PART I

THE FRAMEWORK

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Rethinking Globalization and Business Politics

> We asked [industry executives and retailers] their sourcing plans beyond 2005. The answer was they would source from China and not-China. They would source 70 percent to 80 percent from China and 20 percent to 30 percent from not-China. So, right there, you do not have globalization. You have China and the heart-stopping fear wondering whether your nation is to be one of the 20 percent or 30 percent in the land of not-China.
>
> Mike Todaro, Managing Director, American Apparel Producers' Network (Todaro 2003)

> In the past, I was well received by European clients, but now they give me "seven minutes." I am forced to wait in line with Indians, Pakistanis, Chinese, Asians to show my wares. Then I am given seven minutes to present my line and that's it.
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> Author interview, textile firm owner, Ain Sebaa, Morocco, January 18, 2000.

These are hard times for manufacturers in developing countries, particularly for countries that are "not-China." Since the 1970s, more and more Asian, Latin American, and Middle Eastern countries have staked their industrial development strategies on exports of low-value-added manufactures such as apparel, making competition for world market share especially fierce. In the 1980s and 1990s, many countries were obliged to dismantle protectionist trade policies as part of structural adjustment programs (SAPs) and international trade agreements, threatening domestic manufacturing bases and pressuring local firms, business associations, and governments to find viable ways to promote industrial upgrading in an open economy. Most recently, the abrogation of the Multi-Fiber Agreement (MFA) in January 2005 has frightened producers and policymakers throughout the developing world. The accord, which established a system of export quotas for developing country textile and apparel exports, ensured access to lucrative U.S. and European markets for manufacturers in countries that otherwise could not compete against low-cost Asian exports.

This book analyzes when and how business groups in developing countries mobilize collectively in response to global economic integration and trade liberalization.[1] The book also examines the effects of business mobilization on domestic political economies: How can business mobilization alter established patterns of business–government relations? How does the nature of business–government linkages affect processes of industrial upgrading?

Business in developing countries is often decried as parasitic and either incapable of or unwilling to improve its productive potential because of rent-seeking behavior or clientelist relations with state officials (Bates 1981; Bratton and van de Walle 1994; Callaghy 1984; Heydemann 2004; Krueger 1974; Mamdani 1996). In other depictions, the state so thoroughly dominates economic life as owner of the means of production or largest employer that little opportunity exists for private investment (Waterbury 1991). Can integration in global markets help business groups to mobilize collectively, achieve independent organizational bases, and create more formal, institutionalized modes of business politics?[2] Understanding how producers in developing countries respond to economic change and forge linkages to state agencies is critical, particularly in an era when private-sector development is at the core of policy prescriptions to promote competitiveness in world markets.[3]

[1] Business mobilization refers to collective action by private capital holders to lobby the state for shared policy interests. Mobilization can take many forms, including establishing or strengthening formal producer associations, drafting and disseminating joint position papers and policy statements, joining foreign chambers of commerce, meeting with government officials in direct delegations, broadcasting policy goals and demands through print and broadcast media, and controversial tactics such as waging coordinated campaigns to shut down factories or withhold taxes in protest of government policies.

[2] The formalization of business representation refers to a shift in the formulation, aggregation, and transmission of business policy interests from individual, personalistic channels to more transparent, regularized, and often group-based approaches.

[3] Private-sector development has become a key component of development thinking in the World Bank and other international institutions and donor agencies (Schulpen and Gibbon 2002, 1; World Bank 2002, 21–23). The approach calls for reduced state intervention in the economy, privatization, and an emphasis on market forces, all of which demand a greater role for private provision of goods and services in developing economies

The experiences of manufacturers in Tunisia and Morocco are emblematic of the constraints facing producers in many developing countries beyond the Middle East. Since the 1980s, Tunisia, and later Morocco, carved out important places in the global apparel supply chain. In 1981, Tunisia was the ninth-largest apparel exporter to the European Union (EU), and Morocco did not even rank in the top twenty. By 1998, Tunisia ranked fourth and Morocco fifth in the list of top apparel exporters to the EU, the world's largest importer of both textiles and apparel (Gibbon 2000; Stengg 2001). But trade liberalization, the adoption of bilateral free trade agreements with the EU, and the dismantling of the MFA threaten the very existence of domestic and export-oriented firms in these countries. How have Tunisian and Moroccan producers responded to economic change?

Tunisia and Morocco are well matched for comparing private-sector responses to globalization. The two countries share a history of French colonization, common linkages to international markets, and a predominance of the same manufacturing industries, including textiles, apparel, footwear, food processing, light electronics, and chemical processing.[4] Both countries conduct over 70 percent of their trade with Western Europe;[5] agriculture, agribusiness, and phosphate mining are crucial components of their national economies (while neither country is a significant petroleum exporter); the industrial sector generates over 30 percent of gross domestic product (GDP);[6] and the textile and apparel industries account for over 40 percent of industrial goods exports (European Commission 2004). Further, Tunisia and Morocco had parallel experiences of integration in the international economy and underwent comparable episodes of economic liberalization. In the mid-1980s, both adopted an

and involve more than promoting firms and private investment through targeted incentives. The state remains critical for private-sector development by promoting an attractive "business climate," regulating transactions and upholding "good governance," or a commitment to transparency and accountability in administrative procedures and economic management, but the approach emphasizes private initiative in driving growth and reducing poverty (Klein and Hadjimichael 2003, 8; OECD 1995, 10; World Bank 2002, 4). What private-sector–led development means in practice, however, is not obvious, in part because its goals are formulated abstractly and in part because there is no single recipe for developing the private sector (Schulpen and Gibbon 2002, 4; World Bank 2002 [April 9, 2002], 4; World Bank 2003, 159–60).

4 Both countries achieved independence from France in 1956.

5 In 2001, 79.8 percent of Tunisian exports and 72.4 percent of Moroccan exports went to the EU (Eurostat 2003).

6 In 2004, the industrial sector accounted for 35.7 percent of GDP in Morocco and 30.7 percent of GDP in Tunisia (CIA World Factbook 2005).

SAP and signed the General Agreement on Tariffs and Trade (GATT) accords; and in the mid-1990s, both established nearly identical bilateral free trade agreements with the European Union, called the EU Association Agreements (EUAA).[7] Tunisia and Morocco also confronted similar economic environments: as they liberalized, European manufacturers intensified international subcontracting relationships to cut costs, providing ample opportunities for North African businesspeople to participate in global manufacturing chains.

Given comparable relationships to world markets and liberalization experiences, standard trade theory would predict that Tunisian and Moroccan manufacturers would organize similar struggles over economic liberalization: exporters would support trade liberalization in order to gain access to cheaper, higher-quality inputs on world markets, whereas domestic, import-substituting manufacturers would oppose liberalization to block foreign competition. But this prediction has not been borne out. In fact, Tunisian and Moroccan business responses to economic change varied markedly. Tunisian industrialists avoided collective lobbying efforts, instead focusing on firm-based upgrading or exit strategies, and conveyed policy preferences largely through informal channels. As a result, the state-dominated system of economic policymaking, in which firms were, by and large, "policy takers" and the state preemptively forged industrial policy, remained relatively stable in Tunisia. In contrast, Moroccan producers organized powerful collective lobbying efforts through producer associations and increasingly expressed policy goals through public channels such as the media and regularly scheduled official business–government meetings. Collective action brought about shifts in modes of Moroccan business politics in the 1990s. New forms of business representation and business–government relations permitted expanded access to economic opportunities for a larger segment of industrial capital holders. At the same time, formal business associations became increasingly important sites of business mobilization. These were notable shifts in a system renowned for crony capitalist ties between the state and a small elite that controls vast holdings in multiple sectors of the economy. What explains the varied responses of Tunisian and Moroccan industrialists in the same economic sectors to similar experiences of trade liberalization and integration in global manufacturing chains?

I argue that material interests drove the distinct responses of Tunisian and Moroccan industrialists to global economic integration, and

[7] In March 2004, Morocco signed a free trade agreement with the United States, and Tunisia is presently negotiating a similar accord.

that these interests were shaped by varied historical patterns of business–government relations constituted during postindependence state-building processes and consolidated in the 1970s. Industrialists in the two countries had similar policy preferences, but how they acted on these preferences was contingent on their expectations about state responses to business mobilization, perceptions of state support for their interests, and their perceptions about whether other factions of the industrial class posed credible threats to their interests.

Business responses to global economic integration and trade liberalization vary according to two constitutive dimensions of business–government relations: first, the balance of power between business and the state before economic opening, and second, preexisting business class structure. These two dimensions combine to form different configurations of business–government relations. I focus on two possible configurations, "distant" and "close" business–government relations. Distant business–government relations result from a combination of state dominance in the business–government power relationship and dispersed capital structure, or low capital concentration. The two constitutive dimensions of business–government relations are distinct yet interrelated because state dominance may foster or perpetuate a dispersed capital structure. Close business–government relations arise when business penetrates state decision-making channels and when states do not control capital (while capital is concentrated). These two conditions are conceptually distinct, yet in practice they are often correlated because a concentrated private elite is more likely to penetrate state decision-making processes. This typology of business–government relations can be applied to other logical combinations beyond the distant and close ideal types. For example, capital concentration and business dominance in the business–government power relationship do not necessarily correspond. State dominance can coexist with a concentrated capital structure, as in the case of pre-democratic South Korea.[8] Understanding the distant and close configurations of business–government relations requires more attention to both constitutive dimensions.

Two factors shape the business–government balance of power: state control over business and business penetration of the state. States can control business political behavior through repression or incentives, or "sticks" and "carrots" (Collier and Collier 1979). Sticks include outright repression through force or coercion, or indirect approaches such as threatening tax audits, applying laws arbitrarily, fabricating violations

[8] Kang (2002) refers to this kind of business–government relationship as "mutual hostage."

of official regulations, and using smear tactics such as exposing real or fictitious improprieties on the part of firm owners and their family members. While such coercive or arbitrary tactics are relatively uncommon in most advanced, industrialized countries, they are still used in many developing or postsocialist countries.[9] Carrots include incentives that provide benefits to firms such as tax exemptions, access to subsidized credit, or participation in policymaking or advisory councils, which can have both symbolic and material benefits for firms and industries. Carrots may reflect a state strategy of preempting or undercutting business opposition or, put differently, of buying business political quiescence.

But states do not solely determine the business–government balance of power. Business penetration of the state can limit state capacity or motivation to control business political behavior. In many developing countries, state-builders established close alliances or overlapped substantially with private capital holders, enabling economic elites to shape policies through personal ties to officials or by holding public office themselves. In these instances, public and private actors are not strictly separable and instead ties between state officials and an elite faction of private capital holders are close.

Pre-reform capital structure also shapes the level and mode of business collective action. I focus on two broad configurations of capital structure: dispersed and concentrated. Where private capital structure is dispersed throughout the economy and the state has not privileged one faction of industrialists over another, I argue that business collective action is less likely. What is the logic of this expectation? Integration in global production networks and trade liberalization increases incentives to invest in the export sector. In political economies where states ensure that capital is dispersed throughout the economy and across the export and domestic markets, further integration into the global economy and trade liberalization reinforces and expands the existing exporter class. State sponsorship of the export and import-substitution industrialization (ISI) sectors undercuts the organizational foundations for collective business lobbying.[10] Relatedly, evenhanded state policies toward the two spheres of the

[9] A well-known contemporary example is the imprisonment of the Russian oil tycoon Michael Khodorkovsky by the government of President Vladimir Putin, allegedly in response to Khodorkovsky's political ambitions.

[10] The argument applies to political economies where the state fostered industrial class development and sponsored the rise of an export class. In some semiopen economies with long-standing coexistent export and ISI sectors, exporters used private capital amassed in other sectors, such as agriculture, to launch export ventures. For example, in the

economy preempt the construction of privileged ties between the state and a particular faction of the industrial class, reducing the chance that business groups will mobilize collectively against each other's demands. Because industrialists do not mobilize to pursue policy interests, they do not spur shifts in established patterns of business–government relations.

Where capital structure is concentrated and domestically oriented industrialists enjoy tight relations with the state, I argue that trade liberalization and global economic integration induce collective business mobilization. These patterns of class structure and business–government relations are typical of countries that pursued classic ISI development strategies, in which the discretionary distribution of production and import licenses tended to create privileged domestic bourgeoisies with close ties to state officials (Bruton 1998; Waterbury 1994; Waterbury 1999). Close links between ISI elites and the state establish the context for conflict among industrialists. With trade liberalization and increased incentives to participate in global manufacturing chains, an export class arises. Where this new export class is sociologically distinct from existing protectionist elites who, historically, have monopolized local economic opportunities and have cultivated close ties with top political officials, new exporters feel marginalized.[11] A shared sense of marginalization forms the basis of a collective identity in opposition to ISI elites, facilitating group mobilization to promote liberalization and gain access to economic opportunities. Collective action is likely to occur through formal business associations because these relatively new capital holders are not part of established, clientelist networks of privilege (Shadlen 2004). In turn, group mobilization by exporters can spur a reaction from ISI elites.

A clear periodization of economic liberalization is essential to understanding the historical development of distant and close business–government relations in Tunisia and Morocco, respectively, and parallels the experiences of other developing countries (Chaudhry 1994; Frieden 1981; Haggard 1990; Kahler 1985). I divide processes of economic opening

Dominican Republic (Schrank 2005) and Mauritius (Alladin 1993; Bowman 1991; Darga 1998; Gibbon 2000; Nathan Associates 2003), agricultural elites used their own capital to diversify into manufactured exports and therefore were less indebted to the state.

[11] This argument rests on the premise that exporters are, by and large, sociologically distinct from domestic economic elites. I do not expect the argument to hold in places where ISI elites dominate export sectors as they divest from activities targeting the local market. Instead, the claims are most relevant where ISI elites continue to focus on holdings in domestic sectors or where they favor export sectors or services with high barriers to entry, which most small investors cannot penetrate.

TABLE 1.1. *Periodization of Global Economic Integration and Trade Liberalization in Morocco and Tunisia*

Country	Pre-Liberalization (1970s)	Liberalization I (1980s)	Liberalization II (1990s)
Morocco	Protected (ISI)	Semiopen: Parallel export and ISI sectors	Deepened liberalization
Tunisia	Semiopen: Parallel export and ISI sectors	Semiopen: Expanded export sector	Deepened liberalization

into three distinct moments during the latter half of the twentieth century: Pre-Liberalization, Liberalization I, and Liberalization II. Tunisia and Morocco began the liberalization process from different starting points and adopted distinct trajectories, as table 1.1 depicts.

In the first period, which prevailed roughly from the 1950s through the 1970s, divergent patterns of business class formation were consolidated in the two countries. In Tunisia, the state established a semiopen economy, which consisted of two parallel economic spheres with separate legal and fiscal regulatory regimes: export processing zones (EPZs), often referred to as "off-shore" zones, and an insulated domestic market, or the "on-shore" economy. By the late 1960s, given the limits of Tunisia's small domestic market, policymakers were convinced of the need for an export orientation. In Morocco, the state instituted classic ISI policies, consolidating and expanding the holdings of urban commercial and proto-industrial elites.

The first phase of liberalization occurred in the 1980s in large part as a response to the Debt Crisis, which forced many developing countries to undertake SAPs that compelled a measure of trade and financial liberalization (Frieden 1981; Kahler 1985). In this period, liberalization was not as far-reaching as international financial institutions and other advocates had hoped, and many economies remained substantially closed, especially with respect to key sectors of the economy.[12] In Tunisia, liberalization in the 1980s reinforced the preexisting semiopen economy, allowing the domestic market to remain substantially protected while giving

[12] This is not to deny the very real impact of economic liberalization, especially on the poor and middle classes. "Bread riots" in various parts of the developing world during the 1980s and beyond attest to the effects of dismantling food subsidies and other measures as part of structural adjustment.

a further boost to export activities. For Morocco, the initial liberalization phase institutionalized a dual market system with parallel on-shore and off-shore economies, establishing a new class of exporters alongside traditional ISI elites.[13]

In the second phase of liberalization, which began in the 1990s, many developing countries deepened their commitments to global economic integration in large part through participation in bilateral and multilateral trade agreements. A new round of regional free trade agreements linked industrialized and developing countries, including the North American Free Trade Agreement (NAFTA) in 1994 and the Euro-Mediterranean Association Agreements between the European Union and the Middle East/North Africa region following the Barcelona Declaration of 1995. In addition, developing countries signed on to the WTO Accords en masse beginning in the mid-1990s, committing themselves to marked reductions in trade barriers. The first two phases of market construction in the 1970s and 1980s established distinct industrial class structures in Tunisia and Morocco, setting the stage for varied business responses to deepened liberalization and global economic integration in the 1990s.

How do the two constitutive dimensions of business–government relations just outlined illuminate divergent patterns of business mobilization in the 1990s in Tunisia and Morocco? Variation in the business–government power relationship shaped producer beliefs about the viability of and need for collective action. Both Tunisia and Morocco are aptly characterized as authoritarian, but the Tunisian state brooks little independent opposition (even from its allies in the business community) and has provided extensive fiscal and regulatory incentives to firms in both the ISI and export sectors since the 1970s. State repression and preemptive provision of economic incentives, as in Tunisia, decrease the chances of business collective action. In Morocco, the penetration of state decision-making channels by a domestic elite meant that collective action by business interests, at least through formal organizations, was rarely needed until a new export class emerged during waves of liberalization in the 1980s and 1990s.

Capital structure and perceived ties between the state and segments of the industrial class also molded the interests and strategies of Tunisian and

[13] In Morocco, the categories of ISI and export elites were not purely distinct in both their sociological and economic dimensions. Some established ISI elites diversified their portfolios by investing in export activities. Nonetheless, trade liberalization and increased opportunities in global markets encouraged new investors to emerge, particularly in activities with low barriers to entry, such as apparel.