Discussion of 'Politics and Business: An Ambiguous Relationship'

Discussion by Hazel Gray

1 INTRODUCTION

This chapter is a timely contribution to debates on economic development in Tanzania, both for reasons that are specific to Tanzania and because of the rethinking about frameworks for understanding state–business relations that is going on in international policy circles. For a country with ambitious plans for industrialisation, understanding the dynamics of state–business relations over time is critical in order to shed light on key political economy constraints on effective policymaking and implementation. Research on the relationship between politics and business in Tanzania is relatively sparse. On one level this is unsurprising, given that the size and importance of formal businesses to the economy overall is low as a proportion of total output and as a proportion of total employment. Nevertheless, the role of big business in influencing the effectiveness of policies of economic development has implications that go beyond the relatively small number of firms that make up the formal business sector, permeating every aspect of economic activity. Research has also been hampered by the surprisingly common idea that state–business relations emerged out of a tabula rasa after market reforms from the mid-1980s. In fact, relations between some key private sector businesses and politicians have much deeper roots and extend across the period of socialist economic policy of the 1970s. The regional scale of many of Tanzania's largest businesses also often goes unexamined.

A further constraint is that institutional approaches for understanding these relations have been mainly developed in the context of industrialised countries that bear little resemblance to Tanzania. This chapter breaks through some of these constraints with an analysis that reaches beyond standard analysis of the institutional constraints on economic development. In particular, it does an excellent job of highlighting the historical roots of today's industrialists and in

https://doi.org/10.1017/9781009285803.009 Published online by Cambridge University Press

emphasising the links within parts of the ruling party to sections of the business community. The chapter is also very useful in providing unique insights into Tanzania's most recent phase in the evolution of state–business relations under President Magafuli, and makes concrete suggestions about the internal governance mechanisms of CCM that go beyond the standard policy recommendations of development partners. The comments that follow address some areas that I think merit further reflection.

II THEORETICAL FRAMEWORK

The theoretical starting point of this chapter is that politicians and business interact along a spectrum between a state that negotiates with business and produces a win–win of public benefits and a situation of state capture. Where the state is captured, interests of the state have converged with a set of narrow aims of big business to maintain their size and profitability. The framework assumes that politicians will systematically favour the interests of large firms because they provide specific material or political benefits – such as campaign finance, job creation, and lower prices for products. Thus, an equilibrium can emerge between political and economic actors that will lead to poorer economic performance over time. This is in contrast to the counterfactual of an uncaptured state that can incentivise and discipline big business in the best interests of sustainable economic development. State capture is manifested in the way that institutions operate and in the type and effectiveness of economic policies adopted by the state. The characteristics of state–business relations can therefore mainly be read by examining the evolution of institutions and policies.

The idea of the captured state has become very influential in explaining the political economies of African countries. It became particularly popular in South Africa, where the debates over Jacob Zuma and the influence of the Gupta family were presented as an archetypal case of state capture. Lofchie (2014) also adopts a state capture lens to understanding Tanzania's political economy. However, the concept has some limitations when applied as a framework for understanding state–business relations in Tanzania. This is because state capture is a rather blunt tool for understanding certain aspects of Tanzania's political economy, in particular the fissures within the ruling party that shaped the outcome of a number of areas of policymaking in the 2000s and 2010s. In Tanzania, the ruling party and bureaucracy was significantly fragmented both horizontally, within the elite, and vertically, with significant differences in the nature of state–business relations at different levels within the ruling party and across the country. As set out in this chapter and elsewhere (Gray, 2015, 2018), in the 2000s some groups within the ruling party had very close relations with parts of the business sector, but the other issue that needs to be emphasised is that others within the ruling party strongly opposed these links. Thus, the successes and failures of various economic policies were

https://doi.org/10.1017/9781009285803.009 Published online by Cambridge University Press

a result of both the close relations between certain factions within the ruling party and the opposition from other factions for more open support towards these same groups within the private sector. For example, while one factor in the lack of impact of the EPZ programme in the early years of its operation was the problems in effectively enforcing export quotas, the scheme was also hampered by a lack of sufficient investment in the scheme in the first place. This led to delays in vital infrastructure and insufficient learning rents to allow domestic firms that were quite far from achieving international competitiveness from acquiring the technologies and skills that could have allowed them to break into global export markets. An important reason for this is the limited political saliency of providing transparent industrial policy rents to a group of mainly Tanzanian-Asian industrialists. Thus, a nuanced approach to the idea of capture is needed; one that can explain why the state in Tanzania has exhibited hostility and suspicion towards the private sector, while at the same time explaining clientelist relations between factions of the ruling party and segments of the private sector.

III ACCUMULATION OUTSIDE MARKET INSTITUTIONS

Economic institutions in Tanzania have gone through a profound transformation since the 1980s with the process of economic liberalisation. In thinking about the nature of state–business relations in Tanzania, it is also important to recognise the fact that interactions between the state and the private sector were occurring within a context of enormous institutional transformation. Key institutions of a market economy, including an array of institutions setting rules and standards for market-based interaction and discipline, were hardly operational for much of the period under scrutiny – accounting frameworks, financial sector regulation, competition regulation, commercial courts, and so on were in a construction phase for much of the last thirty years. This meant that significant areas of economic activity and accumulation were occurring with minimal effective regulation. Within this institutional hiatus, personalised and clientelistic relations may actually have played an important role in facilitating the path of firm growth and diversification, rather than causing a blockage to economic development. This is not to say that clientelist state–business relations are sufficient or desirable for economic development, but that, in Tanzania's recent economic history, economic success and failure has occurred within a context of personalised relationships between business and the state. Much of the accumulation that went on in Tanzania in the era of high growth occurred outside formal market processes. These forms of accumulation exacerbated social differentiation, and also generated new economic actors as well as enriching existing powerful elites.

This observation also suggests that we need to be cautious about explaining changes in state–business relations through a chronology of policy changes.

There were clearly very important policy shifts, as set out in this chapter, but these did not immediately filter through to changes in state–business relations. This is because the distribution of power between different social groups and networks tends to be more enduring than institutions and policy frameworks. In many of the approaches to state–business relations, there is an explicit or implicit assumption that groups that hold power will be able to influence the structure of formal institutions and policy frameworks over time (in the work of Acemoglu and Robinson (2012), and in Douglass North's last works (2009, 2012)). It is assumed that where the distribution of benefits provided by institutions and policies is not in line with the distribution of power, powerful groups will push for institutional changes that benefit them. However, where such groups hold limited popular legitimacy, their influence over the path of institutional development and policy approaches can be quite marginal. This disjuncture between the pattern of benefits produced by institutions and the actual distribution of power can be sustained over long periods of time when informal networks and redistributions that occur outside institutional rules meet the demands of powerful groups.

This observation is particularly important for understanding state–business relations in Tanzania. Significant sections of the private sector hold limited public legitimacy as a result of the influence of socialist ideology, but also because of the racial structuring of the economy that was established during the colonial period. This means that it has often been difficult for the state to create effective and open policies to support the domestic private sector. At the same time, many of the industrialists who held significant informal influence over the implementation of economic and trade policy have held power informally across the policy eras, and despite the approaches to constraining the growth of the private sector in the 1960s and 1970s. This is important for understanding the challenges that face President Magafuli in supporting the development of a private sector that has limited public legitimacy, and also helps to explain the growing influence of state and party-owned enterprises working within the private sector.

IV STATE–BUSINESS RELATIONS AT DIFFERENT SCALES

One of the key points stressed in this chapter is the importance of the Tanzanian-Asian business class in the private sector in Tanzania. The chapter does a very good job of outlining the historical origins of this group of Tanzanian-Asian large businesses that have played a key role in industry and trade since independence. A historical perspective is important in explaining the tenacity of their businesses in the face of significant policy shifts. This chapter emphasises the clientelistic relations between certain Tanzanian-Asian industrialists and the ruling party in the 2000s that were identified in a number of grand corruption cases that occurred in the era. These close clientelist relations are described as being a cause of policy failure. However, as explained in the previous section, despite the wealth and economic power of this group, it is a group that has held quite limited political legitimacy, and this lack of political legitimacy has also shaped the way in which economic policies have been implemented over time. This is the reason why, despite the economic importance of this group of firms, there has been little policy discussion on how to include this group positively into Tanzania's vision of economic development. Large firms can play an important role in sustainable economic development, particularly in terms of their role in enhancing domestic technological capabilities through research and development, and can play a key role in expanding employment. Economies where large firms are owned by minority groups face a particular political economy challenge. However, there are examples of countries that have successfully included large businesses into their development vision. For example, in Malaysia the ruling party was able to negotiate a relatively successful distribution of rents and incomes between the Chinese-Malay business sector and the state. The challenge is to create policies and targeted rents that overcome market failure and address collective action problems, while at the same time disciplining rent recipients in order to ensure effective use of policy rents. Solutions to this challenge may not come from sweeping institutional reforms but from a more targeted agenda of support and monitoring of firms. In Tanzania, targeted industrial policy and competitions policy could help tie large firms into a more productive path of economic development, but this would need to be accompanied by a politically viable strategy underpinned by building a more inclusive constituency in support of industrialisation through linking social, industrial, and economic policy more closely.

The other approach would be to invest much more heavily in SMEs and engage in a more radical transformation of the ownership structure of the industrial sector. It should be noted, however, that this has been on the agenda of the ruling party for many years (including in the 1996 industrial policy) with minimal success (Gray, 2018). This is partly because the scale of investment and support that would be needed to really develop the SME sector in Tanzania has not been recognised or addressed in existing policy mechanisms. A starting point would be to develop industrial policies that were more explicitly differentiated in terms of the size of target firms, allowing for strategies that addressed the different needs and power of large, medium, and small firms. In contrast, the recent response to these political challenges of supporting domestic industrialists has been a return to the development of state- and party-owned firms (Jacob and Pedersen, 2018). This has become an important part of President Magafuli's strategy to overcome the previous links between factions of the ruling party and large firms in the private sector that have been important in supporting the ruling party. If these state and party firms are successful, this could shift the nature of state–business relations in important ways over the next decade.

V GRAND CORRUPTION

This chapter outlines a number of grand corruption cases that have become pivotal to understanding the 'black box' of state–business relations in the 2000s. These cases provide the evidence of close clientelist relations between the ruling party and powerful private sector actors (Aminzade, 2014; Gray, 2015). While these cases clearly led to a number of very poor deals for the country, there are a set of complex economic consequences of such deals that need further analysis. For example, grand corruption often relates to strategies of forging political stability between elites. Focusing on the role of particular individuals rather than the structural drivers of such types of corruption can be misleading. I explain some of these wider implications in Gray (2015). At the end of that article, I argued that it would be possible for CCM to clamp down on the networks that underpinned these particular corruption deals in the short term, where there are shifts in the distribution of power, but that successful anti-corruption agendas can be attached to many different kinds of political and economic strategies. This appears to be the case with President Magafuli, whose anti-corruption agenda has been attached to a political and economic agenda that is very different from the 'good governance' and liberal economic approach advocated by development partners. He has been initially successful in clamping down on particular networks and in centralising power within the ruling party. Short-term reduction in corruption is much easier to achieve than long-term shifts as these also depend on changing the distribution of political and economic power over time. The success of his strategy therefore depends on how successful the ruling party is at building up new economic power bases or in re-forging relationships with powerful economic actors in ways that allow both for support to domestic industries and for effective monitoring and disciplining of firms receiving industrial policy rents.

VI THE WAY FORWARD

Tanzania has returned to a more active approach to industrial and economic strategy, but to be effective this needs to go hand in hand with an analysis of the changing relationships between the state and the private sector. These relations are dynamic, but they also have deep roots that do not necessarily change with the announcement of new policy agendas. Research on state–business relations in Tanzania has focused on the long-standing and complex relations between Tanzanian-Asian businesses and the ruling party. A neglected aspect of these relationships is the regional scale at which many of these firms operate and hold power. At the same time, the influence and role of state and ruling party firms has not yet received sufficient attention and should be a major area of future research. Such analysis should be grounded in a detailed understanding of the structure of Tanzania's economy and in histories of particular firms and sectors.

Understanding state–business relations requires an analytical lens that goes beyond the codified rules to examine the deeper relations and distributions of power that shape how institutions actually work. This chapter highlights the informal and clientelist relations that were key in the 2000s and 2010s, and ends with some suggestions about the need for internal changes within the ruling party. The current strategy on clamping down on clientelistic state–business relations focuses on changing the internal balance of power within the ruling party by shifting the composition of the Central Committee and building up loyalty to the president through selection processes. It is clear that this strategy has been quite successful in shifting the internal distribution of power within the ruling party from a fragmented equilibrium towards a more centralised and hierarchical control under the president. A number of institutional theories discussed in this chapter suggest that centralisation is necessary to generate a long-term approach to developing the economy. However, I would argue that the success of such a strategy cannot be taken for granted. It requires effective internal feedback mechanisms between different parts of the state about the successes and failures of different policy choices. It also raises challenging questions about the fact that centralisation of power can consolidate behind oppressive political agendas. Further, it is not the case that economic success will necessarily generate more inclusive politics in the foreseeable future. Thus, both the long-term economic and political outcomes of a strategy of centralisation remain uncertain.