

# Miracles and Developmental States in Proper Perspective: Corruption and Economic Growth in Africa, Asia, and Latin America

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## ABSTRACT

Does corruption inhibit economic growth? In this essay, we disaggregate the question, asking instead under what conditions sustained growth can exist despite significant corruption.<sup>1</sup> We argue that countries considered by scholars and the international financial community to be regional miracles have often in fact exhibited significant and sustained corruption and sustained growth. What they share in common are a configuration of political and economic factors that allowed both for the politicization of markets and for effective economic performance. Our comparative analysis of South Korea (hereafter simply Korea), Botswana, Chile, and Tunisia—four favorites of the international financial community—reveals a strong political foundation for export-led growth, one explicitly designed by rulers to reduce political contestation and to cement their hold on office. Where we tend to think of export sectors as almost inherently efficient and politically autonomous when they are successful, we argue that under certain conditions export sectors can most fruitfully be thought of as corruption franchises.

## Introduction

Does corruption inhibit economic growth? In this essay, we disaggregate the question, asking instead under what conditions sustained growth can exist despite significant corruption<sup>1</sup>. We argue that countries considered by scholars and the international financial community to be regional miracles have often in fact exhibited significant and sustained corruption *and* sustained growth. What they share in common are a configuration of political and economic factors that

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<sup>1</sup> We do not suggest that the conditions we observe in Botswana, Chile, Korea and Tunisia are the only ones that can coexist with sustained growth. Others—and the continued input of human capital and foreign direct investment as has fueled growth in China and Vietnam despite high levels of official corruption—are no less important, but have been studied more systematically.

allowed both for the politicization of markets and for effective economic performance. Our comparative analysis of South Korea (hereafter simply Korea), Botswana, Chile, and Tunisia—four favorites of the international financial community—reveals a strong political foundation for export-led growth, one explicitly designed by rulers to reduce political contestation and to cement their hold on office. Where we tend to think of export sectors as almost inherently efficient and politically autonomous when they are successful, we argue that under certain conditions export sectors can most fruitfully be thought of as corruption franchises.

Where most contemporary accounts look to export-oriented market policies in hand with good governance to reduce corruption, we develop a theory of *market access*: the process by which rulers structure the rights to lucrative export markets to accrue the benefits of both export market revenues and foreign investment and a source of *private goods* in the economy to be doled out to political supporters. Drawing on the experiences of Korea (1960-1997) and briefer case materials from Botswana (1966-present), Chile (1973-1990), and Tunisia (1969-present), we show that export-oriented economic policies were politically sustainable because of a combination of highly politicized entry barriers to, and politically guaranteed access to, export markets. These conditions, which were present in all four countries, created an atmosphere in which corruption could coexist with rapid and sustained growth and in each of these countries had the added benefit of cementing regime coalitions. In short, we delve into a commonly asserted mechanism linking governance to economic performance—market- and export-oriented policies—and illustrate how access to export markets is a potentially valuable resource for authoritarian or quasi-authoritarian political elites.<sup>2</sup>

### *Corruption and Growth: Causal Links*

Corruption's effects on economic performance, as Rose-Ackerman (2005) and others have pointed out, hinges on the comparative inefficiency introduced when the corrupt act replaces a market mechanism—the setting of prices, etc. Since in all four countries under consideration

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<sup>2</sup> The academic jury is still out on whether to classify Botswana as a democracy or autocracy. On the one hand, elections since independence have generally been considered free and fair. On the other hand, the Botswana Democratic Party has never lost and we subsequently lack any way to know whether the party would willingly hand over power if it were to lose. See Alvarez et al 1996 for a discussion of this.

export-oriented policy created export sectors that became quite competitive in global markets, we can surmise at least that inefficiency never managed to stifle competitiveness completely. The causal process operates something like the following: a private actor pays a bribe to a government official for access to a place in a market that otherwise would be competitively allocated. The private actor becomes part of a privileged group of market participants due to paying the bribe, and if he or she is less than qualified to occupy that position.

As a result, corruption can act as a redistributive, as a monopoly- or oligopoly-generating mechanism, or simply as one that introduces unqualified actors into falsely profitable market positions. “Unqualified” usually assumes that the economic actor in question would be insufficiently competitive to win such a place in a market unfettered by corruption, or that the market as a whole would be less competitive against rivals (for example, Tunisia’s corrupt economy by this definition would be less competitive versus another country vying for its place as a trade partner of the European Union). Viewing markets as processes in this way avails us of a number of different points along the way at which to ask whether there are political factors that would or could sustain the seeming competitiveness of markets even if substantial, inefficiency-generating corruption existed.

However, one assumption that runs through much of the economic and political economy literature on corruption is that such acts are ones that both bribers and officials would rather keep under wraps. In effect, much of this literature assumes baseline accountability—that both actors would be punished if their higher-ups or the “people” found out. What if, however, a regime’s entire system of regulating markets—especially lucrative export sectors—was systematically designed in such a way as to reward its supporters by placing them into favored positions in those sectors? Knowledge of that would certainly reduce the fear factor for both public and private actors, but would it produce economic inefficiency severe enough to stunt growth? We suggest in the next section that the answer depends primarily on a) where in the bureaucracy corruption is located and b) whether a politically guaranteed place in the market for exports exists.

## **The Argument: Export Sectors as Centralized Corruption Franchises**

We define corruption here much as the World Bank does, in a fairly simple way —the misuse of public goods or positions for private gain. Where the governance orthodoxy and neoliberal economic thinking largely assume access to markets and focus on virtuous versus vicious government intervention in them, we take a step back and focus on the political processes through which actors gain entry to sectors of the economy, especially lucrative export sectors. In Botswana, Chile, Korea and Tunisia, they did so through carefully constructed political processes characterized by tight state control over who could, and who could not, gain the resources necessary to enter the export sector, including the rights to collaborate with foreign investors. We call these processes centralized corruption franchises.<sup>3</sup>

Centralized corruption franchises consist of export sectors<sup>4</sup> in which rulers use various mechanisms to limit access to export markets to private actors who pledge their loyalty to the regime and then support it materially, often through outright bribery (as in the case of Korea). In stark contrast with a classic view of corruption, in which civil servants operate largely as private actors selling their positions in the bureaucracy, centralized franchise corruption connotes a highly orchestrated set of entry barriers essentially written into markets by rulers. Here bribes go right to the top. A variant on this franchise structure is one in which state actors wear two hats and are also private actors (as in the case of cattle farmer/ruling party elites in Botswana). In all four cases, the economic interests of private actors came to rest on continued exclusive access to government policy; the political interests of public actors came to rest on continued loyalty and on the continued profitability of the export sectors. As we detail in the four case studies that follow, ebbs and flows in each of these two areas produced political and economic problems that in all four countries eventually catalyzed serious economic crises.

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<sup>3</sup> We employ the franchise concept developed by McLeod (2005) to conceptualize economic policy in New Order Indonesia. Johnston (2006) actually groups both Botswana and Korea as “elite corruption cartels,” which is somewhat similar to our conceptualization here but does not get to the centralized nature of the processes as much as we think is necessary.

<sup>4</sup> During the import substitution phases of many late developers’ economic trajectories, access to state-granted monopolies served a similar purpose. It is not our purpose to dispute that there are such franchise opportunities in other sectors, simply to state that what scholars and international financial organizations tend to see through the lens of good governance may in fact be another form of regime-friendly corruption.

The four cases we analyze in depth here range widely across regions, regime types (including within authoritarianism), ideology, and many other factors. They share in common, however, a strikingly similar political structure to export-orientation and to managing export-led growth to as to cement their holds on power. All four have been lauded by the international financial community at various moments during their respective economic development for sound policy and indeed for the political insulation of their economic policy apparatuses. We suggest that in none of these countries was economic policy as insulated as past characterizations indicated. Indeed, even extremely competitive export sectors can house substantial corruption, as we illustrate in the four sections that follow.

### *Korea*

Economic success is considered a virtue in itself. In traditional political thinking, this virtue obviates the need to look behind the success at the underlying economic policies. Korea is a stunning example of a country that has garnered praise for its economic growth. This growth began in earnest at the beginning of the Park Chung Hee regime in 1961 and with the exception of the Asian financial crisis has continued since. Korean business and government were adept at presenting a unified, altruistic, and capitalist front. But systematic corruption belied this façade. This sophisticated system of patron-client ties between the government (meaning the regime itself, but also the financial arms of the bureaucracy) and business, was the way by which Korea developed sustainable academic development.

Park Chung Hee did not introduce patron-client relations in Korea. For several centuries prior to the Park regime, the *yangban* (a system of exchange and mutual benefit) was a traditional relationship between aristocrats (as patrons) and peasants (as clients). Patron-client relationships between government and business interests formed a system that was beneficial to the economy because it led to a more effective disbursement and use of capital resources. Bribery and corruption were not explicitly applauded or encouraged in Korea. But the system of gift-giving was and is a pervasive element in Korean culture and has heavily influenced trade. “Corrupt” exchanges were tacit. Korean businessmen inherently preferred cooperation and gift-giving, which was governed by personalities and tradition rather than a rigid adherence to law (Klitgaard 1988, 139).

## Consolidation and Korea Inc.

After a military coup in 1961 which overthrew the regime of Syngman Rhee, General Park was installed as President. Park's power was precarious from the beginning. He was not charismatic, and he faced the problem of establishing validity as a regime, not to mention recognition as a country. Park "knew" that economic growth would legitimize his power by raising living standards as well as ingratiate him to international donors, lenders, and potential business interests (Clifford 1994, 40). His first task was a complete overhaul of the economic system. Right away, Park launched investigations of *chaebol* leaders from Rhee's regime who were found guilty of rentseeking and other charges that included among many others, bribery and tax evasion (Kim 1975, 115). Supported by the U.S. Army, Park's regime seized assets from individuals who had grown wealthy under Rhee (Clifford 1994, 39). These "elicit profiteers" included most prominent businessmen (Woo 1991, 83 and Clifford 1994, 40). Park's message was that anyone who profited from the Rhee's economic policies had done so unjustly and "corruptly." This campaign served a number of ends. First, it freed up capital for the government to use in its economic reform. Second, it sent the message to international lenders that the corrupt policies of the previous regime would not be tolerated. Third, Park was able to consolidate his authority by stripping prominent businessmen of their money and thus, personal bargaining power. In the new political economy, the personal wealth of a businessman--if he had been enriched by a former leader--was irrelevant at best and threatening at worst.

Park's economic policies were implemented very quickly after the coup. Soon after stripping top business elites of large chunks of their wealth, Park roped them back in and began to negotiate. He offered the following: In exchange for exemption from criminal prosecution, businesses would have to pay fines levied on them by establishing industrial firms (*chaebol*) and then donate shares to the government (Woo 1991, 84). This was the original deal that formed "Korea Inc." and codified, so to speak, the economic relationship between Park's government and businesses. The relationship, however, was forged strictly out of a shared interest in the economy and would prove less than amicable in the following decades. In 1961, after agreeing to cooperate in Park's plan for national economic development, business leaders joined in

solidarity and formed the Federation of Korean Industries (FKI) as a platform from which to address the government. (Clifford 1994, 40).

The next step was to gain control of the country's money flow. Within a year of taking power, Park nationalized the top 5 Korean banks. The Korean Development Bank was enlarged to enable borrowing from abroad and guarantee foreign loans for domestic enterprise and all financial intermediaries were placed under the control of the Ministry of Finance (Woo 1991, 84). This take-over gave the government complete control over the financial system and by extension, industrial development (Clifford 1994, 40). Park put himself at the top of the chain of command from which he issued economic decrees. These directives would come directly from Park but were sent "officially" through the Economic Secretariat at the Presidential Palace. The decisions then went to the Ministry of Finance and the Economic Planning Board (if these two entities weren't already involved), and then to either the banks or the *chaebol* (Yoo, 42). If the decree were about loans (which businesses were to receive them, for example) the decisions would go directly to the banks. If the decree were about production or export quotas, the decree would go straight to the businessmen. The Ministry of Finance directed monetary policy, the Economic Planning Board oversaw bank budgets and the Ministry of Commerce influenced the flow of export and other policy loans (Woo 1991, 159). However, many of the directives came straight from Park in a face-to-face meeting with his clients (Yoo, 42).

The government also established specialized banks to support strategic parts of the economy, including the Small and Medium Industry Bank, the Citizens National Bank and the National Agricultural Cooperatives Federation (Whitehill 1987, 20). Other banks were progressively added to the mix as needed. The government approved all bank loans and controlled the pricing in many cases (Clifford 1994, 47). Another crucial problem was finding capital to fund a developing economy. Capital was actually extremely scarce in developing Korea (Kang 2002, 114). First and foremost, Korea received large amounts of aid from the United States, beginning during the Rhee regime. Park despised dependence on U.S. aid. He found the situation utterly humiliating and wanted to free Korea from its subservient status (Clifford 1994, 40). In 1960, US aid provided a quarter of the Korean GNP in military and economic assistance (Woo 1991, 75). In 1962, Japan gave Korea a \$40 million short-term credit loan, which was followed by other

substantial loans (Woo 1991, 86).<sup>5</sup> A large portion of the equity capital that commercial banks had at the beginning of the Park regime was transferred directly to the government (Whitehill 1987, 20).

The regime consolidated its goals for the economy in the First Five Year Plan. This plan was not an initiative of Park's government, but was foisted on the regime by the U.S. economic planners in the Army. The Plan focused on import substitution and creation of infrastructure (Whitehill 1987, 84). The projected economic goal was 7.1 percent annual GNP growth, which seemed very unrealistic following 1953-1960 during which the annual GNP growth was 4.5 percent (Woo 1991, 79). (7.1 percent actually proved to be an underestimate--The GNP growth for Fiscal Year 1964 was over 10 percent (Woo 1991, 99).) The Korean government used the equity gained from loans, overseas aid, leftover bank equity and confiscated wealth to fund the Five Year Plan and other economic projects decided by Park (see Whitehill 1987, 20 and Clifford 1994, 39). Other economic reform involved the unification of exchange rates, devaluation of the currency in 1964, and selective import liberalization (Woo 1991, 102). A special "gift" that Park gave to industry was a quiescent labor force (Johnston 1999, 103). He mandated high rates of savings and investment as well as long working hours (Clifford 1994, 46).

### **Export Launch (1960s)**

Even though the First Five Year Plan was focused mainly on domestic reform, Park and his *chaebol* had their sights set on export development. Korea's launch into the export market began in earnest in 1961-2 (Klitgaard 1988, 144). But the push for exports was not Park's own initiative: he acted on the recommendations of business advisors, the U.S. Army, and the *chaebol* themselves. Since it served him well politically, Park was "good" at listening to suggestions in the 1960s (Clifford 1994, 40). The economic objective of the regime became to create viable companies that could compete in global export markets.

Reforms that prioritized exports began modestly at first by selecting certain industries to lead the way and giving them preferential treatment. Park also gave preferential treatment to those business who were willing to shift to the export market. Electronics and textiles were two

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<sup>5</sup> By 1963, Korea's total debt to Japan was \$130 million. CIA investigations conducted after 1965 revealed that Japanese firms provided two-thirds of the Park regime's 1961-1965 budget (Woo 1991, 86).



industries that the government set upon to become strategic exporters (Woo 1991, 144).<sup>6</sup> In 1961, the government granted tariff exemptions on raw material imports intended for the production of exports (Whitehill 1987, 31). One of Park's directives was to force businessmen to invest in productive ventures to grow the economy (Clifford 1994, 39). These ventures were not necessarily relevant to the type of industry the respective businessman were familiar with. They were simply ventures in which the government wanted Korea to predominate.

Park launched a national campaign to promote exports. Supporting businesses (especially exporters) from the worker level up became a matter of patriotic duty. From 1962-65, export promotion schemes were regularized and expanded to include more preferential loans and favorable taxes (Clifford 1994, 55). In the mid-1960s, those companies that were not interested in exporting were disfavored, including the once prominent Yonhap steel, which Park nearly destroyed (Clifford 1994, 55). Park remained very personally involved in Korea's launch into the export market, which included personally chairing monthly export meetings (Clifford 1994, 48). The most significant decision in Korean economic planning was the establishment in the 1960s of an export incentive and financing system by the use of exemptions and preferential treatment in a variety of ways (Whitehill 1987, 31). Preferential treatment was also valuable for *controlling* businesses: this mode of structuring access to export markets is exemplary of the centralized corruption franchise we illustrate further with the cases of Botswana, Chile and Tunisia below.

Preferential *regulatory* treatment was one method of incentive. Park regularly launched investigations (for example on tax evasion, licensing, or ironically, anticorruption) (Clifford 1994, 41). His preferred businesses, especially exporters, could easily avoid punishment for any transgressions found during these investigations. Another regulatory control mechanism involved preferential granting of trade licenses, which only the government could do. For example, all *chaebol* that wanted to bid on U.S. military contracts had to register with the Korean Ministry of Commerce and Industry (Klitgaard 1988, 144). Certain activity was considered illegal unless it was explicitly and specifically licensed (Clifford 1994, 64). Subsequently, the government used license granting as a means to control and limit businesses

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<sup>6</sup> But electronics as exports would not become terribly viable until the 1970s.

that were not favored. This process was especially powerful because the government derived its leverage in part by licensing (and thereby appeasing) its business cronies, and could then use that power to enforce the regulation of trade licenses.

*Monetary* incentives were another method of preferential treatment. They included (but were by no means limited to) preferential domestic commodity taxing, business activity taxing, income taxing, increased wastage allowances and credit subsidies (Woo 1991, 102). Monetary incentives were especially important because the government had limited domestic capital and taxation was an important source of credit (Whitehill 1987, 31). Custom duty rebates were also given on imported items used for exports (Clifford 1994, 57). Because Korea (like Botswana, as we will see) lacked a lot of liquid assets that could be used as start-up capital, monetary incentives had to be very strategically and tactically used.

A second type of monetary incentive was the granting of preferential loans. Preferential interest rates, which were significantly lower than commercial rates, overwhelmingly went to exporters (Whitehill 1987, 31). Government-sponsored projects and low-interest Industrial Bank of Korea loans were given to business in exchange for favors and political support (Woo 1991, 108). The financial arm of the government prioritized industries for bank loans that were inclined to export. For example, a producer of textiles designed for the export market would certainly obtain a loan from the government over a producer of foodstuffs for domestic consumption (Clifford 1994, 11 41). In fact, a bank loan was almost impossible for a food producer to obtain, whereas exporters received cheaper loans, access to other government funding, and preferential treatment from local officials (Clifford 1994, 41). Some *chaebol* learned how to apply for credit in ways that were tailored to the regime's political and economic goals (Kang 2002, 107). The government had three ways of generating policy loans for desirable industries. The first way was using loans taken out of the state budget. The second way involved using funds from the National Investment Fund. The third way directed loans through Bank of Korea discounted resources garnered through financial means, specialized bank funds, or ad hoc policy loans (Woo 1991, 163). The central government guaranteed security to the bank if companies defaulted on their loans or a borrower went bankrupt (Clifford 1994, 61). Companies borrowed on the strength of personal relationships.

Very little capital was actually created by exchanges *between* the government and businesses. The *chaebol* model has been historically indebted and rents accrued only from the interest differential between state-sponsored loans and the real interest rate (Kang 2002, 114). Banks lent at preferentially low interest rates to favored enterprises. The extra profit that banks made from this was skimmed off the top and given to the government (Kim 1975, 266). This means that banks were often the losers in the relationship. Banks simply wrote checks for the “game” being played between the government and business (Clifford 1994, 125). But the government “vouched” for businesses and guaranteed the loans. In fact, the government had to bail out a number of failing enterprises throughout Korea’s economic transition into the export market.

Preferential treatment, whether monetary or regulatory, was granted to business on the basis of export performance as well as personal connections. Three of the development banks that became nationalized in 1961 required proof that the bidder was qualified to perform the contract (Klitgaard 1988, 144). Firms also had to meet eligibility requirements in order to be able to bid. (Klitgaard 1988, 144). Firms obviously needed to be able to fulfill the contract it could be granted, but ultimately, the decision was based on giving contracts to the favored firms. The first step was the entrance into the bidding pool, which was decided by a financial arm of the government. The final step was deciding, from that pool, who would “win” the contract. Personal ties were not necessarily sufficient. A business also need to show it was capable and indeed adept in the market. Each year, the state gave *chaebol* very strict performance criteria in terms of capital, export volume. If these were not met, export licenses were immediately revoked (Woo 1991, 165). Larger firms did well at the expense of small firms. Exporters not only had extra resources to expand their enterprises, but could buck regulations.

In 1966, Vietnam became Korea’s first international profit center when revenues from the Vietnam made up 40% of Korea’s foreign exchange earnings. Hyundai won massive contracts for work in Vietnam (Clifford 1994, 37). On November 30th 1964, the value of Korea’s annual exports reached \$100 million.<sup>7</sup> Park celebrated Export Day by awarding gold, silver, and bronze prizes to businesses that had performed the best (Clifford 1994, 56). The First Five Year Plan

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<sup>7</sup> Today, they are worth more than \$800 million (Clifford 1994, 56).

was completed ahead of schedule in 1966 with incredible success (Kim 1975, 268). In 1967 the Second Five Year Plan for the economy explicitly stressed export industries as a major goal of the government (Whitehill 1987, 84). The value of exports had increased from \$54.8 million in 1962 to \$320.2 million in 1967 (Kim 1975, 268). The Democratic Republican Party, of which Park was the candidate, widely publicized this success. In 1967, Park was reelected president (Kim 1975, 269). The success of the government-led economic development helped to legitimize Korea's existence as a country globally and solidify Park's rule domestically.

### **Patrons and Clients**

Korea was the most politically repressive of all East Asia's fastest growing economies (Clifford 1994, 77), but some scholars suggest that Korean industry saw the government as weak, ineffective, and incapable of implementing its own policy (Kang 2002, 110). The relationship between the government and *chaebol* as collusive partners was solidified by the mid-1960s. The union between the government and business blurred the lines between them which made it difficult to tell where one ends and the other begins (Clifford 1994, 41). Park had incorporated the economy *into* the state. The bureaucracy became an instrument of the regime (Kang 2002, 121). Bureaucrats attempted to advance themselves in their own right. The best way to do this as an economic bureaucrat was to be successful in your investments. In other words, bureaucrats were also rewarded for targeting and investing lucrative ventures. In addition, bureaucrats had an incentive to help larger *chaebol* grow and succeed and ingratiate themselves with them because larger *chaebol* were more able and willing to employ retired bureaucrats (Kang 2002, 108). Bankers were bureaucrats and not entrepreneurs.

Corruption in South Korea involved a very simple process: political elites granted favors to businessmen in exchange for bribes and political support, especially vote buying (Kang 2002, 97). The authoritarian system punished those who did not cooperate, and rewarded those who were in the first instance close to the regime, and in the second instance, successful (Clifford 1994, 46). The government's system of taking bribes from *chaebol* became embedded in the political economic system. Scholars differ on whether the government had the upper hand over businesses, or vice versa. David Kang describes this setup as a "mutual hostage" situation which was not cooperative, but a collusive one in which both sides were vulnerable to each other (Kang 2002, 116).

Economic directives came officially from the government, but if the government were to try to implement policies that were contrary to the interests of industry, they would fail at *least* inasmuch as the business community would not comply (Kang 2002, 110-111). The government and business had the shared goal of growing the economy, if at times they disagreed on the policy path to take to accomplish this goal. In the end, businesses expected to receive preferential lending/regulation treatment in exchange for their donations and political support, but the regime also expected its pet businesses to perform (Kang 2002, 106-107). In addition, “[I]f businessmen did not provide politicians with sufficient funds when asked, their loans got called by the Bank of Korea, or they suffered a tax audit, or their subsidy application was denied” (Kang 2002, 102). Despite the success of this system of collusion, Korea was about to suffer an economic slump.

In 1969, Korea’s debt at the end of 1969 stood at \$1.9 billion (Kim 1975, 277). Korea’s borrowing power was weak internationally and it had to rely more and more on its internal sources to fund itself (Kim 1975, 278). The government began to recognize the need to turn to non-bank financial institutions towards the end of the 1960s because the bank system could no longer meet the booming need for investment funds (Whitehill 1987, 21). The debt stood at \$3.6 billion by 1971 when Park declared a national state of emergency (Kim, 285-6). The government faced a friendly threat. Businesses labored with the knowledge that the government could not squander the money it took from them without the entire economy suffering (Kang 20002, 111). But the government had shown that perhaps its economic policies implemented in the early 1960s would not support the economy for another decade. By 1970, Park’s economic policies were proving to be unsustainable. The economy was unbalanced and export “obsessed” and the government was keeping big business afloat with untenable debt-equity ratios through export subsidies (Woo 1991, 109). The power of the government over business was stumbling. Park could capitalize on the underlying personal relationships between himself, his cronies, and businessmen, but this period in Korea’s development would see a weakened state and a *chaebol* power grab.

In the early 1970s, the U.S. government began to crack down on collusion among Korean firms. Kickbacks among business agents were a method of exchange that excluded the government.

A purchaser of goods had agents that was responsible for negotiating contracts between the purchaser and a supplier. The agent would accept cash from a supplier in order to guarantee that that supplier obtains the desired contract with the purchaser (Klitgaard 1988, 136). Under this scheme, the purchaser always came up short. But the Korean government had little incentive to guarantee lower prices for the U.S. Army because higher-priced contracts meant more foreign exchange for Korea (Klitgaard 1988, 153).

The kickback system worked like this: The U.S. Army would solicit bids from 5 to 7 eligible contractors, 3 to 5 would respond with pre-bid proposals. Army would negotiate with bidders to get a lower price, but the lowest bidder would be predetermined among the prospective bidders (the contractors). When a contract was issued by the U.S. Army, the prospective contractors would be decided and organized by the Mutual Benefit Association (MBA), an organization of businessmen. The MBA would then hold a *dongo*, or meeting, at restaurant or coffee house and would decide on a collusive price. The biggest companies would often 'win' the biggest contract which precluded smaller companies. Lottery and consensus were also ways contractors were decided (Klitgaard 1988, 142). Another way that contractors were chosen is competitive bidding in which, once the price was decided, contractors would bid against each other for the contract and the largest cash contribution to the MBA or their fellow contractors would win the contract (Klitgaard 1988, 143). In this way, Korean companies skimmed a little (or a lot) off the top of U.S. Army by charging highly inflated prices for services. In 1975, when the U.S. government started to crack down on this sort of collusion, a Korean government official unofficially confirmed that U.S. contracts normally contained an extra profit of 30 percent (Klitgaard 1988, 146).

In the summer of 1975, in response to an official letter of accusation from the U.S. government, Park's personal police raided the MBA and the homes of its officers. A month later, the Korean government demanded the dissolution of the MBA (Klitgaard 1988, 147). The upshot of Park's crackdown was the loss of prospective revenues from the inflated prices charged on American contracts. So this move can be interpreted two ways: as a tactical move by the government to retain the favor of the U.S. government (to ensure continued investment) or as genuine hostility on the part of the Korean government toward collusion in business that did not directly involve

the state. Park tolerated corruption when one of the players was the government itself because this was merely “how things were done.” Uncoordinated (not state-controlled) collusion could jeopardize Korea’s loans, aid and foreign investment particularly from the U.S. and countries that favored transparency and competition.

Business began to assert itself in 1971 when *chaebol* began giving the government ultimatums. For example, the Federation of Korean Industrialists demanded that Park cut back interest rates, grant targeted debt right-offs, transfer outstanding loans to official financial intermediaries, and reduce corporate taxes (Woo 1991, 111). Park hesitated. Big business demanded that Park “[D]o as [he] is told, or slash the government budget in half” (Whitehill 1987, 111). *Chaebol* leaders threatened a tax boycott. Despite this threat, state-directed credit allocation survived (Woo 1991, 114). But businesses were growing ever-savvy. Business was strong enough to make important demands on the government and indeed, survive without it. But they *chose* to stay in the game (Woo 1991, 116).

### **Industrial Push (1970s)**

In the 1970s, the Korean government set its sights on growing its industrial sectors, including chemicals, shipbuilding, iron and steel, machine building, electronics, and especially automobiles (Woo 1991, 143). Korean exports to the United States and Japan throughout the 1960s were mainly labor-intensive goods like plastics and textiles. But Vietnam had become a valuable export market, especially for industrial exports (Woo 1991, 95). The United States provided additional economic aid, loans, military assistance, and training to Korea to promote Korean exports in Vietnam (Kim 1975, 261). Korea’s economic focus on Vietnam marked the beginning of the steel age for Korea. The industrial push was the “coming of age” for many of Korea’s biggest *chaebol* (Woo 1991, 96). The first international contracts ever granted to Hyundai were from the U.S. government for projects in Southeast Asia (Woo 1991, 96). But personal relationships were still a very crucial element. Even though the largest corporations had established themselves as preferred dealers for respective sectors in the economy, contracts were still granted on the basis of a personal relationship. For example, in the service sector, the Korean Airlines Group (Hanjin) received a \$7.9 million contract to supply transportation to the US Air Force by exploiting an old connection with the U.S. Army dating back to the Korean War (Woo 1991, 97).

Preferential loans were crucial in sustaining the economy through this transition. Export credits and National Investment Fund were the most central in the “Big Push” (Woo 1991, 164). Export loans were practically given away at very low interest rates in the 1970s (minus 19.73 percent in 1975) (Woo 1991, 164). These loans were very easy to obtain compared to other policy loans which were given to sectors like agriculture, military and energy conservation. Export loans totaled 329.7 billion won in 1975 issued by the Korean bank compared to the next highest, 260 million won for agriculture loans (Woo 1991, 162). Interest rates for export loans were extremely low (6-8% between 1971- 81) whereas curb loans were in the 30-40% range, general bank loans were 15-20% (Woo 1991, 164). Exporters merely had to produce letters of credit from foreign buyers to get the bank to open its wallet.

The automobile industry as a whole was the government’s pet project in the industrial push (Woo 1991, 143). Daewoo became a favored company. The founder, Kim Woo Choong, set out to develop Daewoo’s exports as quickly as possible. Export quotas issued by the government gave Daewoo one-third of Korea’s total export quota (Clifford 1994, 119). The government decreed a merger between Hyundai Motors and Daewoo’s Saehan subsidiary while forcing Kia Industries out of the market (Kang 2002, 110-1). This initiative, however, failed because of resistance from the automobile industry, demonstrating the paradox of the *weak authoritarian* state: Auto industry *chaebol* happily accepted credit and loans from the government when necessary, but retained the autonomy to buck government policies Both industry actors and the regime had their sights set on the export market but sometimes differed on policy. This “mutual hostage” relationship, however, is what constrained the government to tailor its economic policies to be acceptable to businesses (Kang 2002, 120). Business knew that the government couldn’t sabotage business without the whole country (including the government itself) suffering.

Between 1966-1976, the number of chaebol grew 10 percent but the average size grew 180 percent (Clifford 1994, 124). Between 1973 and 1978, Korea’s average annual GNP growth rate was 11 percent (Woo 1991, 148). In 1976, after the US started to crack down on collusion in Korean contract bidding, the US Army suggested abandoning competition altogether and soliciting only one contractor for each contract job (Klitgaard 1988, 149). This meant that collusion between businesses would be eliminated (which the US government wanted), but the



Korean government could still choose its preferred contractors with successful results. International subcontracting by 1976 had catalyzed an astronomical increase in Korea's electronics exports. In ten years, they rose from 1 percent of total exports to 13.4 percent (Woo 1991, 145). Explicit preferential treatment continued throughout Park's rule. His regime ended in 1979 when he died.

Korean banks lacked the legal freedom to make their own loan decisions until 1982 (Clifford 1994, 50). This coincided with the implementation of a unified loan system, which meant the end of the preferential loan incentive system (Whitehill 1987, 31). This was a very significant door-closing on the state's economic incentive scheme, which had led Korea's economic growth for the past 20 years. By 1982, more than 50 percent of Korea's exports came from the industries supported by the government (Whitehill 1987, 33). Money politics had not been incidental or merely peripheral but rather were the central element of Korea's economic development (Kang 2002, 97). Patron-client relationships did not permeate Korea's entire economy and society. Instead, strategic corruption 'greased the wheels' of an effective system that drove sustainable economic development.

### *Chile*

Augusto Pinochet earned praise for developing and implementing "one of the standard cures... for nearly any country seeking to make the transition from socialist poverty" through a series of aggressive, market-oriented measures (Codevilla 1993, 1). On the surface, Chile achieved rapid growth at the hands of a few innovative technocratic economists known as the "Chicago Boys." Beyond the adulation lay a history of calculated structural corruption intended to ensure regime maintenance. Pinochet's alliance with civil technocrats provided "the military government [with] considerable political support" by evincing technocratic excellence while actually distributing structural advantages as patronage to the strongest "capitalist coalitions" (Silva 1991, 409).

During each period of Chilean economic development, Pinochet forged bonds with distinct capitalist coalitions based on their respective ability to deliver growth. These relationships, described as the essence of Chile's outstanding growth, allowed Pinochet to simultaneously consolidate power, achieve international legitimacy, and foment rapid development. As we

elaborate below, the ties between capitalist coalitions and the state – while sometimes indirect – were undeniable:

“In the newly installed authoritarian regime, groups that had direct access to power holders (the military and well-placed civilian authorities) were privileged over those that did not enjoy those connections... They provided policymakers with crucial support, and in each period the representatives of distinct capitalist and landowning coalitions helped to shape policy agendas and influenced policy formulation” (Silva 1993, 539, 556).

Pinochet came to power without any sort of developmental initiative and required technocratic expertise to formulate a framework. Thus, in contrast to most South American dictatorships, Chilean economic policymaking was ostensibly dominated by technocratic civilian planners. In actuality, these technocratic planners were beholden to capitalist coalitions, whose economic performance was the driving force behind Chile’s economic success.

The first dominant capitalist coalition, known as the “gradualists”, consisted of internationally competitive industrialists and various representatives from business sectors that had opposed ISI-instituted tariffs and figured to have trouble with rapid economic development (Silva 1993, 556). Their interests coalesced under the Confederation of Production and Commerce (CPC), the overarching organization of peak associations. On January 10, 1974, the military government formally adopted a policy of gradual liberalization and stabilization, reducing tariffs from an average rate of 94 percent to 60 percent within three years and implementing a unified, devalued exchange rate (Silva 1993, 535).

Around that time, the “Chicago Boys”, a group of neoclassical monetarists who had trained at the University of Chicago, attained high advisory positions in the Ministry of Economy and ODEPLAN, the state planning agency. Though surreptitiously associated with internationalist conglomerates (such as BHC) as well as traditional ones, Though widely touted as the next generation of Pinochet’s technocratic advisers, the Chicago Boys were actually – and surreptitiously – associated with several internationalist conglomerates (Silva 1993, 542).

### **Consolidation and Patronage, 1976-1982**

Having used his powerful conservative support base to overtake the junta, Pinochet extended more policymaking power to the Chicago boys. Pinochet built a symbiotic relationship with them, whereby they provided “an economic program, a source of nonmilitary expertise, and valuable informational financial contacts” in exchange for “unfettered influence... [which] reflected Pinochet’s relative autonomy from the military institution” (Remmer 1989, 162-163). The Chicago Boys brought international legitimacy to Pinochet’s dictatorship. They argued that “the achievement of (total) economic liberty constituted a key precondition for the very existence of genuine political liberty” and that only under an authoritarian government was the establishment of economic liberty possible (Silva 1991, 396). They used their reputation as technocrats to distance themselves from previous administrations, which they actively denounced as corrupt.

Under the leadership of Sergio de Castro, the regime enacted a raft of marketfriendly policies – most notably, tariff reductions, and rapid privatization – between April and July 1975. The Chicago Boys’ ties to internationalist conglomerates – the groups which controlled Chile’s most dynamic sectors – enabled both Pinochet and the business community to benefit. Elites within each conglomerate were given “privileged access to policymakers” and in exchange, Pinochet expected them to sanction his power (Silva 1993, 547).

“As a result of this symbiotic relationship, a tight network formed between the radical internationalists with their increasing economic power (which offered the promise of economic growth), and Pinochet, with his expanding sources of political power. This network displaced the one that the gradualists had formed in 1973 with the broader military government and junta” (Silva 1993, 548).

Did these so-called radical internationalists monopolize structural power? Silva argues so, stating that because internationalist conglomerates were able to promote a rapid-growth sector for the Chilean economy, “this narrow constellation of business interests... played[ed] an important policymaking role, *to the virtual exclusion of other capitalists*” (Silva 1993, 557, emphasis added).

The Constitution of 1980 introduced a mechanism whereby “[b]usiness leaders, as well as junta members, could introduce legislation” (Silva 1993, 555, emphasis added). Pablo Baraona, another Chicago Boy with close links to one of the two major internationalist coalitions, became president of the Central Bank and moved to liberalize and modernize Chile’s banking sector. Although liberalization increased the degree of financial intermediation, it occurred in a largely unsupervised environment; several banks accumulated an unmanageable volume of bad loans, which precipitated the collapse of neoliberalism in 1982. Silva attributes the Crisis of 1982 to a fundamental flaw in the neoliberal model: “One of the major weaknesses of this model was the fact that most of the economic development... was financed by expensive short-term foreign loans, leading to a rapid increase in Chile’s indebtedness” (Silva 1991, 396). It finally became clear that the policies radical internationalists had espoused – and pushed through – were not based on sound analysis and expertise, but rather on a mutual determination (between themselves and Pinochet) to foment rapid, ultimately unsustainable growth to serve both these narrow private interests and the regime’s political survival.

In June 1982, facing an insurmountable balance of payments deficit, the government devalued the currency, triggering a recession and causing unemployment to rise more than 25 percent (Silva 1993, 549). Foreign loans quickly dried up and Chile lost its favorable terms of international trade. As Pinochet’s popular confidence waned, Sergio de Castro was removed and replaced with an international financier named Rolf Luders. When Pinochet and Luders returned to the drawing board, they *once again took key capitalist coalitions’ recommendations to heart*. By 1983, the CPC had built a strong pragmatic neoliberal coalition and crafted a widely-publicized economic reconstruction program. Between 1984 and 1985, most of the CPC’s recommendations went into action. Over the next year, “capitalists exercised their greatest degree of direct influence” (Silva 1993, 552).

In April 1984, Pinochet appointed Modesto Collados and Luis Escobar as Ministers of Finance and Economic Affairs, respectively. The Collados-Escobar alliance was able to push radicals out (at the top levels) and strengthen the pragmatic coalition’s network. Escobar and Collados “modified the policy process in ways that reinforced the nexus between ministers of state and the pragmatic coalition” (Silva 1993, 553). They sought to establish a routine mechanism which allowed business peak associations to access policymakers and influence the policymaking

process. In 1985, Collados opened the Social and Economic Council (SEC), which served as a presidential advisory council and consisted of representatives from the private, public, and labor sectors. Business peak associations dominated most of its economic commissions.

Hernan Buchi Buc, a Columbia-educated economist with ties to the Chicago Boys,<sup>8</sup> became Minister of Finance in February 1985. In an effort to promote macroeconomic stability without contravening free-market principles, tariffs were reduced to 15 percent, banks were reprivatized, and large SOEs underwent gradual equitization. Between 1982 and 1988, thanks to a 90 percent real depreciation in the Chilean peso, Chile's exports became increasingly competitive. Chile gradually regained the confidence of international financial agencies. The IMF and the World Bank aided Chile in achieving its developmental objectives, and by the end of 1985, Chile had emerged from the crisis to post strong overall economic performance.

But the end of Chile's crisis did not signal the end of private policymaking intervention. In 1986, Minister of Economy Juan Delano instituted standing National Commissions for Commerce and Industry and gave the CPC and its member associations positions within government policymaking working groups (Silva 1993, 554). Another key element of the IMF reform program was privatization and recapitalization. Nearly 550 enterprises under government control, including most of Chile's largest corporations, returned to private hands between 1974 and 1990. As of 1992, the public sector controlled fewer than fifty firms.

These privatizations enabled new economic groups (comprised of former Pinochet officials) to gain control of Chile's natural monopolies:

"In electricity, presided over by former Minister of Labor Jose Pinera (and with former foreign minister Hernan Errazuriz on its board), the Enersis-Endesa holding acquired property rights over 80 percent of usable water streams, including control of generation, transmission, and distribution grids. In telecommunications the long-distance telephone company ENTEL, which received exclusive satellite access, put former Minister of Finance Jorge Cauas on its board after privatization. In the nitrate company SOQUIMICH, the board after privatization included

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<sup>8</sup> Most authors, excepting Remmer 1989, do not classify him as one of the Chicago Boys.

Julio Ponce-Leroux – Pinochet's son-in-law – as president and ex-Finance Minister Sergio de Castro, ex-Budget Director Juan Carlos Mendez, and ex-Mining Minister Enrique Valenzuela, among others as directors... Key policymakers of the Pinochet government served on the boards and in the executive offices of large economic conglomerates before and after holding cabinet and Central Bank positions" forging an unbreakable link between economic and political power" (Schamis 1999, 249-50).

These connections, similar in structure and exclusiveness to Botswana's, continued to emerge after Chile's return to democracy in 1990, with former military government officials assuming positions on the boards of Chile's largest corporate firms.

### *Botswana*

The Botswanan economy has been export-oriented since it was a British colony. The British emphasis on exporting goods from Botswana in the early 20th Century meant that Botswanan products, primarily beef, had a ready-made market for its exports when Botswana gained independence in 1966. But the Botswana Democratic Party (BDP) had a personal interest in *continuing* to stress exports because of its own profit interests in the cattle sector and its ties to other business elites. A high proportion of Botswana's elite were involved in the beef industry and the BDP was made up mainly of politically mobile cattle elites in (Brautigam 2004, 26). Personal ties, then, were already very much rooted in society. Like Korea, Botswana's economy was highly politicized. The government's own interests, and indeed power, were directly tied to the success of Botswana's economy. Amy Poteete describes this phenomenon in Botswana as a case of "overlapping sectors" in which the governmental sector overlaps the economic sector (Poteete 2005). In both Botswana and Korea, this overlap blurred the lines between government and economy so telling where one ended and the other began was nearly impossible, if not irrelevant.

The BDP formed in 1962, four years prior to independence. The central government had been accumulating revenues from international trade throughout the 1960s because of charitable preferential trading policies granted to alleviate Botswana's impoverished status. International aid also contributed to the pot of BDP wealth. Politically, livestock owners were important donors for the BDP (Tsie 1996, 611). The attention paid to the cattle industry after Botswana's

independence focused on growing the economy by making it export-oriented and having Botswana's beef exports lead the way. The capital that the BDP accumulated from trade and aid would be used to fund preferred sectors in the economy, directed by patron-client ties and lead to Botswana's economic success.

Botswana's first president, Seretse Khama took control at independence in 1962. He did not wield an iron fist by issuing economic directives the way Park Chung Hee had done in Korea. Instead, political and economic elites who were politically influential made sure that preferential trading terms were given to Botswana's cattle industry. Because Botswana was so poor at independence and diamond sources were yet to be exploited, patronage resources were scant and had to be targeted strategically (Charlton 1993, 343). Botswana's beef industry was the most viable and therefore, the less risky investment. Botswana's cattle industry has grown increasingly centralized and elite since independence. The wealthiest and most influential cattle herders (and today, the most commercialized) have been granted massive and steady loans from the World Bank (Darkoh 2002, 150-151). The larger cattle herders then could become even more influential and wealthy similar to the wealth-accumulating path dynamic in Korea, where the largest *chaebol* garnered the most revenue and attracted the most loans. Large cattle enterprises and *chaebol* were both too big for their respective governments to ignore.

Tsie identifies three conditions that enabled Botswana elite to form patron-client relationships. The first is the traditional system of *mafisa*, or "farming out cattle" (Tsie 1996, 611). to lesser peasants. The second is elite control of borehole ownership and grazing land. The third is placing cattle accumulators in crucial positions in the Land Boards, which were arms of the government responsible for creating and implementing policies on land and related resources. The network of patron-client relationships helped elites maintain "legitimacy and support among the peasantry" (Tsie 1996, 611). Because patron-client ties grafted themselves onto this traditional system, they helped maintain Botswana's cultural identity despite modernization.

Borehole syndicates were sites of collusion between the government and business. Many delineated groups of cattle owners, called *syndicates*, were subsidized by the government. Each syndicate would have use of a borehole (a watering hole that also included grazing space). Boreholes were subsidized or outright owned by the government, but the syndicate would pay

for the original drilling of the watering hole and equipment (Peters 1994, 86-87). The borehole syndicate was a hybrid of an informal local grazing organization and a corporation (Peters 1994, 121). Prior to independence, the cattle bourgeoisie that had formed in government as the BDP gained control of these boreholes. Boreholes were needed by commercial cattle farmers to sustain their business, and the land that prospective boreholes occupied, as well as subsidies for those boreholes became commodities of patronage during development. Because the cattle industry was the government's pet enterprise in the 1960s, boreholes were financially prioritized.

The National Development Bank (NDB) was a intermediary actor in the patronclient relationship. Created in 1964, the NDB favored cattle accumulators on large reserves in granting credit to drill boreholes and buy additional breeding stock, among other necessities (Tsie 1996, 602). This type of favoritism helped build a class of cattle interests. The NDB in this respect supported patron-client ties because the government was better able to allocate funds through the Bank to the cattle sector. On the other hand, the NDB devolved into a less productive entity when, in the 1990s, it was exposed as the centerpiece of corruption involving BDP officials absconding with diamond revenue to service bad debts.

As a wealthy cattle class grew, land issues became important for maintaining favoritist ties. The Tribal Land Act of 1968 granted certain land rights to constitutionally recognized "tribesmen," which did not include the Basarwa, a historically marginalized ethnic minority who did not own livestock (Mazonde 1994, 83). By 1970, Land Boards (in which strategic positions were held by wealthier cattle accumulators) were responsible for allocating "tribal" land (Tsie 1996, 611). The Tribal Grazing Land Policy of 1975 claimed to rectify the inequities of the former Land Act, but results did little to help the plight of the Basarwa. Instead, they were evicted completely from their land, which was then apportioned to government-connected cattle farmers for ranches (Mazonde 1994, 83). By excluding the non-producing Basarwa, the 1975 Land Policy in fact was the government's way of helping to privatize (and in so doing, consolidate) the cattle class (Tsie 611-2 and Mazonde 1994, 83). These moves also helped herders produce more efficiently for the export market.



Because government officials themselves almost always owned cattle, preferential export treatment resulted in earnings for them as well. (Similarly, bureaucrats in Korea also benefited from choosing lucrative investments.) Securing their financial (and political) interests, and generating profits for themselves, became a matter of ensuring cattle exporters had the resources to produce. One resource the government could easily control was land because the BDP was responsible for borehole allocation and land rights. Land grants were based on preferential ties. In Botswana's colonial period, trade licenses were granted on preferential bases, given disproportionately to Europeans and Asians and were otherwise tightly controlled (Brautigam 1994, 18).

A heavily centralized pattern of links between the ruling BDP in Botswana and cattle farmers served as the foundational structure for a system of patronage tying business elites to government. Export-oriented economic policies served the interests of both, in part because so many party elites were also cattle farmers themselves, but also because the policies served to cement the loyalty of private actors in this sector to the BDP. In the 1980s, diamond revenues would pervade Botswana's economy and constitute most of the value of Botswana's exports. But traditional patron-client ties remained very important:

The Botswana style of patronage control and rationing developed initially out of both necessity (the need to husband and monitor scarce financial resources) and inclination (particularly Seretse Khama's personal commitment to political probity and party rectitude). What is perhaps most interesting about the system, at least in comparative terms, is its substantial degree of continuity in the face of the disappearance of both these initial determining conditions. As government expenditure has grown alongside, but always more slowly than, government revenue, tight bureaucratic controls over project and programme spending have been maintained (Charlton 1993, 344).

Where rentier state and resource curse theory would have predicted progressively more severe misuse of those revenues by the state that controlled them, the particular form of business-government relations appears largely to have withstood those pressures. The financial corruption scandals of the 1990s notwithstanding, corruption in Botswana (and elsewhere, as we suggest below) was structured in such a way as not to inhibit growth or regime viability.

## Tunisia

During Tunisia's first phase of post-independence liberal development, the state facilitated private sector investment. President Habib Bourguiba set out to develop "an indigenous industrial bourgeoisie, offering easy credit, generous tax breaks, and substantial tariffs protection to potential investors in industry" (Bellin 1994, 428). Three private sector lobbies formed the UTICA, the Tunisian Chamber of Commerce, and the IACE – and began to trade patronage for structural incentives. As liberalism continued, it became clear to policymakers that Tunisia's indigenous capitalists could not grow the economy as they needed in order to consolidate their recently-won authority. State elites reacted by temporarily abandoning liberalism and implementing etatism.

Bourguiba and Ahmed Ben Salah, Tunisia's first Minister of Planning and National Economy, relied on a series of Three-Year Plans to introduce and inaugurate socialism. The first Three-Year Plan (1962) emphasized "planning and state-directed Accumulation" (White 2001, 85). As the state grew, so did a commercial business community with access to state investments and close relationships with party officials. By 1969, the state had established more than 80 public sector enterprises specializing in a diverse range of products, and had "contributed nearly 100% of gross capital formation" in non-manufacturing industries (Bellin 2002, 21). Nevertheless, ISI and socialism in general failed to generate growth. In response, Bourguiba's key constituency, small private landowners, rioted, leading to Ben Salah's dismissal. Ben Salah's departure left the door open for a new class of liberal-minded elites hoping to limit etatism and incorporate Tunisia into the global economy. Hedi Nour, Tunisia's second developmental visionary, criticized Ben Salah for implementing a strategy that "fostered inefficiency and corruption" (Bellin 2002, 23) and called for the state to gradually transfer its economic power to a consciously sponsored private sector (White 2001, 92).

Bourguiba's goal was to "create a generation of industrialists who tomorrow will be the masters of the country" (Bellin 2002, 24, emphasis added). In 1969, the state reached rapprochement with the UTICA, opening avenues for it to exert influence over wage and labor deliberations throughout the 1970s (Bellin 2002, 62). Several UTICA officials earned public sector positions

and helped develop five-year plans. The financial links between the UTICA and the state were also strong.

Bourguiba offered private sector entrepreneurs institutional support, subsidies on credit and inputs, market protection, and training. These incentives became all the more attractive after Tunisia developed a strong export-oriented relationship with the EU (explained below). He and Nourira realized that the regime was well-positioned to pass the developmental baton along to private sector industrialists, and because the state had the resources to make development profitable, it could simultaneously spur prosperity and retain power. Were these structural advantages distributed equitably? According to Bellin, private capitalists were rewarded with lucrative structural benefits based on their ability to deliver political support:

“In the Tunisian case it seems clear that state elites *have* exercised a measure of discretion in the provision of incentives and sweeteners to the private sector. Moreover, close personal relations with state elites *have* been important in mediating access to state support. At least through the mid-1980s, many inputs essential to private sector operations (e.g. import licenses, operating licenses, product prices, and access to foreign exchange) were not automatically provided to all industrial ventures. Rather, they were the product of individual bargains wrested from the state by individual firms... close personal relations with state elites often proved crucial to mediating this process. Nearly all the businessmen interviewed insisted that knowing someone “on the inside” of the state bureaucracy was essential to getting business done successfully in Tunisia” (Bellin 2002, 73).

Nourira encouraged businessmen to capitalize on Tunisia’s proximity to Europe and its Association Accords with the EU. White (2001) argues that Tunisia’s EU relationship played the largest role in determining which industries flourished. Tunisia and Morocco signed the Association Accords with the European Commission in March 1969, under which Tunisia had the right to export certain agricultural goods whenever the EU market was not vulnerable to imports.

When the Association Agreements expired in 1974, the Maghrib renewed relations through the 1976 Cooperation Accords. These accords, combined with the oil boom of the 1970s, propelled

Tunisia's economy to the top ten worldwide in terms of growth rate per capita (White 2001, 67). In 1974, the government released another package focusing on domestic-oriented industry which rewarded firms that had contributed the most to job creation, integration, regional balancing, and energy conservation (Bellin 2002, 25). Law 74-74 linked incentives and advantages to employment creation, proving the state's adamancy about fighting unemployment. The private sector contributed to 91% of new jobs in industry between 1971 and 1975 (Bellin 33). Certain local industrialists were also protected against domestic competition. Until 1987, the state mandated that every industrial venture receive API licensing. API, Tunisia's predominant parastatal, became notorious for creating monopolies and oligopolies in several sectors of the domestic economy (Bellin 2002, 26). Additionally, on April 14, 1973, another parastatal known as AFI emerged. AFI was responsible for identifying and managing industrial zones and worked with API to develop offshore industrialization. Another two parastatals, CEPEX and FOPRODI, developed for similar purposes" (White 2001, 94).

#### *The Persistence of Single Party Rule*

Bourguiba squelched all hopes of political pluralism at the Party Congress of 1974 by declaring himself president-for-life and expelling all dissidents from the party. The state wielded strength because of its unmatched capacity to mediate between domestic and international actors and support from the "business classes and affluent landowners" (White 2001, 103-104).

"In short, the state did not wither away during the first 'liberal' phase in Tunisia. The private sector certainly grew, but then so did the public... In Tunisia the public sector expanded much more rapidly during the reign of Hedi Nour, who came to power committed to paring down the omni-interventionalist role of the state, than it did during the reign of Ben Salah, who was frankly committed to etatism" (Bellin 35).

#### *Private Sector Influence*

Bellin cites a former UTICA president, Ezzedine Ben Achour: "The linkage between the party and UTICA is so solid and the number of Neo-Destour militants within UTICA is so high that [UTICA's] adherence to the economic and social doctrine of the party is immediate and without reservation (Bellin 63)." Because the UTICA must defend its budget to state elites before it can attain annual funding, union leaders only recommended modest alterations to state policy and

routinely avoided confrontation. Until the late 1970s, relations between business and government remained generally non-confrontational.

But beginning in 1977 and 1978, Europe closed its borders to Maghribi exports. Exporters were told to either comply with the Voluntary Restraint Agreements (VRAs) – self-limitations on the export of manufactured goods to the EU – or face more heavyhanded policies (White 2001, 70). As many as 19 Tunisian factories were closed and unemployment increased by several thousand. Labor strikes proliferated during 1977-1978, with the army intervening to put them down. The UGTT emerged as the primary counterweight to the regime, even though it officially remained supportive of Bourguiba. Every time a labor leader tried to use the UGTT as a vehicle for challenging the legitimacy of *infatih*, Tunisia's guiding outward-looking development ideology, Bourguiba orchestrated his demotion. It was not until Secretary General Habib Achour's 1978 resignation and the corollary uproar generated by UGTT's ruling council that labor publicly criticized *infatih* for "favoring foreign capital to the detriment of the national interest" (White 2001, 118). During Tunisia's first general strike on January 28, 1978, 200 were killed. The 1982 decline in oil revenues led the architects of the Sixth Plan (1982- 1986) to predict the oncoming exhaustion of Tunisia's petroleum resources. Although petroleum quantities produced and exported in 1982 remained constant throughout the decade, the global collapse in oil prices in 1986 finally brought their fears to reality (Bellin 2002, 36). Other sectors, including tourism, worker remittances, and phosphates stagnated, making 1980-1986 a period of economic difficulty punctuated by a limiting supply of foreign exchange (White 2001, 118).

Political stability declined throughout the late 1980s. Riots emerged in the south and spread rapidly, leading to 120 deaths and finally compelling Bourguiba and new Prime Minister Mohammed Mzali to restore the subsidies a month after the riots had begun (White 2001, 119). The Movement of the Islamic Way (MTI) continued to grow throughout the 1980s. President Zine al-Abidine Ben Ali took office in November 1987, becoming the second president since Tunisia's independence. Tunisia's subsequent implementation of IMF reforms pushed it into a second phase of liberal development. While Tunisia's first experiment with liberalism included expanded state control over prices, interest rates, and international trade laws, phase two saw widespread market reform and gradual limitation of the state's role in the economy. Prime Minister Rachid Sfar successfully implemented IMF reforms across the board, lagging only in

import liberalization and privatization. Due to his success, Tunisia was hailed as a model of reform, recognized as “essentially free” by the Heritage Foundation, and given \$800 32 million worth of aid from foreign donors (White 2001, 118 and Bellin 39).

### *Conclusion*

In the political economies of Botswana, Chile, Korea, and Tunisia, we see patronclient ties—what we term centralized corruption franchises—that have been productive in the economy. These links between economy and polity for long periods did not hinder economic development, but rather appear to have stabilized strategic and productive export sectors of the economy. While it was clearly the intention of all four regimes to create economic enclaves that would bolster their political positions, they endeavored to structure patronage in ways that did not inhibit growth. Patronclientelism, according to Yoo, provided a positive means of bucking the system and avoiding more cumbersome laws and bureaucracy.

The countervailing problem of the rule of law is that it does not offer the kind of face-to-face, flexible, responsive governance necessary to rule over a precarious coalition of contentious categorical groups. Park achieved this precarious stability by pyramiding and manipulating the existing patron-client networks. (Woo 1991, 39)

This sentiment echoes one elucidated by Huntington (1968), who argued that corruption could help to lubricate the otherwise sclerotic institutions of new, weak states by reducing transaction costs. We do not go so far in this essay. Our argument is more modest and much less sanguine about the effects of corruption. Corruption and patronage are not inherently growth-eroding phenomena, especially when they are effectively centralized and put to a single purpose: enriching the regime rather than an amorphous group of individual rent-seekers or rent-seizers. They are simply processes that garner for a regime immediate compliance in lucrative parts of the economy. The economic result is contingent upon how a regime decides to use that power and the spoils, which are often shaped by forces outside rulers’ control. In the end, politically driven relationships between government and business contributed strongly to economic crises in all four countries, with Korea suffering the most serious economic collapse in 1997. The implications of the striking similarities across these four cases, however, should lead us to reinsert politics into the study of corruption, much as it took center stage during the heyday of

clientelism studies (see inter alia Scott 1972) and has recently begun to do again in a few new studies.<sup>9</sup>

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<sup>9</sup> Johnston 2006 is one strikingly good example of this new corpus of research

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