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# STATE BUSINESS RELATIONS AND ECONOMIC PERFORMANCE

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# Two Overall Research Questions

## **STATE-PRODUCER RELATIONS**

What are the determinants of how states behave towards producers to influence the pattern of growth, and why does this behaviour differ between states? What are the effects of collaborative relations between states and producers?

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# INSTITUTIONAL ARCHITECTURE

How does the institutional architecture – relating to property rights, the quality of transactions, and organisation within and between firms and farms - influence the possibilities for productive agriculture, employment-generating firms and remunerative self-employment, and hence the prospects for PPG?

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# State Business Relations

- Political scientists like Evans and political economists like Amsden have argued that 'collaborative' relations between the state and the business sector can be growth-enhancing.
  - Evidence mostly relying on case-studies from East Asia.
  - Not 'arms-length' as in Anglo-Saxon countries.
  - Not 'rent-seeking' as in some other parts of the developing world.
  - Lack of quantitative evidence on the impact of these collaborative relationships on growth.
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# How do SBRs affect economic performance in theory?

- ***Effective SBRs can help prevent both government failures and market failures.***
  - They help solve information related market and co-ordination failures (e.g, business associations monitoring their members and ensuring compliance).
  - They solve *collective action* problems.
  - *Check and balance function* on government tax and expenditures, and policies.
  - *Reduced policy uncertainty* e.g. knowledge on government policies and regulations (without need to make informal payments)
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# Quantifying State-business Relations (SBRs) and their effects

- What characterises good SBRs?
  - Can they be measured?
  - What do we know about the effect on economic performance?
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# Effective SBRs need

- *Transparency* in information
- *Reciprocity* in actions
- *Credibility* in statements
- *Trust*
- *Absence of collusive behaviour* between business and states

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# **MACRO LEVEL EFFECTS**

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# Measuring key factors behind effective SBRs *for 20 SSA case studies*

- the way in which the private sector is organised vis-à-vis the public sector (e.g. is there an umbrella private sector association?)
- the way in which the public sector is organised vis-à-vis the private sector (eg is there an IPA?)
- the practice and institutionalisation of SBRs (forum as in Malawi or institutional set-up as with JEC in Mauritius)
- the avoidance of harmful collusive behaviour (eg effective competition law).

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→ Measured across countries *and* over time

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## Do effective SBRs lead to higher economic growth in Sub-Saharan Africa?

We estimate empirical growth regressions for 19 SSA countries over the period 1970-2004.

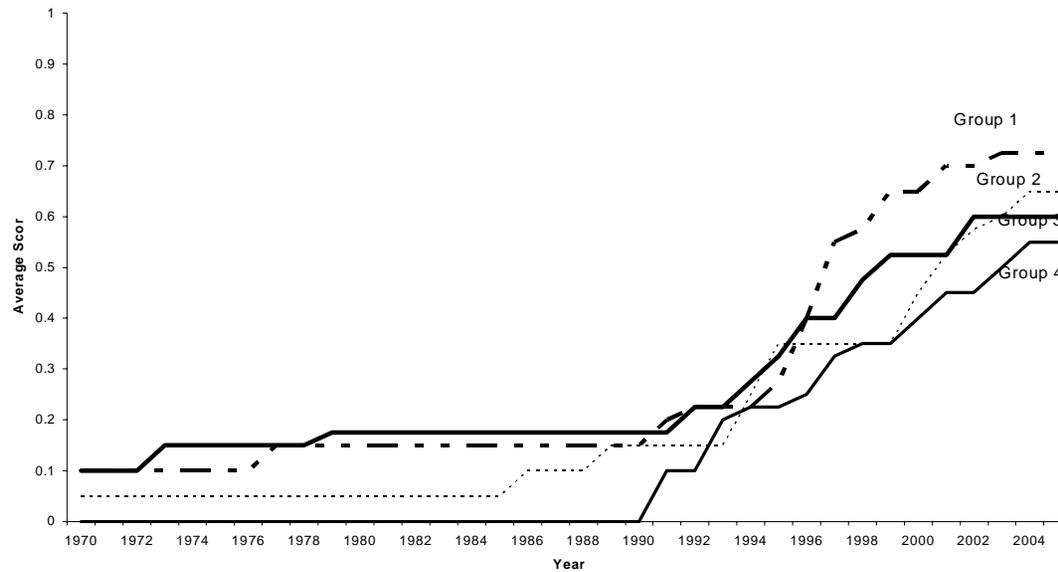
We control for other measures of institutional quality and macroeconomic factors.

We use panel data, in contrast to much of the institutions and growth literature that uses cross-sectional methods.

We use dynamic panel data estimators.

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**Chart 1 Higher SBR scores for groups of faster growing countries**



*Notes:* Group 1 = Botswana, Mauritius, Uganda, Mozambique, Mali; Group 2 = Tanzania, Ghana, Eritrea (part), Senegal, Kenya; Group 3 = Benin, Ethiopia, South Africa, Nigeria, Rwanda; Group 4 = Malawi, Zimbabwe, Madagascar, Zambia, Cote d'Ivoire. Groups based on PPP GDP per capita growth rates over 1980–2004.

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# Findings

- Effective SBRs have strong positive effect on economic growth in SSA (significant at 1 per cent level in most regressions).
  - This effect remains robust to the inclusion of other measures of institutional quality.
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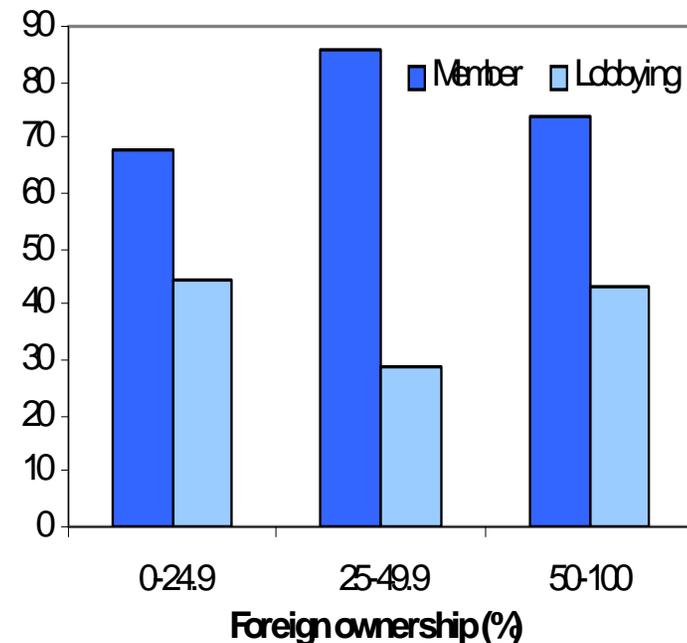
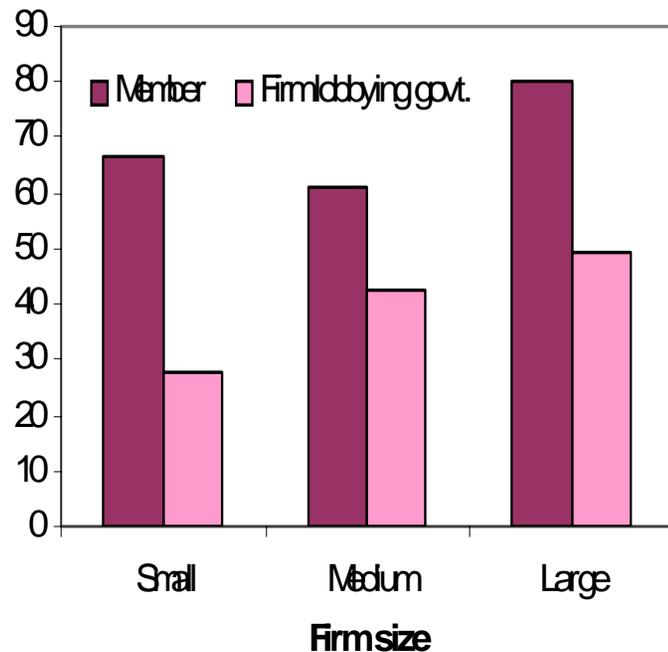
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# **MICRO LEVEL EFFECTS OF SBRS**

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# Measuring SBR at micro level (1)

## *Private sector organisation by firm size & ownership in Zambia (%)*



Source: World Bank enterprise surveys

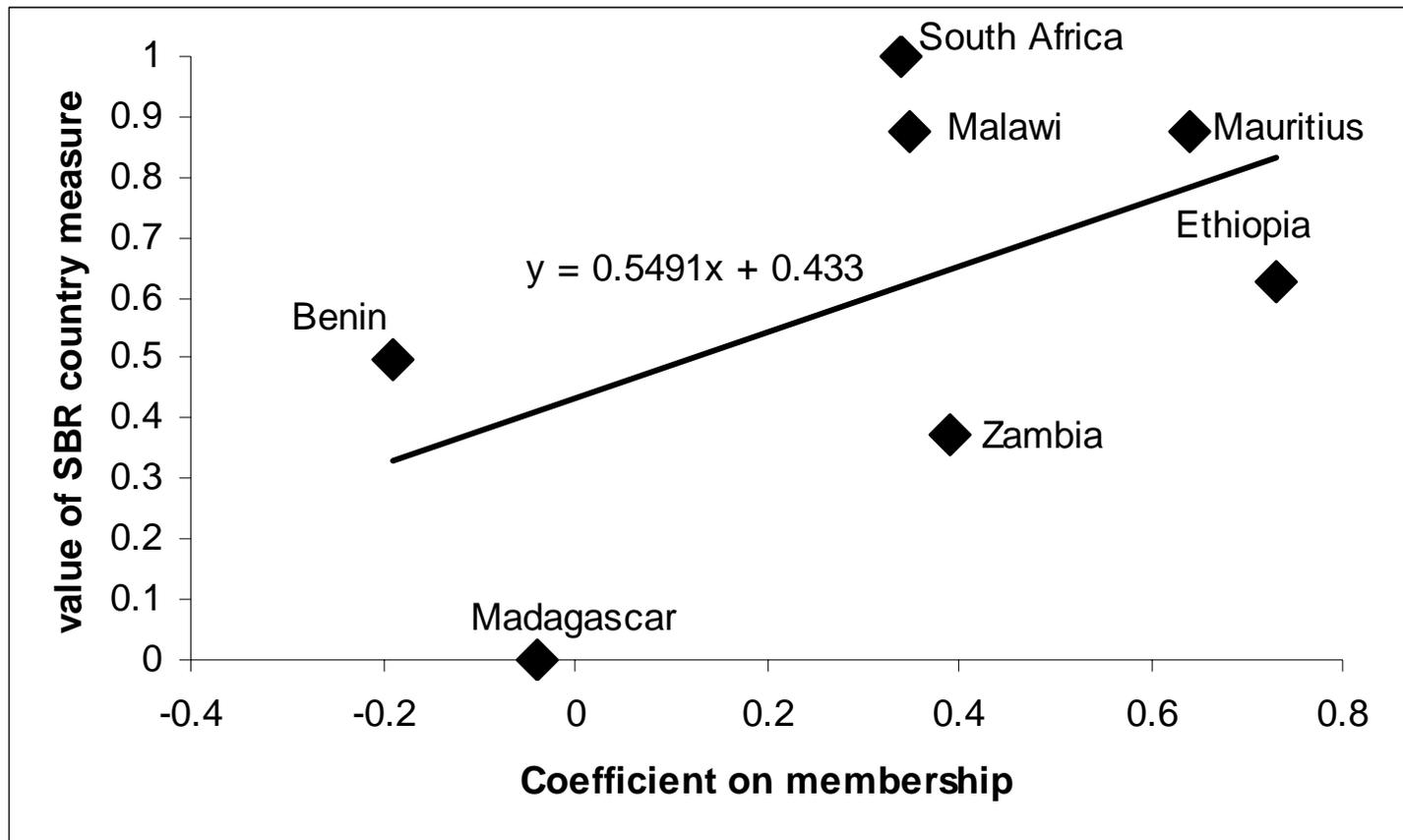
# Empirical results: productivity equations for 7 SSA countries

	Benin	Ethiopia	Madagascar	Malawi	Mauritius	South Africa	Zambia
Age	0.00	0.00	-0.01	0.02***	0.00	0.01***	0.00
Size	0.01***	0.00***	0.00	0.00	0.00**	0.00***	0.00
Foreign	0.00	0.01	0.00	0.01*	0.01	0.01***	0.01*
State	-0.01***	0.02***	0.01	-0.01	0.06***	0.01**	0.00
Export	0.00	0.01	0.00	0.01*	0.00	0.01***	0.00
<b>Member</b>	<b>-0.19</b>	<b>0.73***</b>	<b>-0.04</b>	<b>0.35*</b>	<b>0.64**</b>	<b>0.34***</b>	<b>0.39*</b>
lobby	-0.26				0.74**	0.19	-0.06
uncertainty	-0.17*	0.06	-0.02	-0.01	-0.01	-0.02	0.02
regtime	0.00	0.01	0.00	0.02	0.01	-0.01***	0.00
constant	2.34***	1.94***	3.28***	3.70***	7.15***	7.07***	5.72***
Industry effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	100	141	99	120	64	399	146
F-statistic	2.12**	27.02***	0.56	4.85***	6.02***	27.14***	2.07**
R-squared	0.25	0.38	0.23	0.30	0.40	0.45	0.15

Pooled effect (significant and positive): on TFP (0.3), labour productivity (0.2), real wages (0.1), effects similar by firm size, but mostly to skilled workers

# Linking micro and macro

*effect of mem greater when SBR macro score higher*



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## Overall conclusions on SBRs

- It is possible to “measure” SBR at micro and macro level and examine the effects
  - Factors associated with effective SBR increase economic growth and firm productivity
  - The micro effects differ by country, depending on the overall climate for SBR
  - Effects work through reducing policy uncertainty and lobbying government over rules and regulations
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# Other IPPG Research on SBRs

- *The Politics of State-Business Relations in Malawi – Henry Chingaibe (University of Malawi) and Adrian Leftwich*
  - Neither state nor business associations have yet developed the levels of relative autonomy vis a vis each other which might form the basis of effective and synergetic SBRs.
  - Continuous dependence of the main business association on the state and reluctance on the part of the state to allow autonomous capitalist development.
  - Path dependence: informal institutions of generalised reciprocity have blurred the distinction between the public and the private, legacy of the Banda regime.
  - Policy Message: Investing in processes which help to encourage and institutionalise autonomies and synergies on both sides.
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