, work closely together, share key memberships and are frequently led by the same small group of people.[6]

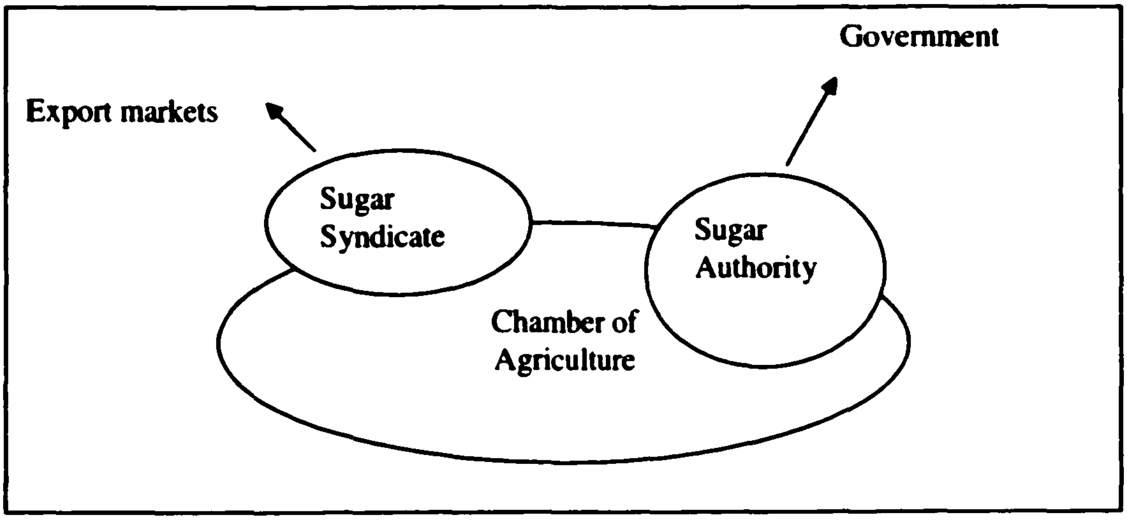

Figure 2. Private Sector Associations in the Sugar Industry

Members of the sugar industry - or the barons at least - traditionally have advocated deregulation and liberalisation of the labour and tax structure. (The small, Indian-owned estates barely feature in the formal business associations. Rather, this constituency exercises an indirect influence on the polity through its membership of the Hindu majority and the protection this affords.)

Like sugar and tourism, manufacturing and banking are represented by sub-sectoral associations. Perhaps the most important of these is the Mauritian Export Processing Zones Association (MEPZA). In terms of policy, MEPZA has largely

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[6] They are in fact situated in the same building, Plantation House, which overlooks the capital's central plaza.

favoured liberalisation and devaluation of the national currency. Along with the sugar producers, they have lobbied for a weak rupee to counter the depreciation of the Euro.

Tourism is represented by the Association des Hoteliers et Restaurateurs de l'Ile Maurice (AHRIM), created in 1973. Its membership includes both large and small hotels and restaurants as well as other enterprises engaged with tourism such as diving operations, tour companies and car hire firms. The association is funded by member subscriptions. The tourism sub-sector has traditionally pressurised government to allow greater tourist numbers.[7] The industry has pushed for example for government to allow charter flights to the island.

The highest profile is enjoyed by the national associations, which aggregate the interests of a number of sub-sectors. The largest of these, the Mauritius Employers' Federation (MEF) was founded in 1962. According to its literature, "its primary mission is the safeguard and defence of the interests of its members and, by extension, the promotion of free enterprise in Mauritius"[8]; generally however it limits itself to social and industrial relations type issues. Members comprise both individual employers and firms, and run the gamut from small enterprises to the largest. The Federation is entirely funded by member's subscriptions.

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[7] In 1988, government published a *White Paper on Tourism*, which limited the number of tourists to a ratio of 1:3 with the local population.
[8] Mauritius Employers Federation, "The Vital Voice of Mauritius Enterprise," (Mauritius Employers Federation, undated).

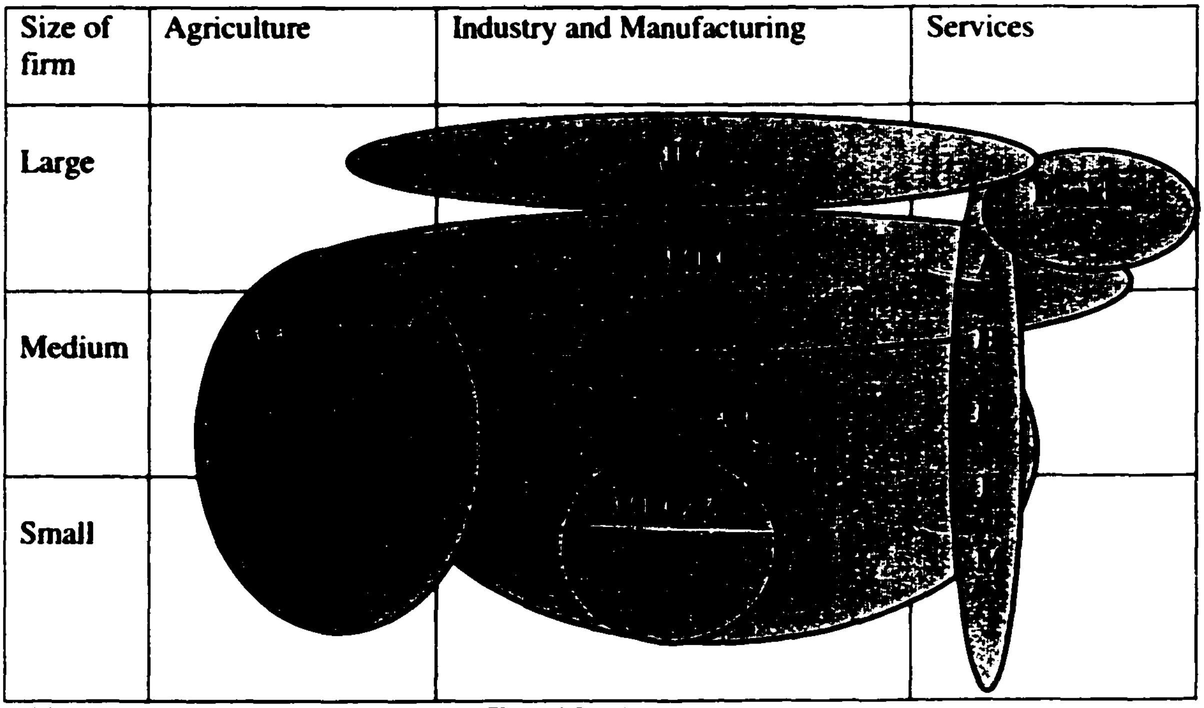

Figure 3. Business Associations and Their Membership

While not the largest, the Joint Economic Council (JEC), set up in 1970, is the apex private sector organisation in Mauritius. Its officers meet with government at the highest level, both in a set of regularised meetings and in a more *ad hoc* manner as important issues arise. The Committee rests both literally and figuratively on the basis laid by the sugar sector.[9]

At a lower level, the Mauritius Chamber of Commerce and Industry (MCCI) represents a broad range of firms at Chamber level. Like the JEC, it tends to concern itself with broad macro-economic issues.

While there has been a diversification of both membership and leadership, the major associations continued to be dominated by Franco-Mauritians. Not surprisingly

[9] The JEC occupies the top floor of Plantation House where the Sugar Syndicate and Chamber of Agriculture also have their offices.

then, separate associations have been set up for the representation of businesspeople in other communities. The Chinese Business Chamber, for example, was formed in 1998 to oppose the Consumer Protection Act. The Indian Traders' association, active for some time, now appears to be moribund. However, these are not seen as being particularly influential on policy questions.

In conclusion then, private sector associations in Mauritius have much in common with their counterparts in South Africa: they reflect the dominance of a minority ethnic group and the dominance, within that group, of a small number of large, powerful firms. In addition, they display a high level of autonomy from government, a capacity for independent analysis of the economy and the ability to aggregate an economy -wide set of policy proposals. They are financially independent and do not rely on funding from elsewhere. By contrast with the South African private sector however, they tend to follow the policy lead given by government. This may of course, say more about the nature of the Mauritian government (which is closer to the East Asian model of a developmental state than its South African counterpart) than it does about the Mauritian private sector.

Economic policymaking in Mauritius

Unlike in Zambia and Ghana, in Mauritius party politics and developments in the legislature do matter.

The predominant support base of the Labour Party (LP) is solidly Hindu (it was traditionally supported by sugar workers). It remains vaguely left wing, although it has never departed radically from the main-stream development strategy in Mauritius.

The Mouvement Militant Mauricien (MMM) started out as a radical party, eschewing ethnicity for a class-based approach. Neither of these tendencies has persisted and the party has split often. The most significant offshoot of the MMM is the Mouvement Socialiste Militant (MSM) led by Sir Anerood Jugnauth.

The Parti Mauricien Social Democrate (PMSD), currently called the PMXD, has traditionally drawn support from the Creole community and adopted conservative economic policies that found favour with business.

Rather than patronage or ideology, journalist Kiran Ramsahaye has argued that Mauritian politics is dominated by ethnicity and personalities:[10]

> In Mauritius all political parties - no matter how far apart they may appear to be - are potential allies. Power is the glue that eventually sticks them together. Power at any cost. We've had Labour/MSM/PMSD, MSM/MMM, Labour/MMM, and most stunning of all, the MMM/PMSD, and possibly sooner rather than later the MMM/MSM again - all of this with the blessing of the population.

It may be that keeping track of all the elaborate coalition permutations is more trouble than it is worth. While businesspeople grumble that the LP is less amenable to their views than the other major parties, most agree that all the parties share a broad consensus on economic policy and the role of government in this. The frequently changing coalitions and alliances are not economically disruptive; rather than evidence of political instability, the shifting coalitions "provide a safety valve, enabling politicians to let off political steam. ..."[11]

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[10] "Leaders to the Fore; Ideology No More," *News on Sunday*, 1 March 1998, 7. Indeed the predicted MMM/MSM coalition did indeed occur since the article was penned.
[11] "Leaders to the Fore; Ideology No More," *News on Sunday*, 1 March 1998, 7.

To turn then to the period under review: what was the contribution of the Mauritian private sector to the development of economic policy over the course of the 1990s?

The 1990s: A New Set of Challenges

The early 1990s were a period of buoyant economic growth and generally good economic figures in Mauritius. The sugar and tourism sub-sectors were recovering from earlier doldrums and, after lagging initially, manufacturing too recovered, buoyed by increased consumer spending. However there were signs of potential trouble ahead. By the late 1980s, there was a need for reform in three key areas of the economy.

In agriculture, there was an evident need to diversify out of sugar. While a number of entrepreneurs based in the sugar industry had moved into manufacturing, agriculture itself remained dominated almost entirely by sugar.

As with sugar, the country's manufactured exports were not sufficiently diversified, either in terms of goods or markets. In addition, the country's almost full employment status had put pressure on wages so that the country was no longer a low wage economy. Built on labour intensive production, Mauritian industry required a more skilled labour force and access to better technology to retain its comparative advantage.

Of all three sub-sectors of the economy, tourism was the one in which the private sector has demonstrated the most independent initiative. However by the early 1990s, hoteliers argued the need for some regulation – or, at least, for greater planning and co-ordination from government. In particular, a rash of construction had created an oversupply of accommodation (in terms of government's plans for numbers of tourists).

The policy preferences of Mauritian business are summarised in Table 1. It will be obvious that there is a tension here in what business wanted: in almost every sub-sector – bar tourism – there was, on the one hand, support for liberal macro-economic policies but, on the other hand, there was also a demand for some kind of government intervention in the sector (most notably in manufacturing and sugar, the pressure was for government to continue to negotiate favourable access to international markets for those sub-sectors).

What the private sector wanted	
Sugar	Deregulation of the sector: Liberalisation of labour laws Reform of the tax regime Extension of "political price" for sugar
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 Devaluation of the currency
Tourism	Reduction of taxes Policies for greater numbers of tourists
The private sector as a whole	Broadly liberal macro economic policies End to discrimination by government across sectors of the economy

Table 1.

This section will examine the private sector's capacity to impact economic policymaking process in the 1990s, given these challenges. The decade is split into two, with an MMM/MSM government in the first half of the decade and various permutations of LP-led government for much of the second half. Throughout the decade, it was agriculture and EPZ/manufacturing sub-sectors that organised most assertively to defend their own interests although the hoteliers and traders occasionally weighed in. Against a politically turbulent backdrop, private sector institutions and their interactions with government were strengthened and good rates of national economic growth were maintained.

The "militant" governments

In the second half of 1990, a MMM/MSM coalition government took office with Paul Berenger as Finance Minister. Despite his radical credentials, Berenger implemented a remarkably liberal set of economic policies as did his successor, the economist Rama Sithanen. Between them, they galvanised the country's reform process and significantly improved the overall relationship between business and government. But Sithanen encroached where Berenger before him had failed, and fallen: government's relationship with the sugar industry.

Sugar: A quiet transformation

Sithanen envisioned a different relationship between the sugar industry and government. He hoped to "put an end to the straight-jacket [sic], narrow-minded and confrontational relationship that has beset the industry for centuries" and to "usher in a new dawn based on effective co-operation and partnership." This was something that those entrepreneurs based in the industry had been seeking for some time.

Sithanen's most revolutionary step as Finance Minister was to do away with the export duty on sugar. This was politically dangerous because it could have been interpreted as pandering to the despised sugar barons; indeed, in his budget speech, Sithanen could not quite bring himself to use the word "abolish." At the tail end of a number of measures intended to mollify workers, he intimated that the export duty on sugar would "no longer appear as a revenue item for Government."[12] Instead, the money would be siphoned into, among other funds, the Sugar Investment Trust (SIT). This would give all planters and, crucially, all employees a share in the ownership of the milling companies. By linking the abolition of the tax, with a new structure to be funded in large measure by the barons that would yoke the interests of workers and owners (large and small) in the sugar industry, Sithanen drew the political sting from his concession. For the sugar sub-sector, government secured an agreement from the EU that would entitle the country to an additional quota of 85,000 tonnes of sugar at the preferential price for six years. The barons had every reason to be delighted.

Manufacturing exports

As finance minister, Sithanen introduced a wide range of measures intended to improve productivity and competitiveness within the Mauritian economy. To the delight of business, many of these measures came directly from suggestions made by them. In the *White Paper on National Pay and Productivity Council,* for example, he adopted a proposal the MEF had made to link pay and productivity.

I argued above that by the early 1990s, many of the manufacturing firms in Mauritius needed to upgrade their technology if they were to stay internationally competitive. After a vigorous start, by the early 1990s there had been some stagnation in investment to the EPZ. In 1995 therefore Sithanen announced a series of measures

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[12] Hon. Ramakrishna Sithanen, Minister of Finance,, "Budget Speech 1994-1995" (Port Louis, Mauritius, 20 June 1994), 27.

intended to boost investment in the sector. He also proposed the establishment of a Business Licensing Authority as a one-stop clearing house for investors.

Tourism

Government and the private sector disagreed fundamentally over how the tourism sub-sector should be developed. Government wanted to preserve Mauritius as a top quality destination for a limited number of big-spending tourists. In 1988, government had published a *White Paper on Tourism*, which limited the number of tourists to a ratio of 1:3 with the local population. Hoteliers, restauranteurs, car hire agencies and others associated with the tourist trade differed, arguing that the island could support a far larger number of visitors. Under the militants however, they made little progress, not surprisingly. At the time, AHRIM, the sub-sectoral association, was barely functioning. It consisted largely of the smaller hotels and restaurants and had very little clout with government.

The private sector more broadly

The "militancy" suggested by the coalition parties' names was strikingly absent in its relationship with the private sector. Instead, this government began to routinely include private sector representatives in its dealings with various international financial institutions and in international trade agreement negotiations. For example in 1991, government asked the MCCI to receive all major delegations visiting the country, giving the Chamber the opportunity to engage with a number of World Bank missions. This practice was extended to domestic policy consultation when Berenger institutionalised private sector representation on a range of committees and processes dealing with national economic issues.[13] In 1992 then, the MCCI's annual report records monthly meetings with the Ministry of Industry and Industrial Technology to discuss issues relating to industrial development.[14] An Industrial Council was established to serve as "a permanent consultation mechanism between the public and private sector on matters related to industrial and technical development."[15]

Sithanen fostered the new institutions of structured public-private sector consultation that Berenger had established. Prior to the finalisation of the budget, Sithanen invited the private sector to submit proposals for the budget, and incorporated suggestions from MCCI about the elimination of anomalies in the tariff structure and duty reductions on imports for tourism and construction.[16] What is striking here is not just that government met with and listened to private sector association, but that these very interactions were established in terms of government's initiative. As in their interactions, so too in policy: while much of economic policy was favourable for the development of the private sector, it emerged principally from government.

Also intended to increase the role of market-driven incentives, Sithanen confirmed that the principal task of monetary policy (and by implication the Bank of Mauritius) was to reduce inflation and he introduced reforms intended to transform the

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[13] Mahmood Cheeroo, Personal interview with author, 21 August 2001.
[14] Mauritius Chamber of Commerce and Industry, "Annual Report 1992," (Port Louis, Mauritius: 1992), 4.
[15] Unattributed, *Industry Focus*, May 1993, 4.
[16] Mauritius Chamber of Commerce and Industry, "Annual Report 1994," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1994), 6, Unattributed, *Industry Focus*, May 1993.

Bank's role from "a market maker into that of a market player."[17] In addition, he set the stage for the listing of such state-owned companies as the State Bank, the State Investment Corporation, Mauritius Telecom and Air Mauritius. The liberalisation of exchange controls was finalised when Sithanen lifted the remaining 5% capital gains tax and paved the way for complete foreign exchange convertibility.

Sithanen's tax reforms did not stop with sugar. 1995 saw the beginning of an attempt to reform the tax system and bring down the rate of income tax for both individuals and corporations over a period of five years. In pre-budget consultations, MCCI had requested a reduction in the rate of corporate tax applied to firms producing for the local market; this was granted. Personal income tax rates were restructured into three bands with the highest of these being reduced to 25% (from 30%).

Economic policy was often in the tradition of the developmental state rather than the neo-liberal state. Those sub-sectors that benefited from this approach glowed; others glowered. Tourism in particular was not flourishing as it might have.

The state of business mid way through

The year 1995, election year, provides a good opportunity to assess the impressive developments in the first half of the decade. In the decade to that point, the country had experienced average GDP growth of 6.5% p.a., inflation of 7.5%, unemployment had shrunk to a negligible 1.6% and the budget deficit averaged 2.2%.[18] "Business and

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[17] Hon. Ramakrishna Sithanen, Minister of Finance,, "Budget Speech 1994-1995" (Port Louis, Mauritius, 20 June 1994), 10.
[18] Tony Hawkins and Michael Holman, "Tiger in the Making," *Financial Times*, 27 September 1994.

government are working more closely than in the past, while in the political sphere there is a shared vision of the future" commented the *Financial Times'* Tony Hawkins.

Under the "militants" and especially under the stewardship of Sithanen, business had commended the general trend toward liberalisation and deregulation of the economy, most particularly of the sugar industry. Generally speaking, my interviews with businesspeople revealed an unusual level of satisfaction with the role the government played to this point. However, Prime Minister Jugnauth's government was dismissed by the voters in favour of an alliance between the LP and the MMM. As leader of the LP, Navin Ramgoolam[19] assumed the prime ministership. Few people seriously expected the unlikely LP/MMM coalition to last out the new government's term of office and indeed by the end of 1997, the coalition had collapsed and the LP was ruling on its own. Business' interaction with this new government did not start off smoothly.

The "Labour" government

Within months of his appointment as the new Finance Minister, Rundheersing Bheenick had become extremely unpopular with the business sector, and relations between business and government slumped. He was ultimately dismissed as Finance Minister. Three issues contributed to this.

A botched budget

Top of the list of grievances for business was the 1996/97 Budget. Perhaps the most positive thing that could be said about the budget was that it was an attempt to deal

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[19] He is the son of Mauritius' first post-independence premier.

with the budget deficit. To the distress of the business community however, it did so by paying attention only to government revenue. Without any consultation, Bheenick announced the introduction of a whopping 25 new taxes, sales tax was doubled from 5 to 10%, there was a 50% increase in the hostel and restaurant tax, and consumers were hit with a 25% increase in the price of petrol. In addition a "windfall" levy of Rs300mn was imposed on the sugar industry - a result, the government argued, of "exceptional" income accruing to the sub-sector because of a favourable international price and currency movements.[20]

The JEC fumed, describing the budget as "the big deception" and slamming government's inability to cut its own expenditure.[21] MCCI raged that the budget was "not acceptable to the business community" and warned that it "threatened to disrupt the growth scenario upon which the country was embarked."[22] Criticisms came from all sub-sectors of the economy including the Mauritius Sugar Producers Association and the newly revived AHRIM. The stock exchange, for its part, reacted with a deluge of "sell" orders. It became evident that the budget was a political liability and government subsequently introduced a series of changes to the budget.[23] Of vital interest to business, sales tax was reduced to 8% and the controversial withholding tax on interest withdrawn.

[20] Needless to say, the sugar sub-sector hotly disputed any such windfall.
[21] Unattributed, "J.E.C. Attacks the "Big Deception"," *Mauritius Times*, 2 June 1996, 5.
[22] Mauritius Chamber of Commerce and Industry, "Annual Report 1996," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1996), 6.
[23] Indeed, according to one observer, "so many changes were introduced that even chartered accountants had trouble keeping track of measures.""Roasting Me Was a National Pastime," *News on Sunday*, 11 August 1996, 6,7.

The Amcol affair

In Mauritius, it is rare for a businessman to be high profile in his political support for a particular personality or party.[24] Rolan Maurel, a close friend and very public supporter of the Prime Minister's, was the exception that proved the rule. Which is why it raised a few eyebrows when Maurel, together with a Singapore based firm, Amcol, developed an elaborate and costly set of proposals for an entertainment complex and race course at Domaine Les Pailles, outside of the capital, Port Louis. More eyebrows were raised when the undertaking foundered after Amcol was declared bankrupt and withdrew from the deal. No-one seems sure of what Bheenick's precise involvement in the affair was but the general perception was that Maurel had called on political favours in an attempt to get himself bailed out. At best, Bheenick did not act fast or scrupulously enough to distance his government from any improper involvement. Business noted two strikes against the Finance Minister: the budget and Amcol. The third was not long in coming.

Trou – a "hole" in the finances?

In February 1996 Bheenick issued a "State of the Economy." Issued by the Finance Ministry, the document was outrageously partisan even by the standards of Mauritian politics, and it was clearly intended to discredit the previous government. The document alleged a massive shortfall (*trou*) in state finances and fingered Sithanen. Publication of the document precipitated a rowdy debate on the record of economic

[24] Businesspeople are usually more discreet on such issues and will often support a number of political parties financially at election time as a kind of insurance policy.

policy. At first, this did not unduly disturb the private sector, which saw the fracas as an opportunity to open a dialogue with the new government.

In August however, the government was confronted with evidence that a sum of Rs700mn had been transferred to the Bank of Mauritius under orders from Bheenick but without the authorisation - or knowledge - of the Prime Minister. According to one newspaper, "[t]he transaction - described as being somewhat unusual - was apparently to make the budget deficit [inherited from the previous government] appear worse than it actually was."[25] This cynical manipulation of government accounting was the final straw and Bheenick was forced to resign.

Beyond their unhappiness with the Finance Minister, by the mid 1990s, the Mauritian business community was increasingly conscious of threats emerging from three areas: first, the government's management of the macro-economy; second, the ongoing issue of stratification of the economy and discrimination among sub-sectors of the economy; and third, the labour market and, in particular, the consequences of ever increasing wages.

To start with government's management of its own finances: Revenue income had dropped as a result of reform in the tax system to introduce "Pay As You Earn" (PAYE) tax, and changes to the ratio of corporate tax; however government spending continued to increase, much of this being recurrent expenditure (84% of government spending in 1994 for example).[26] The first half of the decade had seen some pressure on public spending in the wake of cyclone damage and a steep hike in salaries in the civil service following the

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[25] "1996: A Year of Living Dangerously," *News on Sunday*, 29 December 1996, 2,3.
[26] Ministry of Economic Planning and Development, "Mauritius Economic Review 1992 - 1995," (Port Louis, Mauritius: Ministry of Economic Planning and Development, 1996), 35-37.

adoption of the Pay Research Bureau's report. MCCI also fretted about a "prevailing sluggishness" in Gross Domestic Fixed Capital Formation.[27] The MCCI's policy recommendations called, as one might expect, for a reduction in government consumption and increased savings and investment.[28]

A second issue that recurred in private sector policy interventions was a concern with stratification within the economy. For the Chamber, this stratification resulted from policies that consciously set out to boost a particular sub-sector (say manufactured exports or financial services) at the expense of others (say domestic trading). The Chamber blamed the lack of integration and synergy between Mauritius' "stand alone" economic sub-sectors for failing to attract larger inflows of FDI. An MCCI document argued that[29]

> the pursuit of sectoral goals is depriving the country of a clear sense of direction which could build on the synergies created by the elimination of barriers between different regimes. The time has come to reflect on the pertinence of the distinction between offshore and onshore, EPZ and non-EPZ, and the host of other regimes in which enterprises often doing the same or related operations are being segregated.

The MCCI explicitly called for an end to discrimination between the EPZ and those producing for local consumption.[30] This call is important because it challenged the economic role that the Mauritian government had carved out for itself; namely that of a

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[27] Mauritius Chamber of Commerce and Industry, "Annual Report 1995," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1995), 17.
[28] Mauritius Chamber of Commerce and Industry, "Annual Report 1994," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1994), 21.
[29] Mauritius Chamber of Commerce and Industry, "Annual Report 1997," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1997), 28.
[30] For example, in its submission to government on the 1998/99 budget, MCCI stressed the need for "a level playing field, not only between private and public operators, but also between the different sectors of the economy." *Mauritius Chamber of Commerce and Industry, "Annual Report 1995," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1995), 6.*

developmental state, intimately involved in prioritising and privileging certain sub-sectors.

The Report went on to demand greater consultation with the LP government. MCCI argued that while the public and private sector co-operated very well at the international level to promote the national interest, the same was not evident at the domestic level: [31]

> ... to avoid a repetition of the unfortunate experience of the 1996/7 Budget, it is necessary that the collaboration between the Government and the private sector goes beyond sectoral and ad hoc issues. The time has come for a structured consultation on key macro-economic issues and national economic management.

Prime Minister Ramgoolam temporarily took over the running of the portfolio, providing little reassurance to business. In an attempt to address a gloomy business climate, the Prime Minister, toward the end of the year, announced the launch of the Port Louis Fund, to facilitate investment in Mauritius' fledgling stock exchange; it was an explicit attempt to boost private sector confidence in the economy and "revitalise private and public co-operation."[32] As a next step, a medical doctor, Vasant Bunwaree was appointed as Finance Minster in early December. This was a relief for the business community who welcomed not so much Bunwaree himself as the fact that someone - anyone - had been appointed to the vacant portfolio.

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[31] Mauritius Chamber of Commerce and Industry, "Annual Report 1996," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1996), 26.
[32] The quote is from Junior Finance Minister Jacques Chasteau "We're Your Friends," *News on Sunday*, 3 November 1996, 10,11.

Shortly after his appointment, Bunwaree announced a "New Economic Agenda." It was not as grandiose as it sounded.[33] However, it did set out government's broad economic objectives for the following three years and succeeded somewhat in settling the nervous markets. The new government also undertook a number of market-friendly policy measures such as moving ahead with divestiture and privatisation, and beginning to rethink certain taxes.[34] These developments were welcomed by the private sector.

What progress then did business make on achieving its policy goals under the new regime? I will begin by looking at developments in the sub-sectors, before considering the broader issues.

Sugar

To the delight of those in the sugar industry, in his first Budget address, Bunwaree courageously overturned Bheenick's "special windfall levy" on that industry (a review of the prices and exchange rate found no such windfall, just as the industry had claimed). Once again however, payback was extracted from the industry for this concession. Government ordered the industry to offer interest free loans for the purchase of SIT shares, to fund an Adult Literacy Programme and an additional five scholarships for each

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[33]The announcement included nine measures aimed at boosting small enterprises and investment, and reducing the operating costs faced by business. "Drought Takes Toll on Sugar," *News on Sunday*, 3 November 1996, 4.

[34] Under the LP, privatisation progressed only at a very gentle pace. There was progress however: Government divested some of its shares in Air Mauritius, the Overseas Telecommunications Service and the State Bank, leading to an inflow of Rs747 for the financial year 1996/97. (The State Bank entered into a strategic alliance with South Africa's Nedcor when that company bought a 20% stake in State Bank.) In 1997 therefore government set up the Privatisation Fund to manage these and other prospective receipts. A draft bill on BOT projects to involve the private sector in infrastructure development was proposed and 15% of the surplus fund of the National Pension Fund was to be opened up to private fund managers. In addition, Bunwaree announced the government's intention to move toward VAT.

of the 17 sugar estates, and to make a lump sum payment to the Mauritius Sugar Authority.

Manufacturing exports

Exporters (in both sugar and manufacturing) were uneasy about Bunwaree's announced intention to maintain a strong Mauritian rupee, part of a plan to force export enterprises to become more productive by making real quality improvements. Bunwaree later softened his stance, arguing that his intention had never been to inflate the value of the currency; rather it would simply reflect the underlying strength of the economy.[35]

Tourism

I argued earlier that the association was practically moribund for many years after the larger hotels effectively abandoned it. AHRIM was revitalised and restructured in 1996 when government attempted to impose a 50% tax increase on hotels and restaurants.

A large number of new hotels had been built in the course of the decade without the tourist numbers to fill them. In part, this was because of a global decrease in long-haul tourism in the wake of Gulf War-related fuel hikes. In part however, this was the result of a conscious strategy by government to focus on a small number of big spending tourists rather than the reverse. In addition, the government-run Air Mauritius lobbied hard to maintain its monopoly on flights into the island.

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[35] Supporters of the government argued that, for too long, those in the exports sector had profited from a constantly depreciating rupee that had rendered real factory floor improvements in competitiveness and quality unnecessary. There is some merit to this argument.

The private sector broadly

Macro-economic issues

There were indications that government had learned some hard lessons about the importance of fruitful interaction with the private sector. Bunwaree began 1997 with a series of productive consultations with the JEC.[36] In pre-budget consultations, MCCI had pressed for a "low expenditure-low tax" budget. They argued once more for the need for a "level playing field" for all economic operators and for greater support for industries confronted with trade liberalisation, a fairly standard package of demands. The Chamber had reason to be satisfied that a number of these demands were incorporated into the budget.

Government paid close attention to the borrowing costs faced by private enterprises. The 1997/98 budget recognised that lending rates were still too high and serving as an impediment to new investment. The Bank of Mauritius therefore was instructed to reduce (further) its cash reserve ratio with the expectation that this would lead to the lowering of bank lending rates.[37]

Exports were still the darling of government, but both government and the private sector associations were able to accommodate the concerns of other sub-sectors. This was demonstrated when VAT was introduced, replacing the General Sales Tax. Predictably, businesspeople complained about problems associated with the introduction of the new

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[36] These led to the amendment of the Landlord and Tenants Act, the setting up of the Board of Investment, proposals for BOT projects and low interest rates.
[37] In a rich but unintended irony, the Budget speech then went on to argue that the policy of government was to grant the Bank of Mauritius "the required autonomy" in the formulation of monetary policy and pledged that this commitment would be incorporated into a new Bill concerning the Bank. Vasant K Bunwaree, "Budget Speech 1997-1998" (La Tour Koenig, Mauritius, 9 June 1997), 10.

tax - but in reality it all went rather smoothly (certainly by comparison with Ghana and Zambia). The strongest reaction came from retailers affected by the proposed Consumer Protection Act. In order to protect consumers from illegitimate price increases and to pre-empt any potential inflationary impact, government reintroduced price controls on a range of goods. Traders, as one might imagine, strenuously opposed the Act.

In the end, the MCCI and JEC brokered a deal acceptable to both sides: traders would voluntarily restrain prices for four months and government would soften the price controls on the 26 affected categories of goods. It was a good deal, and one that demonstrated the private sector's ability and willingness to regulate itself for the overall good of the economy. It improved considerably the overall relationship between public and private sectors.

In 1999, the JEC submitted a detailed pre-Budget memorandum to the government raising concerns that government targets on such items as the budget deficit, savings and investment rates seemed to be far from being achieved. When published, the 99/2000 budget: was "generally well received" by the private sector;[38] at any rate, it was endorsed by the MEF, JEC and MEPZA. Government proposals to streamline and simplify investment were welcomed as were the rationalisation of corporate taxes. Statements of a renewed commitment to cutting expenditure after two years of overshooting the budget deficit target were met with a little more scepticism. As the business associations noted, there was definitely some macro policy slippage under

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[38] Economist Intelligence Unit, "Country Report: Mauritius," (London: Economist Intelligence Unit, 1999), 9.

Labour from 1995: deficit targets were not met and petrol and electricity prices were not adjusted timeously leading to some stresses at the relevant parastatals.[39]

Stratification of the economy

The analysis that MCCI had developed about a fractured private sector was incorporated into this budget. Bunwaree recognised the "dualistic pattern of technological capabilities" in the export zone and noted the existence of "a few large export-oriented firms with state-of-the-art technology and high quality management. On the other hand, most of the small and medium enterprises lack technological skills, make use of rudimentary design capabilities and suffer from poor quality management."[40] Significantly however, he provided no systematic programme to address this problem.

Bunwaree, in his second budget, confirmed government's commitment to diversify its exports: henceforth, he argued, the emphasis would be on manufacturing, financial services[41] and those based on information technology, high value-added textiles and printing.

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[39] According to an MMM/MSM document, the Central Electricity Board had lost Rs 1.6bn by December 19999 due to under recovery and the deficit of the State Trading Company on petrol products had reached Rs 1.8bn by September 2000. The release of these figures was undoubtedly a blatantly political attempt to discredit the Labour Party, but the figures themselves were not disputed. Government of Mauritius, "The Present State of the Economy," (Port Louis, Mauritius: Government of Mauritius, 2000), 14-16.

[40] He announced a series of measure to upgrade management and marketing in the smaller firms. These included the establishment of a Clothing Technology Centre and additional funding to the Technology Diffusion Scheme. Vasant K Bunwaree, "Budget Speech 1997-1998" (La Tour Koenig, Mauritius, 9 June 1997), 19.

[41] The Budget included an announcement of the intention to pass an Anti Money Laundering and Economic Crime Bill - an important step to forestall any suggestion of impropriety in the fledgling offshore sector.

The labour market

From business' perspective, little progress was made on either improving the quality or reducing the costs of labour. To be fair it was a difficult and long-term problem. Politically, it was almost impossible for Labour to introduce legislation to make labour cheaper. The legislature did begin debating a series of education reforms but the outcome was inconclusive. The only reason this was not a greater problem was that Mauritius already had a generally well-educated population with relatively high rates of literacy and numeracy.

Overall, it was thus a mixed bag but generally the private sector was substantially more supportive of Bunwaree's budgets than of his predecessor's. In terms of the Chamber's judgement, the 1997/98 Budget "was prepared after better consultations with all stakeholders and its philosophy was nearer to the expectations of the private sector."[42] Bunwaree's first budget demonstrated that, despite its leftist profile, the LP was open to input from business. His second budget however demonstrated also that government had not abandoned its role as chief visionary for the economy.

The Policy Outcomes

Mauritius enjoyed robust and steady growth over the course of the decade, despite less than ideal conditions in its tourist and export markets. Over the course of the decade, the economy continued to move away from its former reliance on the primary sector of

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[42] Mauritius Chamber of Commerce and Industry, "Annual Report 1997," (Port Louis, Mauritius: Mauritius Chamber of Commerce and Industry, 1997), 6.

the economy and increasingly services became important.[43] MCCI argued that while the rate of growth was very even over the course of the decade, this hid a more complex story; in particular, that sources of growth and the distributional impact of growth shifted over the period.[44] Nonetheless growth was good (above 5% for most of the decade).

Within the sub-sectors however, there was not quite the diversification that had been hoped for. Within agriculture, sugar continued to dominate,[45] and exports continued to be characterised by 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."[46] Likewise there was less diversification of markets than had been hoped for although there was some expansion into US markets.

In this environment then, how much of what business wanted did it get?

The sugar sub-sector experienced significant reform as result of the Sithanen revolution. While taxes had been liberalised, they had not however seen a similar liberalisation of the labour framework for the sub-sector.

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[43] 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.
[44] 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.
[45] 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.
[46] Economist Intelligence Unit, "E.I.U. Country Profile: Mauritius 1998-99," (London: Economist Intelligence Unit, 1999), 10.

Tourism did not consider itself a big winner. The tourism sub-sector had long been demanding an increase in the number of flights to the island. By the end of the decade, there had been a little give from government, but not much. Air Mauritius had increased its number of flights and government had allowed greater numbers 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. 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 to champion particular sub-sectors. While economy-wide business associations opposed this, firms situated in the chosen sub-sectors had every reason to support the government in this role. Given the concessions that the country has enjoyed for both sugar and for its clothing and textile sector, this is hardly surprising.

What the private sector got		
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 Devaluation of the currency	B+ A B B 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 2.

Crucially, many of the most important wins for Mauritian business were things it barely had to ask for, in particular, the continuation of the "political price" for sugar and access to the 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 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 business lost the big demand but won overall

Mauritius' enjoys both a relatively strong developmental state and a vibrant and autonomy business community. Accounting for Mauritius' particular policy outcomes is partly about the quality of the Mauritian state. Although not free of corruption or personalistic politics,[47] the Mauritian state is nonetheless much closer to Wade's developmental state than to the archetypal neo-patrimonial state. It has prioritised particular sub-sectors, designed programmes to develop these and carefully listened to firms within those sub-sectors.

But the quality of the private sector too in Mauritius had been high. It should be borne in mind that when business associations speak, almost invariably they represent Francophone capital – although this is truer of some sub-sectors, such as sugar and manufacturing, than others such as retail and restaurant trade. Historically held at arm's length from government for this reason, the business community was not able to rely principally on kickbacks from government in order to survive. Rather, the export orientation of the economy has forced firms to look to their own competitiveness. 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

[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.

have challenged this – mostly unsuccessfully. To do so, they would challenge the foundations of government's developmental approach.

Conclusion

While the Mauritian private sector is lambasted publicly by politicians, it has a good, if guarded, working relationship with government, regardless who is in government at the time.[48] This relationship includes almost routine consultation with government on major policy issues (most private sector organisations are consulted by government prior to the preparation of the budget, for example).

Despite its idyllic aspect, ethnic conflict remains a feature of Mauritian society; Mauritians remain intensely "communalist" (a polite word for racist). However, as Miles remarks, it is a "[w]illingness to compromise, not national unity [that is] the key to Mauritian political consciousness."[49] This was evident time and again in the 1990s, both in relations between business and government and in relations between sub-sectors within the private sector. According to Roland Lamusse, "[t]he word 'pragmatism' is inscribed on the foreheads of all the businessmen and many in government."[50]

In addition, the parastatal sector was never as large, all encompassing and inefficient as many of those found elsewhere in Africa. None of Mauritius' leftist parties ever followed through on their rash promises of nationalisation so the size of the public sector was restricted. While Mauritius' politicians frequently take public aim at their

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[48] This is not to argue that changes in government are inconsequential. In particular, the Labour Party is regarded as being more hostile to business - but more about this later.
[49] William F S Miles, "The Mauritius Enigma," *Journal of Democracy* 10, no. 2 (1999): 101.
[50] Roland Lamusse, Personal interview with author, 24 July 2001.

businesspeople, just as occurs in Ghana, in Mauritius there is a different business environment and a different growth trajectory.

There is recent evidence of the softening of rigid ethnic divisions within the private sector. For example the appointment of non-whites to represent the JEC, the MCCI and the Chamber of Agriculture (all bastions of white business) would have been unthinkable in the 1980s and even in the early 1990s – but have since occurred. There is also the possibility of some softening of ethnic taboos in the political sphere; if the current governing coalition holds (a big if, given the traditional instability and fragility of such coalitions) Paul Berenger could become the country's first white post-independence Prime Minister.[51] Thus far, conventional wisdom has been that the country would only ever tolerate or elect a Hindu premier. Whether this is still the case or not remains to be seen.

Ethnicity has profoundly shaped both the positive and the negative aspects of the private sector's interaction with government. It accounts both for the public posturing and also for the absence of all-pervasive neo-patrimonial ties. Because of their divergent ethnic compositions, political and economic elites simply do not overlap to any great extent in Mauritius. In Mauritius, the island's ethnic mosaic and the pervasiveness of intricate sub-ethnic divisions have resulted in a pattern of unstable and constantly shifting coalition governments. All of these factors have created a situation in which, despite public hostility and bickering between the economic and political elites, business and government are able to interact fruitfully on policy issues.

[51] Before the elections in 2000, the leaders of the two parties in the coalition agreed that, should they win, Sir Anerood Jugnauth of the MSM would serve as Prime Minister for the first three years of the five-year term, and that he would then be succeeded in this position in the final two years by the MMM's Paul Berenger.

CHAPTER 6

BUSINESS AND GOVERNMENT IN SOUTH AFRICA: NEGOTIATING DEVELOPMENT?

In February 1990, Nelson Mandela stated that "the nationalisation of the mines, banks and monopoly industry [in South Africa] is the policy of the African National Congress (ANC) and change or modification of our views in this regard is inconceivable."[1] Four years later, the "inconceivable" had happened. At a gathering of the world's political and economic leaders in Davos, Switzerland, the great statesman committed his country to wide-ranging economic reform that, far from moving in the direction of nationalisation, pledged to advance privatisation.

This is a striking outcome in a country where the new black majority government had every reason to be hostile to a predominantly white business community. Business had been tainted by the extent to which, some argued, it had benefited from apartheid. In addition, the ANC was considered to be under pressure from the majority black population to end years of white economic privilege and to greatly extend state spending on welfare and poverty alleviation. Reinforcing these pressures was the ruling Congress' formal political alliance with the South African Communist Party (SACP) and the Congress of South African Trade Unions (Cosatu) both of which explicitly advocated soft-left economic policies. Yet, by then end of the

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[1] Nicoli Nattrass, "The A.N.C's Economic Policy: A Critical Perspective," in *Wealth or Poverty: Critical Choices for South Africa*, ed. Robert Shrire (Cape Town: Oxford University Press, 1992).

1990s, the ANC government had consolidated a moderate – even conservative – set of economic policies.

To what extent did this shift reflect the efforts of business and what impact did business in South Africa have on economic policymaking in that country? This chapter sets out to answer that question. In the first half of the decade the business community, across the board, sought a normalisation of the political process and reassurance that large scale redistribution was not in the offing. Here, business had a very important behind the scenes impact on ANC policymaking, most obviously in its ability to withdraw capital and provide support for the national currency. But as the demands of business became more specific and were lobbied for more directly in the second half of the decade, business split, most crucially along the lines of big versus small business but also in terms of race and sub-sectors. Overall, business had a relatively high impact on economic policymaking.

This chapter will begin by outlining the structure of the South African economy and the nature of the business community there. A brief discussion of policymaking within the ANC precedes a discussion of business' major policy demands in the 1990s.

The South African Political Economy

On the basis of the country's mineral resources, South African entrepreneurs have built the largest economy on the continent, diversifying beyond its gold and mining origins. (See Chapter Two for a brief account of how this occurred). By the late 1980s, the South Africa economy was both industrialised and relatively well diversified with a sophisticated financial services structure. Manufacturing and industry comprised a significant share of GDP. The economy was (and is) however notoriously oligopolistic. Economic wealth is held almost entirely in the hands of the white community, and is highly concentrated even within this community.[2] This characteristic has boosted the political and economic influence of the few large firms, both within business circles and vis-à-vis government.

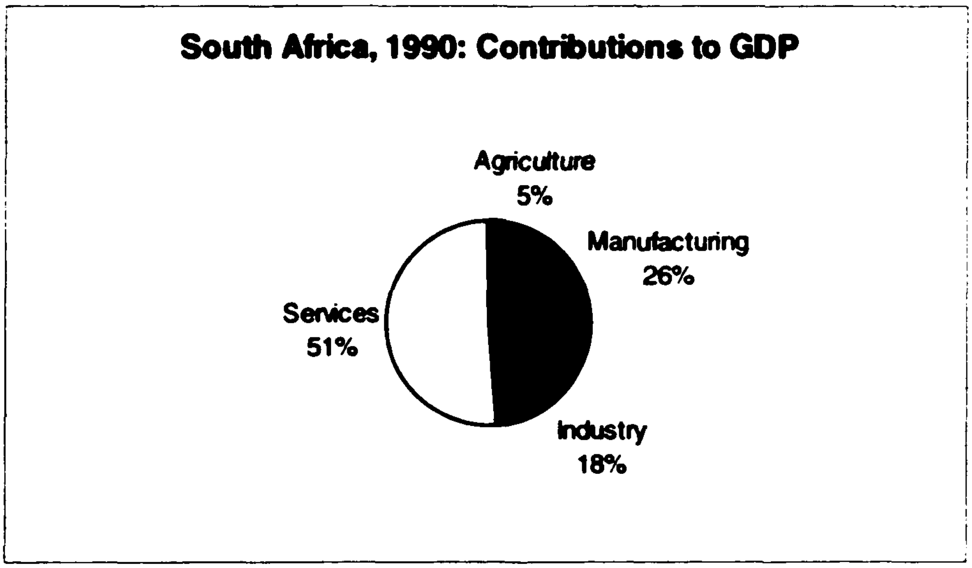

Figure 1. Source: *UNCTAD Handbook of Statistics, 2000*

By the late 1980s it could fairly be said that the competitiveness of the South African private sector had been damaged by the country's political situation. The South African private sector was protected from international competition by tariffs and by the international campaign to isolate the country in the last decades of

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[2] Just four groups control more than 70% of the assets listed on the Johannesburg Stock Exchange (JSE): Anglo American Corporation (AAC), the Rembrandt Group, Old Mutual and Sanlam.

apartheid. This isolation inevitably gave rise to distortions and inefficiencies within the market. Nonetheless, for most of its existence the mainstream business sector has operated with relatively high levels of autonomy (both politically and in terms of specifically economic incentives) from the state.

As befits a country with a long-standing private sector, South Africa has a large number of and great diversity in its business organisations. A review of those most significant for economic policymaking follows. (See Figures 2, 3 and 4)

The South African Chamber of Business (SACOB) was established in 1990 out of a merger of the Association of Chambers of Commerce and Industry (ASSOCOM) and the Federated Chambers of Industry (FCI). It thus represented a merger of trading and industrial interests with all the difficulties in terms of reconciling different interests and policy preferences that this implies. The firms represented by SACOB are predominantly small and medium sized.

The South Africa Foundation (SAF) is one of the heavy hitters in the policy terrain. Its membership comprises the fifty largest firms in South Africa and its board includes some of the country's most powerful economic figures. The Foundation explicitly sets out "to formulate and express a co-ordinated view on macro-economic and other national issues and to promote the interests and further growth of South Africa's private sector."[3]

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[3] South Africa Foundation, "Objectives of the Foundation," (Johannesburg, South Africa: South Africa Foundation, Undated).. The informal Brenthurst Group would have assembled a similar if slightly smaller cast of businesspeople and opinions.

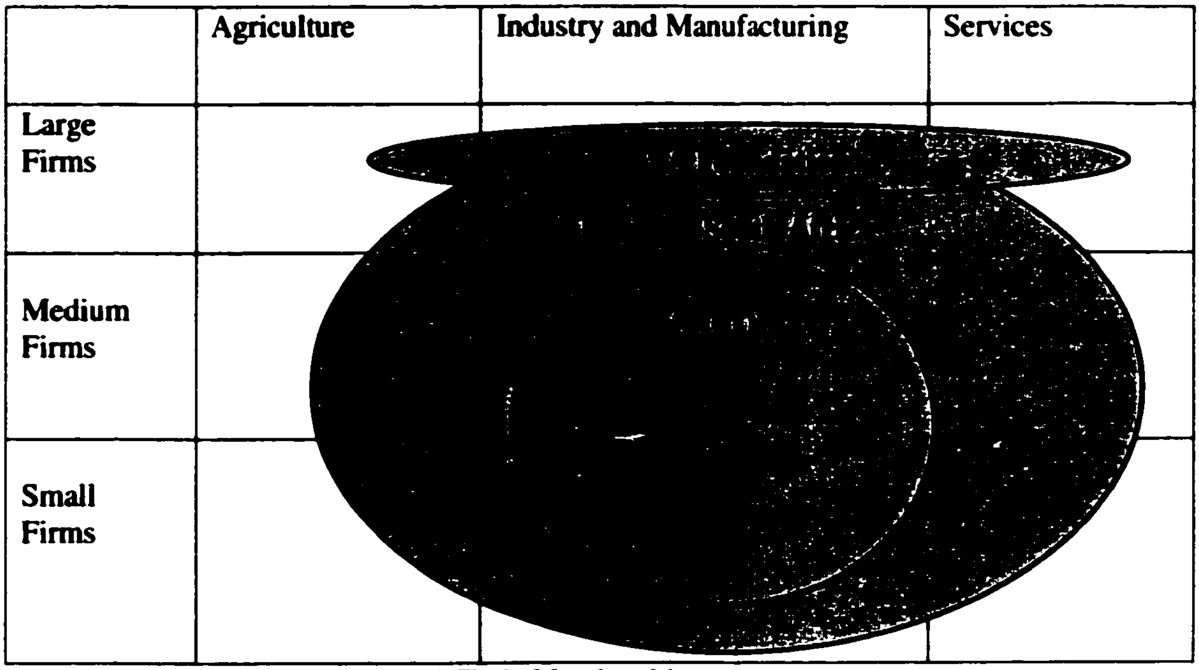

Figure 2. Business Associations and Their Membership

This being South Africa, there are, of course, business associations that are organised on ethnic and racial lines. (See Figures 3 and 4.) The *Afrikaanse Handelsinstituut* (AHI), the National African Federated Chambers of Commerce (NAFCOC), Federated Association of Black Companies (FABCOS) and Black Management Forum (BMF) are explicitly ethnic in their approach.[4]

[4] This does not imply that other organisations are not effectively ethnically exclusive; many continue to be dominated by white English-speakers. However, they do not explicitly set out to be exclusive and indeed are pursuing "unity talks" with organisations such as the AHI and NAFCOC.

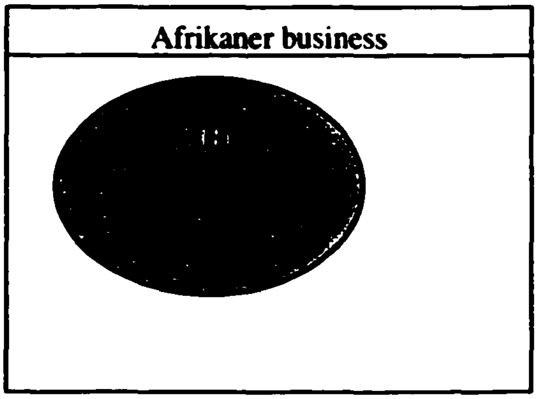

Figure 3.

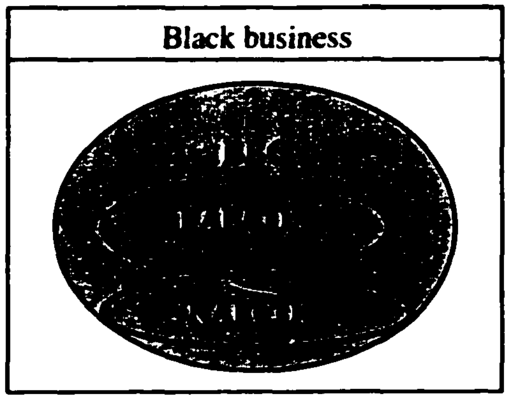

Figure 4.

Two organisations aspire to be an economy-wide voice for business: Business South Africa (BSA) probably represents the largest number of (mostly white) firms. It has a loose organisational structure and tends to be driven by consensus. The Black Business Council (BBC), its black counterpart, is a federation of 11 black business organisations.

Policymaking in the ANC[5]

While it is one of Africa's oldest liberation movements, thinking about economic policy in the ANC began late in the organisation's life.[6] At the start of the 1990s, to the extent that the ANC leadership had any concrete thoughts on economic policy, these comprised a general ambivalence about globalisation. There was a

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[5] This chapter focuses on policymaking within the ANC rather than the NP. While the NP was in power at the start of the 1990s, government was dominated by the ANC for much of the decade. Even when not officially in power, economic policy was developed on the assumption that the ANC's views and the reality of impending ANC rule had to be incorporated into this policy. Certainly the NP was aware that it could not design policy in isolation from the ANC.

[6] Beyond the organisation's broad guiding document, the Freedom Charter, which made vaguely redistributionist noises, little was said about economic policy until the early 1990s.

nascent awareness that foreign investment was vital to supplement the country's low level of domestic saving but activists retained a desire to regulate that investment. State ownership, they argued, should be extended and mining capital in particular should be more closely regulated. Lodge comments that, in these early days, the influence of the Congress of South African Trade Unions (COSATU) was strong, if only because the unions' work was more tightly focused on economic issues.[7]

How was policy made within the ANC? Before the ANC's accession to power its locus of economic policymaking lay in the Economic Planning Desk established in 1990, then under the leadership of Max Sisulu. The Desk came into its own when the dynamic young township activist from the Cape, Trevor Manuel, working closely with Tito Mboweni, replaced Sisulu. After 1994 when the ANC won the elections, key players were moved into government departments; the Desk was collapsed into the Policy Unit and became far less important.

The 1990s

At the outset of the 1990s business, broadly speaking, wanted a normalisation of the political and economic climate. More specifically, business sought first, a peaceful resolution of the ongoing political crisis and second, some kind of reassurance that left-wing redistribution would be abjured in favour of more moderate macro-economic policies. It needs to be

[7]Tom Lodge, "Policy Processes with the African National Congress and the Tripartite Alliance," *Politikon* 26, no. 1 (1999): 8.. It should be noted that the ANC entered into a political alliance with COSATU and the South African Communist Party (SACP) in 1990.

stressed here that unless I specify otherwise, any reference to "business" in South Africa, is a reference to the main-stream, white business community

Political normalisation

Since the 1970s but especially from the mid 1980s it had become clear that it was going to be very difficult to solve the country's economic woes without addressing the larger political problem of black disenfranchisement. Apartheid created an under skilled but highly politicised and unionised workforce. As a result, both unemployment *and* wage trends were too high and tending higher.[8]

During the 1980s the politicisation of the labour market heightened the profile and boosted the effective voice of organised labour generally. This highly politicised environment not only affected the ability of the private sector to do business, but profoundly affected its ability to win influence with the political powers to be, the ANC.[9] Beyond the systematic under-education of the labour force, business had to contend with apparently endless urban unrest and workplace disruptions. As levels of "ungovernability" rose, so too did the cost of doing business. While not really an economic policy demand

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[8] This was not a new problem. The economy had not been creating jobs since the 1970s and during the 1980s what little employment growth there had been was concentrated in the public sector. South African Reserve Bank, "Annual Economic Report 1991," (Johannesburg, South Africa: South African Reserve Bank, 1991), 17.

[9] By contrast, labour had a rather cosy relationship with the government to be. In 1990, the ANC, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU) formally constituted themselves as a tripartite alliance. Of course, the political association between these three was already well established by then. Tom Lodge, "Policy Processes with the African National Congress and the Tripartite Alliance," *Politikon* 26, no. 1 (1999): 7.

itself, for business the precondition of economic progress was a normalisation of the political situation.

The Conference for a Democratic South Africa (CODESA) provided the opportunity for South Africans to negotiate just such a resolution. It was not a smooth process but the parties did negotiate a more-or-less peaceful transition to democracy, smoothed by a transitional power-sharing phase. Here, the ANC effectively ceded key economic ministries, such as Finance, and Mineral and Energy Affairs, to the National Party (NP), at least in the short term. This concession provided a measure of reassurance to conservative elements of the business community both at home and abroad, a guarantee of sorts that the ANC would not be embarking on a revolution in economic policy any time soon. While the transfer of political power was being negotiated in CODESA, it became apparent that there was a need for an equivalent forum in the economic sphere.

Derek Keys, formerly a high profile businessman in the minerals industry, had been asked by the NP to serve as their Finance Minister. Keys was of the view that government could no longer make economic policy on its own. Rather it was only when there was co-operation and mutual confidence among the three points of the "golden triangle" of business, government and labour that the economy could flourish.[10] In 1992, the National Economic Forum (NEF) was founded as a meeting place for the three points of the triangle.

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[10] The roots for this kind of tripartism had been laid down in the National Manpower Commission although that forum had been limited in terms of the scope of issues it addressed. By contrast, the NEF was to be a broader forum to develop a shared, consensual economic vision for the country. This does not mean that government was entirely passive in this process. Indeed it was also used by government to extract key concessions from both

NEF was replaced, in February of 1994, (before even the new political dispensation was in place) with the National Economic Development and Labour Council (NEDLAC). Organised business and government, along with organised labour and community-based organisations, were formally represented here. The Council declared as one of its defining challenges "increased participation – by all major stakeholders, in economic decision-making ... to foster co-operation in the production of wealth and its equitable distribution."[11]

NEDLAC was generally well received by business. SACOB for example saw NEDLAC as a trust building mechanism that provided an opportunity to make economic policy by means of discussion and consensus. However, for this reason, it pandered to the lowest common denominator in policy options. In addition, it prioritised certain voices in the debate over others. Nattrass quotes a business representative arguing that NEDLAC was made up of "big business and big labour looking after Gauteng [the province that is the industrial and financial heart of the economy]."[12]

In September of 1993, South African negotiators concluded debt rescheduling with international financiers and some kind of normality began to return to South African financial and capital markets. With elections in 1994, the same might be said of the country's polity. The ANC won, by an overwhelming margin, the country's first democratic elections and, with Nelson Mandela in the presidency, formed a

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business and labour. For example Keys managed to persuade both business and labour to accept a 3% hike in the VAT rate to 14%.

[11] Founding declaration of NEDLAC. <www.nedlac.org.za>

[12] Nicoli Nattrass, "Collective Action Problems and the Role of South African Business in National and Regional Accords," *The South African Journal of Business Management* 29, no. 3 (1997): 107.

"government of national unity" with the NP. Business watched with some nervousness for what lay ahead.[13] The "normalisation" of the business environment had begun but would not be complete until the business community more closely came to resemble the society's broader ethnic profile.

The development of black business

Harry Oppenheimer, the liberal boss of the Anglo American Corporation (AAC) had, at the height of apartheid, developed an argument that came to be known as the Oppenheimer thesis. He argued that apartheid and political instability could, in the end, only be ended by means of economic growth. Thabo Mbeki, key visionary of the ANC, developed a very particular version of this thesis for himself, namely that South Africa's long term prosperity and political stability could only be secured by means of the development of a broad-based middle class and in particular, by a flourishing black business community.

By the mid 1990s there were a number of high profile black capitalists active in the private sector. Some had switched into business from a political background, such as the former COSATU heavyweight and head of the ANC's negotiating team at CODESA, Cyril Ramaphosa, and the former ANC guerrilla and Premier of Gauteng Province, Tokyo Sexwale. Others had come from professional backgrounds such as Dr Nthatho Motlana.

[13] Of course, business did a whole lot more than just watch during the lead up to the elections and the elections themselves. In addition, to shouldering a good share of the financial costs associated with the elections, sections of the business community were also very involved in ensuring that the elections actually happened and in smoothing over the many obstacles to those elections. This account however, focuses on business interactions with economic policy more than its overall political role.

Black Economic Empowerment (BEE), initially at least, largely took the form of highly leveraged purchases of equity capital by a tiny number of black entrepreneurs. The inevitable criticism was that BEE was profiting a few individuals but that the economic position of the vast majority of Black South Africans was unchanged. Certainly, BEE was not an unqualified success in the 1990s. The profile of BEE was damaged by the high profile failures of a number of affirmative initiatives including Pepsi, African Bank and the collapse in value of share prices for black-owned Johannesburg Consolidated Investments (JCI). Too often, the perception was that black entrepreneurs were active at the level of ownership only rather than management, and, given their lack of business training, there was scepticism about their ability to "add value."[14]

In an attempt to foster a broader process, the Black Management Forum established the Black Economic Empowerment Commission, under the leadership of Ramaphosa in November 1997. Its stated objective was to "develop … a powerful case for an accelerated National Black Economic Empowerment Strategy and to

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[14] To be fair, the timing was not propitious. Bond argues that "the conditions for BEE during the 1990s compared rather unfavourably, to put it mildly, with what advocates of Afrikaans economic empowerment a half-century earlier encountered: vibrant macroeconomic growth (not the 1990s depression followed by fragile growth and over-traded markets); high barriers against international competition (not "excessive" late and post-apartheid trade liberalisation); relative competitiveness in infant industries (not the English-Afrikaans monopolisation encountered by contemporary black firms); ethnic buying loyalty (not the suffocating marketing of contemporary global brand names and the stillborn "buy-black" campaign); the power and patronage potential of a newly acquired state and ambitious politicians (not the relative shrinkage and frightened withering from market interventions practised by ANC leaders); the relatively low price of stock market shares (not the highest price/earnings rations ever); and a low real rate of interest (not the highest in the country's history) for borrowing to purchase shares or make productive investments." Patrick Bond, *Elite Transition: From Apartheid to Neo-Liberalism in South Africa* (London: Pluto Press, 2000).

design concrete recommendations that could be accepted and implemented by government."[15] No great success had been achieved in this by the end of the 1990s.

However, the political stability that followed the largely peaceful transition to democracy in 1994 contributed to a more normal business climate, one in which firms (both black and white) could begin to think about the kinds of policies they would like to see the new government adopt. From the outset, their concern was with the broad outlines of a future black government's macro-economic policy and, in particular, the spectre of leftist policies that might include nationalisation and redistribution.

A broadly liberal macro-economic framework

When Mandela in 1990, in line with existing ANC policy, reaffirmed the ANC's historical commitment to a policy of nationalisation, he provoked alarm in the business community. However a considerable re-think had commenced behind the scenes. The subtle beginnings of what would later become a policy shift were already evident in a resolution on economic policy prepared for the 1991 ANC National Conference.[16] While the statement still called for redistribution, a mixed economy

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[15] Black Economic Empowerment Commission, "Presentation" (paper presented at the Session of the Parliamentary Portfolio Committee on Trade and Industry, Cape Town, 13 September 2000), 1.

[16] The resolution was ultimately not adopted but remains significant. In terms of its constitution, ANC policy is officially presented and declared by means of resolutions at the movement's annual congresses. In practice, this is of course unwieldy and meetings of the National Executive Committee (NEC) and even of smaller sub-committees of the NEC tend to be where policy is actually made.

with extensive social security system and a large role for the state, it introduced a new emphasis on the importance of generating economic *growth*.[17]

The draft resolution got a mixed reception from business. The Chamber of Business, SACOB, welcomed the arguments about the need for fiscal and monetary discipline and competitive exports but rejected the interventionist elements of the document and lambasted the ANC's "lack of understanding of the market."[18]

Further evidence of a shift was provided by the concessions that the ANC was prepared to make at CODESA.[19] Although CODESA was principally concerned with a political resolution, it committed a future government in advance to a number of key economic regimes. An example of this was the treatment of the South African Reserve Bank (SARB). The Bank adopted a mission statement that explicitly prioritised conservative monetary objectives: "The curbing of inflation ... therefore now enjoys unqualified priority in the monetary authorities' policy actions."[20] In addition, the delegates at CODESA resolved to guarantee the independence of the SARB in the interim constitution. A second example was the IMF Compensatory and Contingency Financing facility (for US$850mn) signed by the Transitional Executive

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[17] As in many rudimentary economic debates, in South Africa "growth" and "redistribution" have traditionally been regarded as competing and incompatible economic goals associated with opposite sides of the political and ideological spectrum.
[18] Matthew Kentridge, "Turning the Tanker: The Economic Debate in South Africa," (Johannesburg, South Africa: Centre for Policy Studies, 1993), 7.
[19] The business community was not formally represented at CODESA. However many of the community's liberal economic interests were represented by the Democratic Party and (now that it sought safeguards to restrain a potential ANC government) the National Party.
[20] South African Reserve Bank, "Annual Economic Report 1990," (Johannesburg, South Africa: South African Reserve Bank, 1990), 24,37.

Committee. The agreement was accompanied by a Letter of Intent that committed the new government to very moderate macro-economic management.[21]

The closest institution resembling an ANC economic policy think-tank was the Macro Economic Research Group (MERG). MERG supported the same broad kinds of economic policy as COSATU, what Gelb calls "closed economic Keynesian" policies.[22] But MERG lost the battle for the policy soul of the ANC, outflanked by the "defection" of several high-ranking officials within the political leadership of the ANC to liberal economics. How had this occurred?

If the Left in South Africa is to be believed, business was remarkably strategic in the way in which it plotted to win the ear of the ANC.[23] Patrick Bond for example

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[21] This included "a reduction within a few years of the government budget deficit to 6% of GDP; expenditure containment rather than tax increases; containing the civil service wage bill; a continuation of the tight monetary policies of the past four or five years and monetary targeting; policies to 'couple wage restraint and training to foster investment and promoted employment'; maintenance of the Financial Rand mechanism without the introduction of new exchange control mechanisms ; and finally a simplification and rationalisation of the tariff system and the phasing our of import licensing and not-tariff barriers." Jonathan Michie and Vishnu Padayachee, eds., *The Political Economy of South Africa's Transition* (London: The Dryden Press, 1997), 32.

[22] Stephen Gelb, Personal interview with author, 27 June 2001.

[23] The ANC at this time came to see the private sector, not only as a partner in development, but also as a potential cash cow. As the ANC began to make the transition from liberation movement to political party, it realised the need for ongoing fund raising. And they had the perfect fund-raiser. The irresistible Mandela personally phoned the CEOs of 20 of South Africa's largest corporations to demand no less than R1m from each of them for the ANC's electoral campaign. Nineteen of them complied.

There is no doubt that the fraternising went beyond business. Mandela, for example, seemed to enjoy the company of the business aristocracy: the statesman developed close links with Harry Oppenheimer of AAC and Clive Menell, Vice-Chairman of Anglo-Vaal mining group. His new "friends" also included some rather more colourful figures. Certainly, some of the "fund-raising" and associated hobnobbing led the ANC leadership into murky waters, such as the links with the casino magnate Sol Kerzner who "expected favours in return." Anthony Sampson, *Mandela: The Authorised Biography* (London: Harper Collins Publishers, 1999), 479. Mandela was not the only ANC leader with unexpected friends. Much comment was attracted when the somewhat shady Paul Ekon co-hosted a lavish 50th birthday party for Mbeki. There are unsubstantiated allegations that Ekon collaborated with the apartheid security services, that he was implicated in drug running and that he left South Africa because talks about the "corruption of decades-old redistributive economic ambitions through a series of 'scenario planning' exercises" and "cosy seminars sponsored by business-oriented think-tanks, of which Anglo American, Old Mutual/ Nedcor and Sanlam stand out."[24] Certainly the scenario-development exercises, funded by many of South Africa's largest corporate firms, confronted the ANC with the potential costs of following an aggressively redistributionist agenda.

The so-called Montfleur scenarios exercise, held at the left-leaning University of the Western Cape,[25] was particularly important because it drew in both Trevor Manuel and Tito Mboweni of the ANC's Department of Economic Planning. The exercise outcomes flagged a warning scenario of Icarus as the populist economy that flew too high, too early in an attempt to meet the expectations of the poor – and crashed and burned.

The various scenario exercises differed in the range of policy outcomes that they postulated. Significantly however, all the scenarios emphasised the importance of negotiations and a social compact in charting South Africa's economic course. In 1992 and 1993 a number of key leadership figures in the ANC were invited to attend short courses and executive training at a range of institutions including international financial institutions,[26] foreign business schools and economic policy think tanks.[27]

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of police investigations into illicit shipments of "veld gold." The party was co-hosted by Charles Priestbatch and Yusuf Surtee, both prominent in the clothing industry, with close links to Mandela and prominent funders of the ANC. Adrian Hadland and Jovial Rantao, *The Life and Times of Thabo Mbeki* (Rivonia, South Africa: Zebra Press, 1999), 123,24.

[24] Patrick Bond, *Elite Transition: From Apartheid to Neo-Liberalism in South Africa* (London: Pluto Press, 2000), 54,55.

[25] under the leadership of Professor Pieter le Roux.

[26] The World Bank and private investment banks

Here, as Padayachee notes disapprovingly "they were clearly fed a steady diet of neo-liberal ideas."[28]

The ANC moves into government

The ANC inherited political power in an international and local context that was hostile to assertively interventionist economic policy. Certainly, the Congress' policy options were constrained by the wariness of investors and the dismal record of economic governance in the rest of the continent. In addition, the ANC was muzzled domestically by the perceived need to maintain a measure of political stability and reassuring continuity. The market had an effective veto on government's policy options.

Mandela's cabinet choices reflect this concern. In the vital post of Finance Minister, Mandela retained the services of Derek Keys, the white businessman who had served De Klerk in the same post. When Keys resigned for personal reasons a mere six months after the ANC came to power, Mandela replaced him with another white businessman, Chris Liebenberg of the financial group Nedcor.

The first comprehensive statement from the ANC about its economic policy came with the release of the Reconstruction and Development Programme (RDP). The document was widely canvassed both within and outside of the organisation and was presented in various fora including the NEF (where business

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[27] Trevor Manuel for example, who went on to become the country's first black Finance Minister, attended an Executive Programme at Stanford National University in Singapore.
[28] See Vishnu Padayachee in Stephen Gelb, Personal interview with author, 27 June 2001, Jonathan Michie and Vishnu Padayachee, eds., *The Political Economy of South Africa's Transition* (London: The Dryden Press, 1997), 46.

was represented). It was also presented to selected captains of industry including Harry Oppenheimer.

In spirit, the RDP drew on numerous sources but predominantly perhaps on the work of MERG. It listed the large number of social and economic inequalities that needed to be addressed by the new government but provided few suggestions as to how to prioritise these given a limited budget. On the ANC's accession to power, the document was bolstered by a White Paper. As drafts of the document progressed however, they moved away from the MERG position, and became far less interventionist. As Mandela pointed out, the final White Paper contained "not a single reference to nationalisation ... not a single slogan that will connect us with any Marxist ideology."[29]

When Mandela's term of office ended, it came as no surprise that Mbeki succeeded him. In June 1999, Mbeki made his first presidential speech at the opening of Parliament, to rapturous applause from organised business and the mainstream financial media. Big business regarded Mbeki as a sophisticated, cosmopolitan thinker,[30] and they remembered that he had been one of the first ANC members to meet face to face with South African businesspeople.

The first Mbeki cabinet was, likewise, well received by business; in particular the private sector applauded the retention of Manuel in the key post of Finance Minister and Erwin at Trade and Industry respectively. The highly

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[29] Anthony Sampson, *Mandela: The Authorised Biography* (London: Harper Collins Publishers, 1999), 478.

[30] This view has since been obscured by Mbeki's puzzling stance on the relationship between HIV and AIDS and his political paranoia. However, he was highly regarded at the start of his term in office.

regarded former deputy Finance Minister Gill Marcus was shifted from the Finance Ministry to deputy Governorship of the Reserve Bank.[31] Business seemed to be getting the second of its two concerns met.

Business makes its case – badly

The markets were surprised and pleased by the ANC in office. As early as 1995 exports had responded to the new environment[32] and business confidence surged.[33] All was not entirely well however, as evinced by the continued inability of the economy, even in recovery, to create jobs. [34] Then, in mid February of 1996, volatility in international financial markets began to eat away at the value of the Rand.[35] While the national leadership seemed to be committed to fiscal rectitude, investors remained nervous. A small group of private sector economists, led by Terence Moll of Old Mutual, began work on a document that would put business' case for more decisive economic policy reform.

"Growth for All" ((GFA) as the document was called) was ultimately issued publicly by the SA Foundation. The document was grounded in recognition that the South African economy had not performed well for decades and argued the need for a

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[31] There were rumblings of concern about other, less economically central appointments (some obviously incompetent ministers had been retained), generating some concern that personal loyalty was more obviously being rewarded than competence in the job.
[32] Merchandise exports jumped 24,5% in 1995 despite the removal of incentives previously offered under GEIS. South African Reserve Bank, "Annual Economic Report 1996," (Johannesburg, South Africa: South African Reserve Bank, 1996), 18.
[33] Raymond Parsons, *The Mbeki Inheritance: South Africa's Economy 1990-2004* (Johannesburg, South Africa: Ravan Press, 1999), 45.
[34] South African Reserve Bank, "Annual Economic Report 1996," (Johannesburg, South Africa: South African Reserve Bank, 1996), 11.
[35] It did not take much to trigger speculation. Rumours that Mandela was ill, provoked by the chance sighting of an ambulance in the vicinity of Mandela's Cape Town residence, led to a run on the currency.

comprehensive package of reforms to address this. GFA asserted that piecemeal or timid reforms would not provide the necessary basis for business confidence. What were called for were bold, coherent and comprehensive measures to achieve sound macroeconomic policy, limited government spending, "market freedoms," and an outwardly oriented economy.[36] In short, GFA presented a vision of public-private interactions in which "[g]overnment should seek to work with business, not against it."[37] Five concrete policy adjustments were considered necessary: Dealing with crime and violence, streamlining government spending and revenues, a "brisk" privatisation programme, a "flexible" labour market,[38] and a vigorous export drive.

What business wanted (according to GFA)
More conservative macroeconomic policy
Privatisation
Deregulation of the labour market
Promotion of exports and trade liberalisation

Table 1.

[36] There was some debate about the extent to which the currency should be allowed to depreciate with the principal author, Terence Moll, pushing hard for a significant depreciation of the Rand to boost exports.

[37] South Africa Foundation, "Growth for All: An Economic Strategy for South Africa," (Johannesburg, South Africa: South Africa Foundation, 1996), ii,iii.

[38] GFA's proposals on the labour market were to prove highly controversial and the way in which they were presented may have been the document's undoing. The document argues that the unemployed are effectively locked out of the labour market. It proposes the creation of a two-tier labour market that would retain existing legislation and conditions for those currently employed, but would relax conditions for the employment of *new* entrants to the labour market.

In June 1996, government responded with the release of its own, long-awaited statement on macro-economic policy, the programme for Growth, Employment and Redistribution (GEAR). The South African Left saw GEAR as a "betrayal" of the RDP.[39] Completed in the aftermath of a series of currency crises, GEAR *was* cognisant of the power of the markets. It argued the importance of such neo-liberal tenets as reduction of the deficit, rapid tariff reductions, exchange control liberalisation, privatisation and even advocated reform of the labour market[40] (although it contained no explicit programme for how to achieve the latter).

Business reacted positively to GEAR. Their feelings about the precise content aside (and most liked the content), they welcomed the greater degree of predictability in policy that if offered. SACOB declared that GEAR "creates a more secure basis for investment and business decision-making" and welcomed the fact that GEAR resonated also "with the broad thrust of economic policies found in successful market-driven economies visited by business people elsewhere."[41]

I will structure the remainder of this analysis around the policy areas identified by GFA, considering the extent to which the expectations of business (or sectors of business) were met by GEAR and other policy initiatives. The one area I will not examine in any depth is the first: crime. The demand for "something to be

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[39] ANC leadership argued that, on the contrary, GEAR represents the other half of the RDP, namely the macroeconomic strategy that is necessary to fund that programme. There is some plausibility to this view. Indeed, GEAR was written by some of the same people who had worked on the RDP.It also drew in experts from the SARB, the University of Cape Town (UCT), Development Bank of Southern Africa and (something kept very quiet) the World Bank; all in all 15 economists were involved.
[40] Mboweni, then Minister of Labour, was called in in March to help draft the labour section.
[41] Raymond Parsons, *Business Day*, 11 June 1997.

done" about crime is not explicitly an economic policy demand and neither, unlike political stability, was it a precondition for any kind of debate on more specific economic policy issues.

The budget deficit

Contrary to what most expected, in its first years in office, the ANC government managed to avoid any great jump in overall spending. The reason for this was weakness rather than strength however, in particular, the weakness of the state's administrative capacity. [42]

The first obvious economic policy shift therefore was the reprioritisation of government expenditure in favour of social welfare budgets and services for the majority, alongside an emphasis on fiscal rectitude and improved revenue collection.

[42] South African Reserve Bank, "Annual Economic Report 1996," (Johannesburg, South Africa: South African Reserve Bank, 1996), 50. Government departments (accustomed to serving much smaller [white] constituencies), and the newly created RDP ministry, were simply unable to spend the budgets allocated to them. The first few budget years ended with large sums of unspent "roll-over" expenditure, which stood at R6,4bn by the end of fiscal 1995/6. Indeed the administrative difficulties of setting up and administering and entirely new bureaucracy in the RDP ministry were such that government decided to shut the office down entirely in March of 1996 and redirect RDP funds through existing line ministries such as Housing and Health.

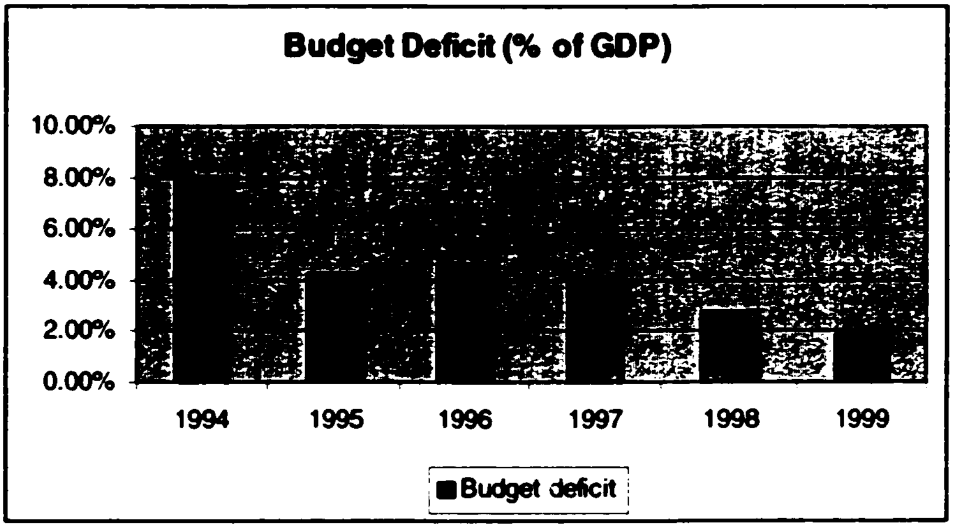

Figure 5. Source: Economist Intelligence Unit

With GEAR in 1996 came a firm statement from government that it was committed to lowering the budget deficit. In his first Budget speech, Manuel spoke of "a government determined to effect deep transformation and to live within its means"[43] – a difficult balance. It was however evident that the ANC, and Thabo Mbeki in particular, were committed to market-driven policies.[44] From a high of 8% of GDP in 1994, the budget deficit dropped steadily to finish the decade at under

[43] Trevor Manuel, *National Budget Speech 1997* (www.anc.org.za, 1997 [cited 2001]).
[44] At the South African Communist Party's (SACP's) 10th Congress in Soweto, Mbeki strongly defended GEAR. In the same year, the young firebrand Peter Mokaba (an ally of Mbeki's) called provocatively for a purge of communists from the ANC, arguing that the ANC should explicitly champion black capitalists instead. Similarly in July 1998 Mandela spoke out in defence of the programme at the SACP's annual congress in Johannesburg; Shortly after he arrived, conference delegates had begun to sing an anti-GEAR song: "Asi fune iGEAR" [We don't want GEAR]. One of the conference officials intervened, warning the crowd that "[t]hat song makes our guest angry. ... He does not like that song." Mandela's speech later at the gathering indicated that government was determined on its course: "GEAR, as I have said before, is the fundamental policy of the ANC. We will not change it because of your pressure. If you feel you cannot get your way (then) you go out and shout like opposition parties. Prepare to face the implications of that line." Vuoy Mvoko, "Mandela Hits out as Allies Attack Gear," *Business Day*, 2 July 1998.

2%.[45] (See Fig. 5) Organised business commended this, arguing that fiscal policy was "on the right road." More important than words of encouragement however, business sentiment was evidenced in the 37% increased in real terms in private fixed investment from 1994 to 1996.

Privatisation

By contrast with other aspects of economic policy, business[46] described government's privatisation programme in cool terms, using words such as "sluggish" and "half-hearted." Part of the trouble may have been that government's privatisation programme had a number of potentially contradictory goals, including introducing new efficiency into previously state-run areas of the economy, expanding the provision of services to previously underserved communities, maximising the potential sale price for the state and, where possible, selling to black-empowerment consortia. The fiscal year 1997/98 saw a number of small privatisations[47] some of which had to be cancelled within a couple of years, either due to non-payment or to poor drafting of enforcement codes in the contracts. By the end of the 1990s, the ANC government had garnered R8.6bn from privatisation proceeds.[48] Movement was, in business' view, in the right direction but far from energetic.

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[45] Economist Intelligence Unit, *Country Data* [Web site] (http://countrydata.bvdep.com, [cited 2002]).

[46] And it is important to remember here that "business" is predominantly white.

[47] These included the partial privatization of Telkom (the telecommunications utility), the full privatization of six radio stations and a small airline, and the sell-off of 20% of the Airports Company. South African Reserve Bank, "Annual Economic Report 1998," (Johannesburg, South Africa: South African Reserve Bank, 1998), 53.

[48] Economist Intelligence Unit, *Country Report South Africa, First Quarter 2000* (Economist Intelligence Unit,, 2002 [cited 2002]); available from www.eiu.co.uk.

Trade liberalisation

In the early 1990s, a crucial set of international trade agreements were negotiated at the Uruguay round of GATT. The South African negotiating position was debated in the NEF where both COSATU and business ultimately endorsed South Africa's accession to GATT. Although the NP was still in power, it is significant that the decision to accede was taken, not by NP negotiators, but by these broader stakeholders. The authority to make economic policy had shifted out of the hands of a single political party, or at least out of the hands of the NP.

Under the terms of the Marrakesh Agreement, signed in April 1994, South Africa further agreed to liberalise trade, introduce new tariff policies which would gradually lower duties over a five year period and begin to reform its General Export Incentive Scheme (GEIS), which was in violation of WTO agreements.[49] More evidence of an overall shift in trade policy was evident by early 1995 when the new government made a start on exchange rate liberalisation by abolishing the Financial Rand.[50]

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[49] This was considered, by bureaucrats internal to the Department of Trade and Industry to be long overdue. In his first *Annual Report* under the new dispensation, the Director General of Trade and Industry argued that "My experience thus far as Director-General suggests that, if firms spent only half their resources and time that they are at present giving to lobbying for protective tariffs and the retention of GEIS benefits, and channeled the balance into a critical examination and international benchmarking of their productive processes, a growth of 5% could be reached before 1999!" Quoted by Alan Fine, in *The Political Economy of South Africa's Transition*, ed. Jonathan Michie and Vishnu Padayachee (London: The Dryden Press, 1997), 135.

[50] The move was made admittedly easier by the normalisation of South Africa's international economic relations that had followed the end of apartheid.

The South African economy began to respond to both the opening up of South Africa's international economic relations and to the changing domestic policy environment. The economy began to grow more competitive in response to broadening opportunities for trade associated with the end of sanctions. This was strengthened by an accelerated programme of trade liberalisation and government's commitment to an outward orientation for the economy. The 1990s saw a broadening and diversification of the country's export base.

Labour framework

If there was one area in which the agenda of the organised trade union movement indisputably trumped that of business it was labour relations. Four major acts to structure the country's industrial relations were passed between 1995 and 1999.[51] Throughout, COSATU activists were formidably well organised: they had a clear policy agenda, they were well represented in the Department of Labour, and they were adept at operating in NEDLAC institutions. While business was also well organised and well represented, it lacked the conviction to engage in what would have been a very fierce battle on this issue.

When the ANC first came into power, in an alliance with COSATU, it had had every reason to be more sympathetic to labour's urgings on how to structure the labour market, rather than business'. By the end of the decade however, relations between COSATU and government were cooling. This no doubt had something to do with the ANC's new status as the employer of hundreds of thousands of civil

[51] These were the 1995 Labour Relations Act, the 1997 Basic Conditions of Employment Act, the 1998 Employment Equity Act, and the 1998 Skills Development Act.

servants. In July 1999 government resisted the salary increases that unions demanded in favour of increases much more closely in line with lower inflation. Government finally broke off negotiations when the unions refused to negotiate down to government's level. Government was playing hardball.

Business, on the other hand, was not. Private sector employers and organised labour continued to devise ever more rigidly institutionalised ways of regulating the labour market. In 1999 a group of leaders from both labour and business visited the Netherlands and Ireland to examine job creation in these two countries; according to one observer, the South Africans "were particularly impressed with the good co-operation between business and labour in the two northern countries."[52] They came home inspired to set up the Millennium Labour Council (MLC), a voluntary bi-partisan forum for discussions between business and labour on the development of a common economic vision for SA. It was yet another corporatist institution in the tradition of NEDLAC. Like NEDLAC, it privileged the interests of organised labour and business. [53]

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[52] J P Landman, *Labour 1: Business 0* [Web site] (www.jplandman.co.za, [cited 2001]).
[53]JP Landman sees it in terms that are even worse for business - and for economic policymaking for the country as a whole: "time and again" he argues "the unions use consensus-seeking forums for crisis management; that they get concessions from business; but that they make no concessions in return on either free labour markets or a free economy." He continues: "This has been the pattern since long before the advent of the MLC. Decisions are taken only on the labour market; decisions on the economy fall by the wayside." J P Landman, *Labour 1: Business 0* [Web site] (www.jplandman.co.za, [cited 2001]).

In the end, analysts commiserate the deal struck between big business and big labour that left the unemployed, and small and medium-sized businesses out in the cold:[54]

> many small businesses which are not members of the large chambers or federations feel left out of corporatist deals as are the unemployed, the rural poor, traditional communities and many weaker and less organised interests. In so far as these outsiders are deliberately excluded from corporatist institutions, the vested interests of the big players are strengthened.

SACOB, which does represent smaller and medium sized white business, did voice "serious concerns" about the labour legislation, arguing that it raised costs and had a negative impact on job creation. SACOB pointed out on a number of occasions that smaller businesses have special needs; in particular, they require a higher degree of flexibility on employment conditions.[55] High entry or exit barriers to employment reduce the demand for labour and selectively lowering such barriers, SACOB argues, would not necessarily compromise core labour rights. But SACOB's position was not the one that "business" representatives in the multi-actor fora won.

By the late 1990s, government had begun to consider ways to make the labour market less rigid and even proposed new legislation that provoked predictable opposition from organised labour. The proposed legislation was discussed in the MLC and agreement was finally reached on a compromise set of proposals that were less flexible than those that government had proposed. What was significant here is that, in a policy area where one might expect business to strongly support government

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[54]Emphasis mine. Heribert Adam, Frederick van Zyl Slabbert, and Kogila Moodley, *Comrades in Business: Post-Liberation Politics in South Africa* (Cape Town, South Africa: Tafelberg Publishers, 1997), 144.
[55] Raymond Parsons, *The Mbeki Inheritance: South Africa's Economy 1990-2004* (Johannesburg, South Africa: Ravan Press, 1999), 68,69.

on labour market reform, instead government found itself the odd one out in a cosy agreement stitched up between organised business and organised labour. This is difficult to understand until one considers the nature of the business community in South Africa.

South African business associations tend, in the main, to be dominated by big business. Big business, for its part, differs from small and medium-sized enterprise in its low labour-capital factor ratios. In particular, labour costs form a very small percentage of the cost structure of big business; this is generally not the case for small and medium-sized enterprises. Wage hikes therefore have a lesser effect on the bottom lines of most big businesses. By contrast, big business would be substantially affected by the damage to the overall economic and political climate that wide scale industrial action (in the form of wage-driven strikes for example) would inflict. They are therefore inclined to collude with organised labour to raise wages for the existing, shrinking workforce. In addition, in oligopolisitic economies such as South Africa's where relatively high entry barriers exist to the market, existing companies tend to be inefficient but to enjoy high profits. The tendency then is for large rents to be shared between currently employed labour (in the form of relatively high wages) and shareholders (in the form of profits). Once again it is the unemployed, as well as consumers more broadly that miss out.[56]

Having reviewed four particular policy areas, what can we say about the overall tenor of policy interactions between business and government in South Africa?

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[56] I am grateful to Stephan Malherbe for this analysis. Stephan Malherbe, Personal interview with author, 28 May 2001.

Business-government interactions

During the 1990s, business made two very public bids to engage with government on policy questions. The first of these was GFA, which was not a long document but which provided a powerful critique of the economy. In retrospect, it was extraordinarily prescient about the weaknesses of the South African economy and labour market in particular. Its public release however was greeted with fury and, from those sympathetic to business, bewilderment that the private sector could so clumsily present its case. The document had been relatively well received in a closed seminar with senior ANC leadership and business was initially quite bemused by the heated response the document evoked.[57] The hostility should have come as no surprise.

In a country where the emphasis had been on trust building in multiparty fora,[58] treading very softly in public and only negotiating hard behind the scenes, GFA broke all the rules; it threw its punches in public. The language in the document was blunt and matter of fact.[59] It came across as arrogant and heavy-handed and aroused all the historical suspicions of business as inherently racist, exploitative and aligned with the particular interests of a privileged ethnic minority. In addition, by specifically targeting the labour market, GFA directly challenged a formidable opponent - organised labour – an opponent that was in a public political alliance with

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[57] Indeed, a number of those who presented business' case to, among others, Mbeki and Mandela, argue that at this meeting Mbeki actually gave them the green light to release the document publicly. Ngoasheng's version of the exchange is rather different. Moss Ngoasheng, Personal interview with author 2001.
[58] Such as the NEF, NEDLAC and the MLC.
[59] Although indeed the final version that was released was significantly toned down.

the government of the day. This made it very difficult for the ANC not to distance themselves from the document. Business had done its relations with government a great harm.

So, despite the fact that government and business agreed on many of the fundamentals about how the economy should be managed, relations between the business community and the ANC leadership (Mbeki in particular) continued to be cool. Mbeki and his advisors appeared to distrust and dislike the private sector, reacting defensively and with charges of racism to any criticism of government from business organisations and in the financial press. For their part, a good deal of "Afro-pessimism" (poor expectations of the black ANC government) persisted within the white business community, despite government's economic prudence. This was very much resented by government.

By mid to late 1998, possibly due to a conjunction of the renewed emphasis on BEE and the Truth and Reconciliation Commission (TRC) hearings on the role of business under apartheid,[60] there was a widespread perception that Mbeki's relationship with business was worsening[61] and that something needed to be done.

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[60] The TRC hearings turned a critical eye on business' past relationship with apartheid. For the most part, representatives of the private sector disputed the arguments that it was culpable in and had profited from apartheid; they argued on the contrary that they had long regarded apartheid as an economically unsustainable system and various submissions claimed that business had opposed elements of the apartheid system.

[61] As with previous generations of NP presidents, senior businesspeople found it near to impossible to get an audience with the political leadership.

September 1998 saw the launch of a second major initiative by business, the Business Trust, in which business consciously (and much more adroitly than previously) set out to repair relations with government. The Trust represented a pledge by business to raise R1bn for social investment in two areas: job creation (particularly in the tourist sector) and education development. According to Lesley Boyd, chairman of the Anglo American Industrial Corporation, "business faced difficulties in interacting with government and believed this initiative would bring business closer to government and ensure its participation with government at an earlier stage of the process."[62] The initiative was high profile and represented a not inconsiderable sum of money. A sceptic might argue that it was, in effect, a massive bribe to government, to demonstrate business' commitment to equitable development in South Africa and to reopen channels of communication. Whatever the case, it seemed to work. Mbeki created a working group that would connect government – and the President – directly with big business.[63]

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[62]Renee Grawitsky, "Business's Jobs Plan Gets Off the Ground," *Business Day*, 16 September 1998.

[63] He also created additional working groups for black business, commercial agriculture and the trade unions respectively. This was just cover. Business, in return for the Business Trust, had wanted a forum that would guarantee them access to the President. By supplementing the big business working group with three others, it was hoped that this trade off would be slightly less obvious.

The Policy Outcomes

By the year 2000, the 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 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[64]

> 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 and the economy began to respond to this shift. By the end of the 1990s, 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 four key reform areas proposed in GFA (see Table 1), which did business get?

Most agree that government did deliver decisively and convincingly on deficit targets, despite considerable strain on spending from provinces and increases in social

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[64] Trevor Manuel, *National Budget Speech 2000* [Web site] (www.anc.org.za, 2000 [cited 2001]).

spending. In his address to the National Assembly on the 1998 Medium Term budget policy statement, Trevor Manuel remarked as follows:[65]

> We are more conscious now that ever before that we cannot spend our way out of trouble. The more we borrow, the more we have to set aside to pay the interest on our debt, and the less there is left to deliver on reconstruction and development. ...
>
> Our commitment to reduce the deficit and overturn the debt burden remains firmly in place.

There was evidence of a real shift in government thinking – and behaviour - on this issue.

On privatisation, progress was more equivocal. Government had moved only 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 swift 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.

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

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[65] Trevor Manuel, *1998 Medium Term Budget Policy Statement* (www.anc.org.za, 2 November 1998 [cited 2002).

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.[66]

What business got	
More conservative macroeconomic policy	A
Privatisation	B
Deregulation of the labour market*	C+
Promotion of exports; trade and currency liberalisation	B+

Table 2.

Overall, business' hysteria at the start of the decade about a radically redistributionist ANC was largely assuaged and replaced with more mundane policy concerns. Business had moved from being terrified about a possible socialist economic policy, to commending the performance of communists in the cabinet:[67]

> 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?

[66] 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." Rashad Cassim, "The Political Economy of Trade Negotiations in Post-Apartheid South Africa" (paper presented at the TISP workshop, Undated).

* 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.

[67] For example, South African Communist Party boss, Joe Slovo, drew much praise as Minister of Housing. Raymond Parsons, *The Mbeki Inheritance: South Africa's Economy 1990-2004* (Johannesburg, South Africa: Ravan Press, 1999), 124.

Interview after interview with business people revealed similar sentiment.[68] While business was largely happy and relieved with government's macroeconomic policy, over the second half of the 1990s concern mounted in two areas: first, over the disjuncture between policy and implementation and second, in specific policy areas such as education and labour. 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.

Why 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. 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 often renders business more apologetic than it needs to be, hence the sense that it has to "bribe" government to demonstrate its social responsibility commitments.

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

For its part, government is largely free of neo-patrimonial behaviour although there are concerns that the ANC's sympathies for BEE could sponsor a patronage-dependent black business class. The largely all-white nature of South African business coloured its appraisal, for example, of the privatisation programme. It has also charged government's political responses to the private sector, frequently in an unhelpful direction.

While 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 origins (from whence, much of its autonomy).

Conclusion

South Africa shares with much of the rest of Africa an intense preoccupation with things political, with the political management of political relationships. This is an approach that has spilled over into the management of the economy. The journalist Robin Hallet remarks that South Africans, "[u]nderstandably obsessed by their country's political problems, ... tend to imagine that if these can be 'solved' then all will be well. (It is in fact a variation of the old Nkrumahist delusion: 'Seek ye first the political kingdom and all things shall be added unto you')."[69]

It was an approach exemplified in economic policymaking in the dying days of the NP regime and the early days of the new ANC regime and has been termed the

[69] Robin Hallet, "Review of *the Mind of South Africa*," *Southern African Review of Books*, no. 16 (1990).

"stakeholder" approach.[70] When Derek Keys initiated the "golden triangle" of negotiations between business, government and labour, he was motivated by a perceived need to secure consensus as a means to avoid political (and hence economic) instability. This approach was institutionalised in NEDLAC and later the MLC. In the tumultuous early 1990s, preventing the collapse of political dialogue was, correctly no doubt, considered the first priority, the highest political good. It was however, the same approach that caused big business, time and time again, to concede to organised labour on South Africa's industrial relations framework, institutionalising a rigid approach that priced the unemployed out of the job market and privileged the interests of big business over those of small and medium-sized firms.

It is clear that during the 1990s, the higher levels of openness and competition within the South African economy constrained the capacity of the state to unilaterally reorder incentives in that economy. The ANC government simply did not have the same range of policy options that were open to the NP in 1948:[71]

> Defiance of global expectations that was possible with the relatively isolated semi-colonial outpost in 1948 is now immediately penalised by currency fluctuations, higher interest rates on loans or capital outflows and refusal of investments. Such punishment even derives from minor internal policies that violate expected norms and that could be ignored by nationalist Afrikanerdom. In contrast, the ANC has to prove constantly that it is worthy of outside support and that, in the threatening words of a US banker 'the lights should not be switched off'.

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[70] Bobby Godsell, Personal interview with author, 21 June 2001.
[71] Heribert Adam, Frederick van Zyl Slabbert, and Kogila Moodley, *Comrades in Business: Post-Liberation Politics in South Africa* (Cape Town, South Africa: Tafelberg Publishers, 1997), 162,63.

The results have not been entirely unhappy: [72]

> While business people grumble about the various administrative shortcomings of the new regime, from taxes that are too high to the quality of the civil service, a vast majority, particularly big business, feels comfortable and relieved. ... Far from being at odds with the state, organised business is not only carefully listened to formally and informally, but also has the economic clout to make itself heard should the state contravene its vital interests. In fact, state and business interests coincide in the goal of a growing economy.

To argue that market-driven concerns and incentives pushed the ANC to adopt a centrist and moderate set of economic policies is not however to argue that business was unambiguously successful in shaping government policy. Far from it, as I have argued. The shift in ANC policy has resulted predominantly from the influence of that "amorphous entity," the market.[73] The size and sophistication of the private sector, and the extent of its autonomy from the state, meant that the economy was able to function largely under the influence of market-driven incentives, largely without recourse to a vampiric relationship to the state. This remains true, despite the historical sponsorship by the state of Afrikaner business and the current government efforts to foster BEE. As Godsell argues, "yes, Afrikaner capital and BEE did organise on an organic basis but when they wade into marketplace, the market trumps."[74] The initial signs are mixed but it is clear that in South Africa, the state cannot have it all its own way. The market is an important economic and political player.

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[72] Heribert Adam, Frederick van Zyl Slabbert, and Kogila Moodley, *Comrades in Business: Post-Liberation Politics in South Africa* (Cape Town, South Africa: Tafelberg Publishers, 1997).
[73] In his early days as Minister of Finance, Trevor Manuel caused a quiver in the markets and a dip in the value of the Rand when he described that market as an "amorphous entity" in a public forum. He swiftly learnt the value of a little circumspection in this regard.
[74] Bobby Godsell, Personal interview with author, 21 June 2001.

CHAPTER 7

CONCLUSION

Mobutu Sese Seko once remarked that in Zaire "holding any slice of public power constitutes a veritable exchange instrument."[1] As the president of that country and chief plunderer of its coffers, he knew what he was talking about. His remarks can be read in two ways and they would be equally true for both. The most obvious interpretation is that public office equals a licence to seek rents. A second reading is that the public sphere (the state) moulds and generates ("constitutes") markets and other sorts of economic and exchange institutions. Both of these tendencies have vital consequences for the relationship between business and government, and for long-run development. It is therefore important to consider evidence of these tendencies in my country studies.

This chapter compares and contrasts the outcomes of my four case study countries and considers the broader implications of these outcomes. In the review of the country studies, I will argue that two factors explain business' influence on economic policy in my four cases: first, the ethnic composition of business and second, the degree of neo-patrimonialism in the state. Both of these factors shape the overall level of autonomy that business experiences, and this, in turn, shapes its capacity to influence economic policy. I conclude the chapter by examining the broader implications of these cases for comparative politics.

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[1] Quoted in Paul D Hutchcroft, *Booty Capitalism: The Politics of Banking in the Philippines* (Ithaca, USA: Cornell University Press, 1998), 51.

Ethnic composition of business community
+
Extent to which state is neo-patrimonial

▼

Autonomy of business

▼

Business influence on policymaking

Figure 1. Causal Chain

The Country Studies

Of my four country studies, *Zambia* most closely approximates the neo-patrimonial model I outlined in Chapter One. 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 controls 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 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 the Akan and 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 too had a high level of state ownership of the economy and the economy was very highly 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.

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 loomed 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' 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.[2] From the 1960s on, the 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

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[2] Parastatals contribute only 7% to the economy. Reg Rumney, "Give Us Facts, Not Rhetoric," *Mail and Guardian*, 21 October 2002.

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 state may not have a strictly 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.

An assessment of the broad level of influence by business qua business, summarised in Table 1, 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 1. Business' Influence on Economic Policymaking

In Zambia and Ghana politics served to bind business closely to a state that was highly neo-patrimonial.[3] 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 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 2.

[3] 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.

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 dominates 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."[4] This gave the business community room to develop apart from the state. On a continent where the norm 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 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.[5]

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[4] Thomas Meisenhelder, "The Developmental State in Mauritius," *The Journal of Modern African Studies* 35, no. 2 (1997): 295.
[5] Note that the bias is toward sub-sectors, rather than to particular firms or individuals.

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 3.

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 nature of these states. By contrast, in Zambia and Ghana, policy is almost exclusively the purview of the executive and those he[6] appoints. Again, in Ghana and Zambia, the IFIs are important in policymaking, and the rents that they promise to political elites are 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

[6] Invariably it is a "he."

growth', while extending limitless loans to government."[7] 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.

The politics of democratisation varied across the country studies. In two of my four cases (Zambia and South Africa), the demand for a resolution of the country's political crisis was a necessary and prior demand to any other economic policy demands that business had. In Ghana, the demand was for systematic, institutionalised policy consultation. Although business mostly supported the move toward democracy, this was not a precondition for other economic policy demands. Political reform was not an issue in Mauritius; the country was already a multi-party democracy with a high level of civil and political freedoms.

As for specific economic policy demands, there was some commonality across the four countries. In terms of its policy demands, business generally behaved as the

[7] Jon Kraus, "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, no. 3 (2002): 409.

leading theories would have us expect. In each case, for example, traders were consistently more pro-liberalisation than manufacturers, who tended to demand more protectionist measures. (Significantly, this also tended to be the sub-sector most easily colonised by the political elites.) Exporters, predictably, were the most liberal-minded. Business associations generally succeeded in adopting broader and longer-term views while sub-sector-specific associations served narrower interests.

There were some differences in the structure of policy demands across the four, flowing largely from the nature of the state. It is striking that in Mauritius, business preferences were shaped by the government's policy strictures, specifically by government's very differential treatment of various sub-sectors. While business protested this, its policy demands still reflected that way that policy had shaped its interests. By contrast in Ghana and Zambia, the predominant influence on business preferences was the extent to which the firms concerned had returned the state's embrace.

Ghana: Contingent capitalists?

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."[8]

These two apparently contradictory tendencies (the state pulling in one direction and some of business pulling in another) make Ghana an important country study for my purposes. It provides an important corrective to the co linearity in my other country studies between business' ethnic composition and the state's neo-patrimonialism. Ghana demonstrates that these two variables can move in different directions, although not without tension. It also demonstrates that in such a case, it is the neo-patrimonialism of the state that trumps, given the weakness in Ghana 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.

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[8] 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

Alternative Explanations

In Chapter One I briefly foreshadowed the existing literature on business-government relations and what it might suggest about business' impact on policy. What do my four cases affirm or contradict in this literature?

The asset-base argument

My cases demonstrate that the state drives the organisation and shapes the nature of the private sector. This is a firm rebuttal of competing theories, in particular the asset base or sectoral interest theories of writers like Kurth, Shafer, Frieden, and Karl, although at least some of what they argue is borne out.[9]

This group of writers focuses on the structure of the economy and in particular which sub-sector of the economy predominates, arguing that this will decisively shape the character of business and of its political interactions. In particular, Shafer's argument seems a good explanation of the outcome in Zambia. Shafer accurately predicts that there will be very little autonomy between the political leadership and those managing the mining sub-sector (although his model does over predict the capacity of business in Zambia to act collectively).

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state. Cf. Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52 (2000).

[9] Jeffrey A. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America 1965 - 1985* (Princeton: Princeton University Press, 1991), Terry Lynn Karl, *The Paradox of Plenty : Oil Booms and Petro-States, Studies in International Political Economy ; 26* (Berkeley, California: University of California Press, 1997), James R Kurth, "The Political Consequences of the Product Cycle: Industrial History and Political Outcomes," *International Organization* 33, no. 1 (1979), Michael D Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States* (Ithaca, USA: Cornell University Press, 1994).

Crucially, however, this group of arguments is not equipped to explain how Zambia and South Africa, both originally mining-based economies, came to have such different outcomes. While it is able to predict that business-government relations will change in nature as the economy diversifies, it is less able to explain why that diversification takes place.

It is difficult to compare Mauritius and Ghana within this framework. Both began as effectively mono-crop economies (sugar and cocoa respectively), but while production in Ghana can be defined as peasant production, Mauritius combines both small holdings (peasant?) and large industrial estates. It therefore straddles Shafer's polar ideals.[10] At any rate, the outcomes in the two cases are very different, as Shafer might predict, but in the opposite direction from what he predicts.

I argue that other internal (racial or political) divisions within business are at least as important as factor and sector endowment, inasmuch as they affect the capacity of business as a whole to lobby government on specific policy issues. The extremely selective incentives provided by a neo-patrimonial state to its kin operating in the putatively "private sector" predict more accurately the behaviour of African business than the sub-sectoral profile of its economy. Francis Kaunda, chairman of the giant mining conglomerate ZCCM in Zambia, acted not as the representative of the interests of copper-based entrepreneurs but as the "private sector" representative

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[10] Shafer dichotomises economies as comprised of low/low and high/high sectors respectively. By this he means that an economy from the first group is characterised by high barriers to entry, high levels of inflexibility, and is dominated by just a few large firms. An economy from the second group, by contrast, would be characterised by low barriers to entry, much greater flexibility, and would feature a large number of small diverse firms. Cf. Michael D Shafer, *Winners and Losers: How Sectors Shape the Developmental Prospects of States* (Ithaca, USA: Cornell University Press, 1994).

of a state-based political elite (see Chapter Three). While the mining-dominated nature of the Zambian economy undoubtedly structured his choices, he behaved primarily in terms of the neo-patrimonial incentives and institutions structured by the Zambian state.

How business organises itself

In the opening chapter I also reviewed the arguments of those who focus on how business organises itself, part of a broader literature on political institutions and collective action. For our purposes, probably the most important arguments here are those that argue that encompassing organisations are better at producing – or at least pushing for – broadly beneficial outcomes. Narrower, sub-sectoral organisations, by contrast, will tend to encourage more particularistic behaviour. This is all confirmed by my country studies. But, to my view, this literature misses an important prior question, namely, why is it that some business communities are able to organise in a coherent, institutionalised, and broadly-based fashion, while others are not? To answer this question, we must know more about the origins and nature of the business community in question.

In an enquiry into why patterns of business organisation vary across Latin America, Schneider reverses the conventional wisdom. Many analysts assume that "business organises to extract benefits from a largely passive and vulnerable state. [But his] argument reverses the causal arrows and argues that state actors organise business in the pursuit of their statist interests."[11] This is similar to what I argue about Africa. However, in contrast to Africa, the major Latin American economies have a private sector that is large, relatively powerful, and can function separately from and independent of the state.[12]

Because this "organisational" literature draws predominantly on Latin American cases, much of it assumes a sizable and relatively autonomous private sector. Even if it is formidably well-organised, a business community that has no autonomous political or economic standing will find it difficult to make an effective corporate impact on the state. It is crucial then to consider the robustness and autonomy of the private sector. In Zambia, "[t]he precarious nature of Zambian business meant that it could provide few benefits (in the form of employment provision, tax revenues, etcetera) to the state. Moreover, representing less than 20 per cent of formal sector employment, the private sector does not constitute either an electoral threat or a useful political ally for MMD."[13] Similarly in Senegal, a country I don't examine specifically but one that is close to the African norm, "the political clout ... of Senegalese business interests are still limited by their weak hold on

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[11] Ben Ross Schneider, "The State and Collective Action: Business Politics in Latin America" (paper presented at the Meeting of the Latin American Studies Association, Chicago, Illinois, September 1998), 3.

[12] I discuss in Chapter Two how this arises. To recap briefly, the Latin America private sector, unlike the African, was firmly established before the introduction of ISI and the thicket of state-based networks that sprung up from that. Therefore, it was not embedded to the same degree as elsewhere.

[13] Deborah Brautigam, Lise Rakner, and Scott Duncan Taylor, "Business Association and Growth Coalitions in Sub-Saharan Africa," *The Journal of Modern African Studies* 40, no. 4 (2002): 532.

productive sectors of the economy."[14] By contrast, in Mauritius at independence, the Francophone community believed "that the ruling party and the government bureaucracy would be forced to recognise that the sugar estates were too important to the national economy to be compromised."[15]

Writing about Latin America, Schneider argues that "if selective incentives provided by states shape the membership and organisational structure of collective business representation, then there is little we can deduce from the economic and social characteristics of potential members."[16] This is as true – if in a slightly different way – for Africa as it is for Latin America.

This points us toward a second broad school of writing, one descended from Weber and revived in the 1980s by Peter Evans and Theda Skocpol.[17]

Strong business, weak state

I referred in Chapter One to those writers who diagnose a range of developing countries as plagued by too strong a society and too weak a state. Despite their apparent similarities with neo-patrimonial societies, however, many of the cases described by this literature are the inverse of neo-patrimonialism. I characterise neo-

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[14] Ibrahima Thioub, Momar-Coumba Diop, and Catherine Boone, "Economic Liberalization in Senegal: Shifting Politics of Indigenous Business Interests," *African Studies Review* 41, no. 2 (1998).
[15] Thomas Meisenhelder, "The Developmental State in Mauritius," *The Journal of Modern African Studies* 35, no. 2 (1997): 281.
[16] Ben Ross Schneider, "The State and Collective Action: Business Politics in Latin America" (paper presented at the Meeting of the Latin American Studies Association, Chicago, Illinois, September 1998), 23.
[17] Peter B. Evans, Dietrich Rueschemeyer, Theda Skocpol, Social Science Research Council (U.S.). Committee on States and Social Structures., Joint Committee on Latin American

patrimonial societies as plagued by states that are too strong (where state-based actors and state-based forms of behaviour dominate) and business communities that are too weak (where market principles are too easily undone by a neo-patrimonial context).

Having said this, I am in broad agreement with an underlying premise of the "weak states, strong business" school, namely that political economies are strongest and most durable when the state engages in considered, inclusive consultation with important social actors such as business. My cases demonstrate that not only is the overall level of autonomy and the character of the state in question important but also that states may be strongest (most developmentally effective) when they are weakest (constrained in policymaking). Consultation with business can help to solve two key problems that reforming states face: the significant transaction costs of dragging unwilling social actors along in a reform process, and imperfect information about what is really going on in the market (a problem for technically weak states with few means of effectively penetrating their societies).

In addition, institutions such as business associations may function, in the ethnically divided societies of Mauritius and South Africa, as a kind of power-sharing arrangement, balancing power in the economic and political spheres.[18] If these two actors are forced to balance against each other, and if their interaction is charged with a small but healthy dose of opposition rather than collusion, institutionalised

Studies., and Joint Committee on Western Europe., *Bringing the State Back In* (Cambridge Cambridgeshire ; New York: Cambridge University Press, 1985).
[18] With apologies to Donald Horowitz for appropriating his framework.

interaction may encourage political and economic elites to compromise. This may well be in the interests of economic growth and the society as a whole.[19]

If the state is so important, it seems logical to assume that a regime change might also be consequential. I now turn to these arguments.

Regime change

Most political science literature that examines business and regime change considers the circumstances under which social actors such as business might support democratisation.[20] Fewer writers consider the reverse, namely the impact that democratisation will have on business as a political and social actor. On the face of it, democratisation could have two opposite outcomes for business' influence on policy making. If democratisation succeeds in making the state responsive to a range of institutionalised social actors, and if business is well-poised to provide coherent policy input, the influence of business could rise substantially within an open polity. However, in a pluralist society, it is equally likely that the voice of business could be drowned out by a range of other, similarly empowered social actors including labour and the poor. "Democratisation," then, is too crude a variable. In the absence of

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[19] This would be similar to the "balance of power" notion, familiar from the neo-realist school of international relations. (Cf Kenneth Neal Waltz, *Man, the State, and War; a Theoretical Analysis* (New York,: Columbia University Press, 1959). Crucial to a felicitous outcome would be the engagement of the forces on each side by means of institutions, a much more liberal notion. (Cf. John G. Ikenberry, *Institutions, Strategic Restraint and the Persistence of American Postwar Order*.)

[20] Cf. Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52 (2000), Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton, N.J.: Princeton University Press, 1995), Merle Lipton, *Capitalism and Apartheid : South Africa, 1910-1986* (Aldershot, Hants, England: Wildwood House, 1986).

further information about the political economy of the country in question it is not clear that there would be a decisive impact either way.

My country studies bear this out. South Africa would seem to support the argument that democratisation of broader political processes gives business a voice. Ghana and Zambia suggest the reverse. In her work on business and democratisation Bellin argues convincingly that business' own interests change not because of regime change, but because of the degree of state dependence (what I might call how neo-patrimonial the market is).[21] My work supports this.

When bad ethnic relations make good political economy

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.[22] 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

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[21] Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics* 52 (2000).

[22] See most especially William Easterly and Ross Levine, "Africa's Growth Tragedy: Policies and Ethnic Divisions," *The Quarterly Journal of Economics* 112, no. 4 (1997). 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 Amy Chua, *World on Fire : How Exporting Free Market Democracy Breeds Ethnic Hatred and Global Instability*, 1st ed. (New York ; London: Doubleday, 2003).

measure of ethno-linguistic diversity (ELD)[23] 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.

Contributions to Theory

Rethinking "embedded autonomy"

This dissertation contributes to the debate about the optimal relationship between business and government and in this sense is a continuation of Evans' discussion about the embedded autonomy balance. Peter Katzenstein argues the centrality of "state-centred" policy networks to economic success in France and

[23] 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.

Japan[24] 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. 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 this has 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 Weber, "*capitalism* and *bureaucracy* have found each other and belong intimately together."[25] 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.

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[24] Peter J. Katzenstein, *Between Power and Plenty : Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978).

Neo-patrimonialism: Not just about the state

In addition to the argument that I make about the importance of the quality of the state, this dissertation demonstrates that 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.

In political science the notion of "embeddedness" is most closely identified with Peter Evans and his work on the state.[26] In sociology the "embeddedness" argument is closely identified with economic life and institutions. Perhaps the most prominent recent work on the subject is by Mark Granovetter, whose argument places economic institutions (such as firms and markets) firmly within a social context.[27] In a rebuttal of both under- and over-socialised conceptions of economic life, "[t]he embeddedness argument stresses instead the role of concrete personal relations and

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[25] Quoted in Peter B Evans, *Embedded Autonomy : States and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995), 29.

[26] He employs the idea to great analytical advantage, using it to develop a typology of states, from developmental to predatory. In this literature, the notion is less commonly applied to the state's partner in development, the private sector, although there are exceptions. In his discussion of the role of business in economic reform in Latin America, for example, Peter Kingstone develops an "embedded" analysis of that sector: "More economistic approaches [to the private sector]" he argues, "tend to treat actors as owners of factors, but that is not sufficient. Treating the unit of analysis as a factor owner ignores that the factor owner may be embedded in social networks, in a specific firm, and in interest associations. Thus the character of business organisations and the character of the firms both matter." Peter R Kingstone, *Crafting Coalitions for Reform: Business Preferences, Political Institutions and Neoliberal Reform in Brazil* (University Park, Pennsylvania: The Pennsylvania State University Press, 1999), 254.

[27] Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91, no. 3 (1985): 502.

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 than they do with organisational form." Thus, "long term relations ... generate standards of expected behaviour."[28]

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."[29] This is particularly true in 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.[30] We understand that ultimately all capitalism is political capitalism, but the generality of this assertion obscures as much as it reveals. The term "political

[28] Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91, no. 3 (1985): 498.
[29] Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91, no. 3 (1985): 495.
[30] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective, a Book of Essays* (Cambridge, USA: Belknap Press of Harvard University Press, 1962), Albert O.

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 need a typology of the market's interaction with the state. This task should begin with a better understanding of the state. After all, as Evans reminds us, an effective state "was not simply an adjunct to the market, it was *an essential prerequisite* of the formation of market relations."[31] Bates makes the same point a little differently: "States help define private interests and play a crucial role in the growth of classes and interest groups."[32] Both arguments suggest that the private sector is "embedded" in an environment in which the dominant mode of operation and incentives is driven by the state. However, the state in question is not the legal-rational state described by Weber or even the bourgeoisie's executive committee described by Karl Marx. Rather, it is a neo-patrimonial state. In the same way that the patrimonial state was unable to separate private and official spheres, so too do Africa's neo-patrimonial states blur the lines between public and private in the economy.

Hirschman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1961), Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944).

[31] Peter B Evans, *Embedded Autonomy : States and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995), 29.; Emphasis mine.

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 ethnicity does (or does not) shape the autonomy of that community. This contradicts much common-sense thinking about the deleterious effects of ethnic diversity.[33] It also runs against a major strain of new institutional economics which argues that higher levels of ethnic diversity are correlated with generally poorer economic outcomes.[34]

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,

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[32] Quoted in Peter B Evans, *Embedded Autonomy : States and Industrial Transformation* (Princeton, N.J.: Princeton University Press, 1995), 35.

[33] I am not alone here. Collier and Gunning argue that "the negative growth effect of ethnic diversity only applies in societies lacking political rights." Paul Collier and Jan Willem Gunning, "Explaining African Economic Performance," *Journal of Economic Literature* XXXVII (1999): 67. Fearon and Laitin assert that the literature systematically overestimates the tendency for ethnic diversity to result in conflict. Cf. James D Fearon and David D Laitin, "Explaining Interethnic Cooperation," *The American Political Science Review* 90, no. 4 (1996).

[34] See especially William Easterly and Ross Levine, "Africa's Growth Tragedy: Policies and Ethnic Divisions," *The Quarterly Journal of Economics* 112, no. 4 (1997).

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."[35] 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

[35] This was the case in Zimbabwe as it would be later in South Africa too. Carolyn Jenkins, "The Politics of Economic Policy-Making in Zimbabwe," *The Journal of Modern African Studies* 35, no. 4 (1997): 578.

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."[36] In Zimbabwe after 1980, this worked for some time to restrain the state from appropriating economic assets. Business and government seemed to cohabit quite harmlessly for a time, but this began to change. As Brautigam et al. point out, "if we were to stop the Zimbabwe case in 1990, we would have a story of business associations effectively promoting largely growth-oriented policies, forging a nascent 'growth coalition' with technocrats and political elites in the Zimbabwe government."[37] Unfortunately, that is not where the story ends.

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

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[36] Carolyn Jenkins, "The Politics of Economic Policy-Making in Zimbabwe," *The Journal of Modern African Studies* 35, no. 4 (1997): 581.
[37] Deborah Brautigam, Lise Rakner, and Scott Duncan Taylor, "Business Association and Growth Coalitions in Sub-Saharan Africa," *The Journal of Modern African Studies* 40, no. 4 (2002): 535.

resources to lower-income groups."[38] The interests of the 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.[39]

The case of Zimbabwe demonstrates at least two things. First, it points to the 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.

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[38] Carolyn Jenkins, "The Politics of Economic Policy-Making in Zimbabwe," *The Journal of Modern African Studies* 35, no. 4 (1997): 594.

[39] 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

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

I have argued repeatedly in this dissertation about the unfortunate consequences for business of neo-patrimonialism in the state. What does this mean for the prospects of a developmental policymaking compact between business and government in Africa? At the very least it warns us that the path to development may be even more difficult than we had anticipated. For some time we have understood all too well the weaknesses and deficiencies of the African public sector. We have perhaps not considered fully the weaknesses too of the private sector. What is striking about African economies is how often there is simply no significant autonomous, indigenous sector that is both engaged with the state and sufficiently separate from it to challenge it.

This characteristic gives the development game in much of Africa a zero-sum character. It significantly affects the way in which the interests of the dominant class are conceived of and pursued. It rewards those entrepreneurs who seek profit by

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about 1% of the overall population. In South Africa, whites make up around 15% of the overall population.

means of a relationship with the state and may penalise those more conventional entrepreneurs who try to push the state to lay the institutional basis for the long-term development of capitalism. The difficulties here may incline us to throw our hands up in despair.

We should bear in mind that there is nothing inevitable about the neo-patrimonialism of the African state. Botswana is a frequently quoted example of an African state that has successfully undertaken a broadly developmental role through a higher level of involvement in the economy than some neo-liberals would be comfortable with. "Botswana defied the thrust of the prevailing development orthodoxy, which claims that African states cannot enhance industrial development through interventionist strategy. Botswana's state-governed industrial strategy support recent research on the East Asian miracle. ... [This demonstrates that] certain types of states can nurture entrepreneurship, give direction to the industrial project, and create the infrastructural needs of the economy."[40]

But what of the states that have a neo-patrimonial government? A little regional perspective may help here. In his writing on Thai entrepreneurs in the 1960s, Riggs painted a grim developmental picture. He argued that careers in government there provided "the greatest opportunities for combining high income with security, prestige and power." The private sector was a last resort for those who could not gain access to government and consequently had to become became "pariah entrepreneurs." Once in the private sector, it was still necessary for businesspeople to

[40] Francis Owusu and Abdi Ismail Samatar, "Industrial Strategy and the African State: The Botswana Experience," *Canadian Journal of African Studies* 31, no. 2 (1997): 289.

engage with the state and, in particular, to contribute "financially to the private income of protectors and patrons in the government."[41] This gave rise not to productive, accumulative capitalism but to a destructive kind of rent capitalism. According to Riggs, ISI in Thailand was "an unmitigated failure from the viewpoint of industrial development, a giant pork barrel into which politicians and their friends, newly dubbed entrepreneurs, dipped their fingers."[42] All of this sounds a lot like neo-patrimonial Africa.

Riggs was pessimistic about the developmental potential of this model, but he was ultimately proven wrong. A more assertive and autonomous business class has emerged in Thailand, one that offers more to the entrepreneurial minded. In addition, there has been a slight downgrading of the prestige and earning power of the bureaucracy. The relationship between business and government in Thailand today resembles more closely the developmental compact found elsewhere in East Asia than the neo-patrimonial bargain struck in much of Africa.

This suggests more dynamism than Riggs anticipated. It suggests that there are conditions under which rent-seeking can evolve into something that more closely resembles productive capitalism. How does this happen? McVey suggests one means, namely the self-interested behaviour of civil servants. She argues that the uncertainty and vulnerability of a reliance on volatile politics may lead bureaucrats to diversify into business in an attempt to spread their risk. As bureaucrats move into business, they will want to secure their investments there and so might promote measures to

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[41] Riggs (1966) p250, 251

[42] Ruth McVey, in *Southeast Asian Capitalists*, ed. Ruth McVey (Ithaca, USA: Southeast Asia Program, Cornell University, 1992), 11.

protect private property and the rule of law, measures that would incidentally also safeguard the interests of an autonomous business community.

In addition, McVey argues that the timing of South East Asian development helped the process along. The economic upsurge of the Pacific Rim area meant that there "was money to be made but it involved opening out to greater capitalist world."[43] She stresses the importance of the international environment, of "the incentives offered by available investment." Pressures in the international environment helped in South Africa too to nudge that country away from rent seeking toward adopting the outward form at least of embedded autonomy.[44] Of course, it is well and good to point to timing and the international context, but this provides no roadmap for those countries where market pressures are very weak and are mediated thoroughly highly political personal networks.

Most of the writing on autonomy is concerned with the extent to which the state serves, not merely as an arena to resolve conflicting demands from society, but as a political sphere that is distinct from non-state actors. These writers ask whether political leaders are able to insulate themselves from societal pressures by controlling channels of interest representation and autonomously defining national tasks.

I have argued that it is important to consider the inverse too, that is, how do we ensure the autonomy of the private sector from a neo-patrimonial state? We must

[43] Ruth McVey, in *Southeast Asian Capitalists*, ed. Ruth McVey (Ithaca, USA: Southeast Asia Program, Cornell University, 1992), 30.
[44] South Africa's first black government came into power in an international environment that was extremely intolerant of a significant level of government involvement in the economy, particularly by an African, developing country government.

interrogate the ability of this community to insulate itself and its form of social organisation from the neo-patrimonial logic of the state.

My country cases suggest that despite the difficulties that neo-patrimonialism poses for any attempt at economic reform, liberalisation and stabilisation programmes remain vitally important to this process. In Senegal[45]

> [l]iberalization and restructuring set in motion the most sweeping renegotiation of the respective roles of state, foreign, and national capital that Senegal has seen since independence. Squarely on the defensive are the once-dominant industrial and commercial interests linked to import-substitution-industrialization. For local private business, liberalization of commerce has decisively expanded space for operation and possibilities for accumulation. Equally important, perhaps, is the fact that it has circumscribed the ability of state agents to mediate access to the commercial sector. This imposes significant new limits on the regime's ability to forge and maintain clientelist controls over Senegalese business interests. Liberalization also destabilizes the position of the most politically privileged businessmen.

The same might be true elsewhere. In much of Africa, a system of social organisation that is vested in the state, characterised by personalism and patronage, shapes the dynamics and incentives that operate within the private sector too. As a result, the prospects for development seem grim. There is a danger however, in concluding that current patterns in Africa are fixed and present no opportunities for progress. Here it is important not to commit what I call the "Riggsian error," namely the assumption that neo-patrimonial fusion will persist indefinitely.

When Fred Riggs saw political elites moving onto the boards of Chinese-run companies in Thailand in the mid-1900s, he assumed that this "was simply the modern guise of the older relationship between pariah entrepreneur and political patron/protector/parasite." As McVey points out, however, "in retrospect … it is clear that great shifts in business-political relationships and attitudes were in fact taking place. What Riggs saw as an economic slough of despond was in fact the beginning of Thailand's great leap forward. …"[46] In Latin America, too, business has in some cases emerged from its corporatist past. Indigenous political and economic elites can move from being "parasites" on development to serving as "promoters" of development.[47] This raises the real possibility of change for Africa.

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[45] Ibrahima Thioub, Momar-Coumba Diop, and Catherine Boone, "Economic Liberalization in Senegal: Shifting Politics of Indigenous Business Interests," *African Studies Review* 41, no. 2 (1998): 72, 73.
[46] Ruth McVey, in *Southeast Asian Capitalists*, ed. Ruth McVey (Ithaca, USA: Southeast Asia Program, Cornell University, 1992), 22.
[47] Ruth McVey, in *Southeast Asian Capitalists*, ed. Ruth McVey (Ithaca, USA: Southeast Asia Program, Cornell University, 1992), 22.

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Zyambo, Songowayo. Personal interview with author 2000. Lusaka, Zambia.

APPENDIX A: INTERVIEWEES

ZAMBIA

Appel, Rudi C, Counsellor, South African High Commission, Lusaka
Arnold, Peter J, Chief Executive, Zambia Association of Chambers of Commerce and Industry
Chabwera, Dr George, President of ZACCI, variety of businesses, formerly with Namboard
Chibula, Terence M, Advocate, National Assembly, Republic of Zambia
Chisenga, Nelson, Acting Chief Executive Officer, Zambia Association of Chambers of Commerce and Industry
Chitalu, Valentine, Head of the Southern African Region, Commonwealth Development Corporation, previously Zambian Privatisation Agency
Crawford, Derek, Trident Holdings
Durgan, Timothy K, Director for Marketing, Zambian Agribusiness Technical Assistance Centre
Fitrell, Troy Damian, Economic and Commercial Chief, US Embassy, Lusaka
Gatshell, Howard, Voyager Travel and Car Hire, previously Lonrho
Hantobolo, GHB, Deputy Chief Research Officer, National Assembly, Republic of Zambia
Hantuba, Muna, Chief Executive Officer, African Life Financial Services Zambia Ltd., previously with Meridien Bank and Anglo American Corporation
Healey, Richard, Chairman, Zambian Association of Manufacturers
Kakoma, Dr Ben, Senior lecturer, Dept. of History, University of Zambia, former member of cabinet incl. Dep. Minister of Finance, Minister of Youth and Sport, Minister of Health and Minister of Lands and Natural Resources (UNIP)
Kamwendo, Tom, Businessman and President of the Kitwe Chamber of Commerce
Kasonde, EG, Chairman, Century Holdings Ltd., former Minister of Finance (MMD), former Permanent Secretary, Ministry of Finance (UNIP)
Kashita, EA, Chairman, Walford Meadows Ltd, formerly permanent secretary and managing director of INDECO (UNIP) and member of cabinet (MMD)
Kataya, Aaron, Marketing Officer, South African High Commission, Lusaka
Kaunda, Chad H, Executive Chairman of, among others, Speciality Foods (Zambia) Ltd.
Lintini, Gideon B, Acting Director, Directorate of Macroeconomic Policy Analysis, Ministry of Finance and Economic Development, Republic of Zambia
Lishomwa, Lisho M, Chairman and Chief Executive Officer, Guardian Motors Ltd., formerly Permanent Secretary, Ministry of Finance (UNIP)
Littleford, David H, Consultant Mining and Railway Sectors; also Non Executive Director, ALS Capital Ltd., formerly ZCCM
Lukashi, Fabiano C, Director, Research and Projects Development, Zambia Investment Centre
Makasa, Caroline M, Market Research Officer, Export Board of Zambia
Mkandawire, Abel, former MP (UNIP) and chair of the Zambian Privatisation Agency
Mondeyeta, Ms Matondo, Executive Director, Economics Association of Zambia

Mphande, Bede, Chief Economist (Debt), Ministry of Finance and Economic Development, Republic of Zambia

Muchanga, Albert M, President, Economics Association of Zambia

Mulaisho, Dominic, businessman, former Governor of the Bank of Zambia (MMD)

Mwanawina, Dr. Inyambo, Department of Economics, University of Zambia

Mwanza, Dr Jacob Mumbi, Governor, Bank of Zambia, formerly Deputy Secretary to the Cabinet (Economic Affairs) and Senior Permanent Secretary, Ministry of Finance (UNIP), Head of Economic Analysis and Reports Unit, Ministry of Finance (MMD)

Mwila, Alfred M, Economist, Zambia National Farmers' Union

Ndulo, Dr. Manenga, Head, Dept. of Economics, University of Zambia

Ng'andu, David E, Manager, Ndola Lime Company Ltd., formerly ZCCM

Patel, Dipak, businessman, independent MP, formerly MMD MP and Minister of Commerce

Patel, Sury, Swarp Ltd.

Phiri, David AR, Chairman, Stanbic Bank Zambia Ltd., former Ambassador to Sweden and Governor of Bank of Zambia

Phiri, Dr. BJ, Senior Lecturer, Dept. of History, The University of Zambia

Phiri, Gideon M, Scheme Manager, Matching Grant Scheme, Price Waterhouse Coopers

Saasa, Prof. Oliver S, Director, Institute of Economic and Social Research, University of Zambia

Sardanis, Andrew, owner of, amongst others Chaminuka Corp., formerly head of INDECO

Scott, Dr. Guy, Mano Consultancy, former Minister of Agriculture (MMD)

Simemba, Moses M, Chief Trade Economist, Economic and Research Unit, Zambia Association of Chambers of Commerce and Industry

Soko, Mike, Assistant Resident Representative, UNDP, former Director of Economic and Technical Co-operation, National Commission of Development and Planning

Walker, Emily K, Managing Director, Zambili d'Afrique, founder of Zambian Export Growers' Association, formerly with Ministry of Commerce

Whittome, Sean, General Manager, Bwana Mkubwa Mine

Zukas, Simon, businessman, former Minister of Agriculture and Deputy Minister of State House (MMD), former director of INDECO, Export Board (UNIP)

Zyambo, Songowayo, Executive Director, Zambia National Farmers' Union

GHANA

Abeasi, Kwasi, Director General , Private Enterprise Foundation

Abbey, Dr. Joseph, Director, Center for Economic Policy Analysis, Accra; former member National Economic Review Committee (PNDC)

Adongo, Augustine, Chief Executive, Federation of Association of Ghanaian Exporters

Ahwoi, Atu, Cashpro; former Secretary to the PNDC in various portfolios including Trade, the President's Office, Revenue and Energy; member National Economic Review Committee (PNDC)

Amakye, Phillip Y, Executive Director, First Allied Savings and Loan; President, Ghana National Chambers of Commerce and Industry

Apenteng, Dr George A, Executive Director, Institute of Economic Affairs, Accra

Appea, SK, Senior Fellow, Institute of Economic Affairs; former Deputy Governor of the Bank of Ghana, Deputy Secretary of the PNDC and Special Advisor to the Ministry of Finance (NDC)

Appenteng, Kwabena, Private Sector Officer, USAID

Aryeetey, Prof. Ernest, Deputy Director, Institute of Statistical, Social and Economic Research, University of Ghana, Legon

Attah, Abdul-Rahman Harruna, Editor and Founder, Accra Mail

Bagbin, Hon. Alban, Minority Leader (NDC), Parliament

Banahene, Fosuaba A Mensah, Executive Secretary, Ghana Timber Millers' Association

Bentsi-Enchill, Kojo, Partner Bentsi-Enchill, Letsa and Mate (Legal Practitioners)

Boakye, Samuel B, Director of Finance and Administration, Association of Ghana Industries

Boaten, Gyamfi, Group Political Editor, New Times Corporation

Boateng-Agyeng, Kofi, Private/Finance Sector, World Bank, Accra

Bunka, Kathy, Second Secretary, Canadian High Commission, Accra

Codjoe, Monika Lincoln, Information Systems Manager, Association of Ghana Industries

Cooper, Victoria J, Partner, Price Waterhouse Coopers

Damali, Frank, Marketing Director, Guinness

Egan, Charles A, Partner, Price Waterhouse Coopers

Evans, Edwin Lloyd, Financial Correspondent, Graphic Corporation

Fordwor, Kwamena Bonsu, Corporate Director, KAS Products

Gyimah-Boadi, Prof. E, Executive Director, Ghana Center for Democratic Development

Hammond, Paul, Deputy Executive Head, Corporate Banking, Barclays

Kitcher, Tei JH, Deputy Chief Manager, Research Department, Bank of Ghana

Kosiba, Cletus J, Policy and Communications Director, Association of Ghana Industries

Mensah, Togbor, Executive Chairman, The Great Argon Holdings Ltd.

Noonoo, Ken, Journalist, *The Evening News*

Nuhu, Kofi Afresah I, Technical Officer, Ghana Trade and Investment Gateway Project Secretariat, Ministry of Trade and Industry

Obeng, P V, OB Associates, former PNDC Co-ordinating Secretary, Chairman of the Committee of Secretaries and Presidential Advisor on Economic Affairs

Oquaye, Prof. Mike, Head of Politics Department, University of Legon

Owusu, Maxwell, Managing Director, Hanmax Veneer and Plywood Company Ltd.

Pepera, Michael A, Deputy Chairman and Managing Director, Scanstyle Mim Ltd.

Pianim, Kwame, Chief Executive Officer, New World Investments Ltd.
Qarcoo, Samuel Nii, Commercial Officer, British High Commission, Accra
Siewecke, C Michael, Trade Commissioner, Canadian High Commission, Accra
Stark, Raymond, Managing Director, Accra Brewery Ltd.
Vanpercy, Paarock, Country Manager, CDC Capital Partners
Wayo, Kofi, Ghanaian born, US-based entrepreneur
Yamson, Ishmael, Chairman, Unilever Ghana; Past President, Ghana Employers Association

MAURITIUS

Gilbert Ahnee, Editor, *Le Mauricien*

Mahmood Cheero, Secretary-General, Mauritius Chamber of Commerce and Industry

P. Arnaud Dalais, Group Chief Executive, Ciel Group

Pierre Dinan, Partner, De Chazal Du Mee

Gilber Espitalier-Noel, Operations Director, Food and Allied Group of Companies, President of Mauritius Chamber of Commerce and Industry, former President of the Association of Mauritius Manufacturers

Soobaha Fowdar, Permanent Secretary, Ministry of Tourism

Daniel Giraud, Chief Executive Officer, Floreal Group and Ciel Textiles

Michel Hardy, Director, Mauritius Sugar Syndicate

C Gunness, Chief Operating Officer, State Bank of Mauritius Ltd

Kheswar Chandan Jankee, Senior Lecturer, Dept. of Economics and Statistics, Faculty of Social Studies and Humanities, University of Mauritius

Shariff Jathoonia, Economic/Commercial Specialist, Embassy of the United States of America

Dr Azad Jeetun, Director, Mauritius Employers' Federation

Professor Roland Lamusse, Emeritus Professor, Faculty of Social Studies and Humanities, University of Mauritius, former Advisor to the Prime Minister on Economic Matters (Labour Party - Ramgoolam)

Professor Shyam Nath, Professor of Economics, Dept of Economics and Statistics, Faculty of Social Studies and Humanities, University of Mauritius

Yusuf Sooklall, President of the Free Democratic Unions Federation

Axel Pellegrin, Senior Assistant Secretary, Mauritius Chamber of Agriculture

Sen Ramsamy, Director, Association des Hoteliers et Restaurateurs Ile Maurice

Arvin Rogbeer, Managing Partner, Rogbeer Associates

Kailash Ruhee, Partner, De Chazal Du Mee, former Minister of Economic Planning and Development, Civil Service Affairs and Employment, and Agriculture respectively (MSM)

Ramakrishna Sithanen, Consultant, former Minister of Finance (MSM)

Navini Sunassee, Managing Director, K Sunassee and Sons Ltd, former President of the Indian Traders' Association

Saffid Toorbuth. Marketing Officer, South African High Commission

Guy Wong So, Director, Ministry of Economic Development, Financial Services and Corporate Affairs

SOUTH AFRICA

Iraj Abedian, Principal Economist, Standard Bank
Francis Antonie, Senior Economist, Standard Bank
Roger Baxter, Chief Economist, Chamber of Mines of South Africa
Anne Bernstein, Director, Centre for development and Enterprise
Lesley Boyd, Chairman, Anglo Platinum
Elisabeth Bradley, WESCO
Jim Buys, Anglo American Corporation
Jenny Cargill, Director, Business Map
Sean Cleary, Director, Strategic Concepts
Jeremy Cronin, ANC Member of Parliament, South African Communist Party Executive
Prof. Robert H Davies, Member Of Parliament (ANC), Chairperson: Portfolio Committee on Trade and Industry
Andrew Donaldson, Deputy Director-General, Budget Office, National Treasury of South Africa
Theuns Eloff, Chief Executive, National Business Initiative
Prof. Willie P Esterhuyse, Graduate School of Business, University of Stellenbosch
Dr Johannes Fedderke, Economics Department, University of the Witwatersrand
Alan Fine, *Business Day* Cape Editor
Steve Friedman, Director, Centre for Policy Studies
Stephen Gelb, Development Bank of Southern Africa
Prof. Herman Gilliomee, Politics Department, University of Stellenbosch
Bobby M Godsell, CEO, Anglovaal
Rudolph Gouws, Chief Economist and Executive Director: Rand Merchant Bank
Prof. Douglas Irvine, Senior Associate, Centre for Development and Enterprise
Dr Tony Heher, Director, Office of Industry Liaison, Department of Research Development, University of Cape Town, formerly department of Trade and Industry
Gavin Keaton, Anglo American Corporation
Richard Ketley, Vice-President, Deutsche Bank
Derek Keys, Billiton (retired), former Minister of Finance (NP, ANC)
JP Lamprecht, Independent Analyst
JP Landman, Independt analyst
Prof. Tom Lodge, Politics Department, University of the Witwatersrand
Peter Mahlangu, National African federated Chambers of Commerce (NAFCOC)
Dr. Neva Makgetla, Fiscal, Monetary and Public Sector Policy Co-ordinator, COSATU
Stephan Malherbe, Independent Economist
Gert Marincowitz, Senior Economist, National Treasury of South Africa
Elias Masilela, Chief Director, National Treasury of South Africa
Michael McDonald, Head: Economic and Commercial Services, Steel and Engineering Industries Federation of South Africa (SEIFSA)
Borence Moabi, NAFCOC
Sandile Mzoneli, NAFCOC
Prof. Nicoli Nattrass, Economics Department, University of Cape Town

Moss Ngoasheng, Director, Safika Holdings, former Economic Advisor to Deputy President and then President Thabo Mbeki
Prof. Raymond Parsons, Economics Department, University of the Witwatersrand; former Director General of SACOB
Fred T Phaswana, CEO, BP South Africa
Mike Rosholt, Barlowworld
Cedric Savage, MD, Tongaat-Hulett Group Limited
Adam Schwartzman, Deputy Director, National Treasury
Prof. Nick Segal, Director and Professor, Graduate School of Business, University of Cape Town
Kehla Shubane, Simeka Investments
Prof. Charles Simkins, Economics Department, University of the Witwatersrand
Michael Spicer, Executive Director, Anglo American Corporation
Judith Streak, Institute for a Democratic Alternative for South Africa (IDASA) Budget Information Service
Prof. Sampie Terreblanch, Economics Department, University of Stellenbosch
Prof. Servaas van der Berg, Professor of Economics, University Of Stellenbosch
Neil van Heerden, Director, South Africa Foundation
Theo van Wyk, Executive Director of REMGRO, previously Rembrandt
Frederick van Zyl Slabbert, Director, Caxtons, former Leader of the Opposition