

Varieties of Collusion

State-Business Relations and Economic Development
in the Middle East and North Africa

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List of Acronyms and Abbreviations

ACC	Amman Chamber of Commerce
ACI	Amman Chamber of Industry
AMIT	Association Marocaine de l'Industrie du Textile
AMITH	Association Marocaine des Industries du Textile et de l'Habillement
BUSORG	Business organisation OR business concentration (condition in QCA)
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CGEM	Confédération Générale des Entreprises du Maroc
CORR	Corruption (condition in QCA)
CPI	Corruption Perceptions Index
csQCA	crisp-set Qualitative Comparative Analysis
DFID	Department for International Development
EBA	Egyptian Businessmen's Association
ECC	Economic Consultative Council
ECMA	Egyptian Capital Market Association
EFSA	Egyptian Financial Supervisory Authority
EIDS	Egypt Industrial Development Strategy
FDI	Foreign direct investment
FEI	Federation of Egyptian Industries
FJCC	Federation of Jordanian Chambers of Commerce
fsQCA	fuzzy-set Qualitative Comparative Analysis
GAFI	General Authority for Investment and Free Zones
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GDPCAP	Gross domestic product per capita (outcome in QCA)
GNI	Gross national income
GoE	Government of Egypt
GoJ	Government of Jordan
GoM	Government of Morocco
GoT	Government of Tunisia
HDI	Human Development Index

IACE	Institut Arabe des Chefs d'Entreprises
ICRG	International Country Risk Guide
IFIs	International financial institutions
IMC	Industrial Modernisation Centre
IMF	International Monetary Fund
ISI	Import-substitution industrialisation (or: Import-substituting industrialisation)
JBE	Jordanian Businessmen Association
LE	Egyptian pound (livre égyptienne)
MANEXP	Proportion of manufactures exports to total merchandise exports (outcome in QCA)
MENA	Middle East and North Africa
MFTI	Egyptian Ministry of Foreign Trade and Industry
NDP	National Democratic Party
OECD	Organisation for Economic Co-operation and Development
ONA	Omnium Nord Africain
PAM	Parti de l'Authenticité et de la Modernité
PJD	Parti de la Justice et du Développement
PMN	Programme de Mise à Niveau
POLCAP	Political capability (condition in QCA)
QCA	Qualitative Comparative Analysis
RCD	Rassemblement Constitutionnel Démocratique
SAP	Structural adjustment programme
SBR	State-business relations
SFD	Social Fund for Development
SNI	Société Nationale d'Investissement
SOE	State-owned enterprise
STACOH	State coherence (condition in QCA)
UNDP	United Nations Development Programme
UNRWA	United Nations Relief and Works Agency for Palestine Refugees
USAID	United States Agency for International Development
USD	United States dollars
UTICA	Union Tunisienne de l'industrie, du commerce et de l'artisanat
WDI	World Development Indicators

Note on Transliteration

For the sake of easy readability, Arabic words have not been transliterated exactly. Instead, the commonly used, simplified English versions without diacritical marks have been adopted. Names are written following the transliteration used by the bearer, for example on their business card, or their common usage in the media. Place names are also rendered in their common English designation.

Chapter I

Introduction

I.1 State-business collusion and economic development: The puzzle

Since the 1980s, private sectors in the Middle East and North Africa (MENA) have increased in economic weight compared to the bloated public sectors. State-led economic policy had led to debt crises which forced most states to liberalise their economies and some to subscribe to structural adjustment programmes, and a strengthening of the private sector was seen as a solution to the problem of investment and employment (Hertog 2013). This was a general phenomenon across late-late developers. Ben Ross Schneider argues that “in fact, as became clear in the wake of neoliberal economic reform, the opposite of state-led development is not market-led but rather business-led development” (1998: 101f.).

The rise of private sectors as a whole has been accompanied by the emergence of business elites who colluded with political elites to grow their enterprises and fortunes, commonly referred to as *crony capitalists* (Henry and Springborg 2001: 152-155). Corruption and rent-seeking have been common across the MENA region, with business elites taking advantage of economic liberalisation to acquire state-owned enterprises (SOEs) cheaply, bribe state officials to buy land for tourism investment while delaying trade liberalisation to preserve industries built on state protection. These phenomena have not only been a focus of the academic literature (for example, Heydemann 2004) but have also been widely reported in the media. The outcome of economic reform and structural adjustment was, for the most part, not a transparent, competition-based market economy but *patrimonial capitalism* (Schlumberger 2005, 2008).

In terms of economic results, the region generally did not experience the same dynamic capitalist development which had taken place in parts of East Asia. The Arab Spring in 2011 served as reminder that a large share of the population continued to suffer from poverty and unemployment. Pervasive corruption and a lack of *good governance* have commonly been identified as a central reason for the lacklustre development record of the region. Emma Murphy (2009: 109f.) writes that one of the “requisites for making the qualitative, as well as quantitative, leap to a globalised economy” is “the urgent requirement for good governance, transparency, accountability and the rule of law”, and Juliane Brach (2008: 30) argues that “the lack of technological readiness and the

presence of economic institutions dominated by rent-seeking behaviour constitute the most acute or most binding constraints to economic development in these countries”.¹

These arguments are supported by much of the theoretical literature on growth, corruption and good governance. I will call this the orthodox view. It holds that corruption, rent-seeking and similar phenomena have negative effects on investment and growth because they reduce the efficiency of public administration, cause an uncertain environment for investors and divert efforts away from productive activities to political ones (for overviews, see Bardhan 1997 and Congleton et al. 2008). In contrast to this classical orthodox literature, which generally views close interactions between state and business with suspicion, a newer strand has identified collaborative and transparent state-business relations (SBR) as potential drivers of growth and development (Schneider and Maxfield 1997; Sen 2013b). It distinguishes between collaboration and collusion, with the former seen as beneficial and the latter as detrimental to development. Dirk Te Velde (2006: 6) asserts that “(t)oo close a collaboration between business and states amounts to collusive behaviour and potentially harmful rent-seeking behaviour and favouritism.” Antoinette Handley (2008) contrasts SBR characterised by “constructive contestation” with those dominated by “neo-patrimonial collusion”.

Yet, as convincing as they sound, these arguments suffer from a major shortcoming: they struggle to explain empirical variance. MENA countries were all marked by corruption and bad governance since the 1980s, so why were there different growth and development trajectories in different countries and in different periods? Why were some hailed as success stories by international financial institutions, despite corruption (IMF 2007)? Why did less corrupt economies not grow more quickly than more corrupt ones? Why have some countries, such as Tunisia, implemented ambitious industrial policy programmes and transitioned to largely export-oriented economies while others have not? Why has Egypt in the 2000s shown some of the highest growth rates of all MENA countries in recent decades while corruption was more pervasive than ever?

An alternative view of collusive SBR suggests that these empirical complexities can only be explained by abandoning normative bias and examining the effects of different *varieties of collusion* in more detail. Khan and Sundaram (2000b: 5) advocate that

¹ For similar assessments from international institutions, see Abed and Davoodi (2003); UNDP (2002); World Bank (2003, 2009).

“(t)he effects of extensive corruption, clientelism and other forms of rent-seeking differ across countries, and the analytical task is to identify the determinants of these differences.” These heterodox theorists argue that we need to look beyond the mere existence of collusive relations and disaggregate both their manifestations and their effects. They maintain that economic outcomes are not always negative, depending on additional political and institutional conditions. Among these are actor-related variables such as the power relations between state and business actors and their interests (Khan and Blankenburg 2009) as well as structural variables such as state characteristics and the organisation of the business sector (Kang 2002, 2003). The complex role of such condition variables is often not recognised, and empirical varieties of collusion are easily overlooked because they do not correspond to the free-market or collaborative ideal types. In fact, the predominant literature on SBR provides few answers concerning the developmental effects of different forms of *collusive* SBR – which are far more relevant empirically.

I.2 Research question and research design

This thesis shows that there is more than one kind of state-business collusion, and that differences matter.

It sets out to challenge the oft-simplistic view of SBR and economic development, with a particular focus on the MENA region. The heterodox view of SBR complexity has repeatedly been acknowledged by analyses of economic development in Asia and Africa (see, for instance, Kang 2002; Noman et al. 2012; Khan 2012a; Kelsall 2013), but has gone largely unrecognised in the literature on the MENA region. Until now, there has not been any systematic, theory-based assessment of the development effects of different kinds of collusive SBR in the region.

This is not to say that the literature on the MENA political economy is generally undifferentiated. However, for the most part it focuses on – undoubtedly dominant – examples of negative economic effects of state-business collusion, which risks overlooking more ambiguous and potentially positive effects. Authors tend to skip the link between corruption and development, implicitly assuming that good governance is

a necessary prerequisite for economic development. This ignores the empirical evidence of early and late capitalist development in other world regions, where corruption was the norm rather than the exception in both successful and unsuccessful cases. Consequently, authors contrast corruption with an idealistic, empirically immaterial form of good governance instead of examining the conditions which can make the difference between ineffective collusion and effective collusion. An exception is the edited volume by Steven Heydemann (2004a), who explicitly recognises the possible coexistence of rent-seeking and high growth and calls for a nuanced analysis of the effects of “rent-seeking networks” on the outcomes of economic reform (2004b: 9-13). Other more nuanced studies are provided by Carroll (2003), Moore (2004), Cammett (2007), Erdle (2010), Hertog (2010a) and Loewe (2013) and will be referred to in more detail in the course of the following chapters.

The aim of the thesis is to bridge this gap by bringing together the theoretical literature on SBR with the empirical literature on SBR in the MENA region. Therefore, it has two objectives, one theoretical and one empirical. On the one hand, it aims at testing existing theories, both orthodox and heterodox, using cases from the region which have hitherto not been systematically used for this purpose. This will contribute to theory development. On the other hand, by doing so, it aims at identifying the characteristics of SBR in the MENA region which were responsible for different economic outcomes since the 1980s, contributing to an understanding of economic development trajectories in the region.

Hence, the research question at the heart of this study is: *What are the effects of different varieties of collusive state-business relations on economic development?*

It is also important to say what this thesis does *not* aim to cover. I will not examine the impact of rising private sector elites or even a “bourgeoisie” on democratisation (see Luciani 2007 on this topic). The private sector has been seen as pivotal in advocating political reform and democratisation, especially if businesspeople constitute a bourgeoisie, as expressed by Barrington Moore’s famous statement “No bourgeois, no democracy” (1967: 418). Rather, I will concentrate on economic outcomes in order to embed the study within the literature on economic development. This seems to be more relevant empirically as before the Arab Spring, democratisation was nowhere in sight in

most of the MENA countries (Albrecht and Schlumberger 2004) and any democratisation after the Arab Spring – mainly in Tunisia – was the result of factors different from SBR (although I will touch on the role of SBR in the concluding chapter). Most political reforms before and after the Arab Spring have rather proven to be a form of “upgrading authoritarianism” (Heydemann 2007). Hence, it seems more interesting to ask what the effects of SBR are under persisting authoritarian conditions.

The study was designed so that variables which are not related to SBR can be kept separate as far as possible. Particularly important is the limitation of scope conditions in order not to conflate countries at different stages of development. From both a theoretical and an empirical point of view, the research question is most relevant for countries which are considered late-late developers and have undergone a period of economic reform which resulted in growing private sectors. In particular, I have chosen to focus on Morocco, Jordan, Tunisia and Egypt between 1984 and 2010 (for more detail on the research design and case selection, see chapters III and IV.1).

The design follows a method triangulation in that it combines a *fuzzy-set Qualitative Comparative Analysis* (fsQCA; Ragin 2008) of these four countries with a *within-case study* of Egypt between 2004 and 2010. QCA was chosen because it is appropriate for testing the largely configurational theories on SBR and economic development which go beyond linear relationships between two variables, and because it can distinguish between necessary and sufficient conditions. It includes elements of Mill’s comparative methods while enabling the comparison of more cases and recognising causal complexity such as equifinality, but is still case-oriented and allows the inclusion of complex empirical observations, in contrast to quantitative methods.

The within-case study of Egypt 2004-2010 complements the QCA by using two qualitative case-study methods, the *congruence method* and *process-tracing* (George and Bennett 2005: 181). This case was chosen as it represents a “most-likely” case from the point of view of the orthodox corruption literature (Eckstein 1975: 118f.; George and Bennett 2005: 120-123): corruption was very high, so investment and growth should have been very low. The opposite is true: during 2004-2010, collusion between business and state actors coincided with the most ambitious economic reform programme and the highest growth and investment rates of the past decades.

I.3 Specification of independent and dependent variables

The two main variables under study are *state-business relations* (SBR) and *economic development*. The former can simply be defined as all relations between the state on the one hand and business on the other, be they formal or informal. They constitute a subset of state-society relations. The *state* is understood as a set of “political apparatuses, distinct from both ruler and ruled, with supreme jurisdiction over a demarcated area, backed by a claim to a monopoly of coercive power, and enjoying legitimacy as a result of a minimum level of support or loyalty from their citizens” (Held et al. 1999: 45, cited in Leftwich 2008: 214). I understand *business* as the economic agents active in the private sector (following Handley 2008: 10). Business elites are therefore included, but also proprietors of small shops, for example. Economic elites, in contrast, could include individuals not part of the private sector, following Antoinette Handley’s definition which includes “those key individuals and families who comprise the topmost economic stratum of their society” (2008: 10). While business thus refers to the persons in the private sector, it is often used interchangeably with *private sector*, meaning all companies the majority of which is owned by private individuals. I will also use both terms here. Particularly in neopatrimonial states, this distinction is analytically challenging, which will have an impact on the analysis. Foreign-owned businesses and multinationals are included in the notion of business. They are not systematically distinguished from domestic actors as this is beyond the scope of the study.

Subtypes of SBR often mentioned in the literature are *collaborative* versus *collusive* SBR. They are differentiated by the interests and aims of the state and business actors who are part of such relations: If both sides entertain relations primarily for their own benefit, in particular for rent-seeking purposes, they are collusive. These would usually also include instances of corruption (for a discussion of corruption and rent-seeking, see chapter II.1). If they have common developmental aims and are not for the purposes of rent-seeking, they are collaborative.

Alternative terms used in the literature are “business-government relations” (Cammett 2007) and “state-industry relations” (Evans 1995), which have slightly different connotations. Throughout this study, we will adhere to the term “state-business relations”. This is synonymous with Maxfield and Schneider’s (1997) use of the

inverted expression “business-state relations”. “State” is favoured over “government” because it is the interactions between the private sector and the state apparatus as a whole that we are concerned with, not just with the narrower governing group. Government is obviously important and is understood to be “the group who controls the state” (Van Inwegen 2011: 7), but in principle, following the definition cited above, the state is conceptualised as being “distinct from both ruler and ruled”. Again, this is often not the case in reality, and the interests and behaviour of the government as well as the form of government deserve particular attention. Still, there are many structural factors inherent to the organisation of the state which may possibly alter the character and effect of SBR, so looking at government-business relations only would limit the scope of the analysis unnecessarily. Instead of choosing industry as the counterpart to the state like in Peter Evans’ 1995 publication, the focus here is on business, that is the private sector. Those parts of industry which are publicly owned are expected to follow different considerations and are subsumed under the side of the state (and, in fact, the character of relations between state-owned and private companies may also affect development outcomes).

In order to recognise the empirical complexities of not just the independent, but also the dependent variable, we will differentiate between different forms of economic outcomes, focusing on a narrow understanding of economic development on the one hand and a broader understanding on the other. *Development* has taken different meanings throughout the past decades, and what development is and should be has been the object of much scholarly debate (for an extensive overview, see Leftwich 2000: 16-70). For the purposes of this study, we will concentrate on *economic development* as the dependent variable, while acknowledging its complexity. Often, economic development is reduced to economic growth, that is growth of production and income measured as GDP/GNI or GDP/GNI per capita. Yet, while economic growth can be seen as “a necessary component of development” (Leftwich 2000: 29), what is also required for economic development is a transformation of the economy which will raise standards of living over the long term. Ha-Joon Chang (2008) argues that a rise in productivity is essential, which can only be achieved by the formation of a domestic manufacturing sector, and that “the foundation of economic development is the acquisition of more productive knowledge” (Chang 2008: 142). Therefore, growth and other indicators of

static economic performance must be complemented by more dynamic elements. I will follow Henry Bernstein's definition of economic development: "Raising the *productive capacities of societies*, in terms of their technologies (more efficient tools and machines), technical cultures (knowledge of nature, research and capacity to develop improved technologies), and the physical, technical and organizational capacities and skills of those engaged in production" (1983: 59, cited in Thomas 2000: 31, emphasis in original). In this sense, economic development is closely linked to production and thereby growth, but in addition, it requires an increase in capacities, particularly through industrialisation. Successful economic development is not about improving static efficiency, it is about long-term transformation, which requires but is not limited to economic growth.

There are various conceptualisations of development which integrate additional criteria in order to assess the expansion of *human capabilities*, going beyond mere economic indicators. The UNDP *Human Development Index* is probably the most widely used indicator for human development; it includes measures of health and education next to national income data. Other concepts take into account income distribution within a given society, emphasising the reduction of social inequality as an essential element of development. It can be measured by the Lorenz curve and the Gini coefficient and is also incorporated into the *Inequality-adjusted Human Development Index*.

The reduction of poverty is another aspect of development which has increasingly entered the focus of the development literature and of development agencies. The "trickle-down effect" of economic growth assumed back in the 1960s has been shown to seldom materialise by itself. Growth in conjunction with poverty reduction is called *Pro-Poor Growth*; this means that growth is disproportionately positive for the poor parts of the population. The pro-poor growth paradigm is explicitly adopted in the studies on SBR conducted by the *Research Programme Consortium on Improving Institutions for Pro-Poor Growth* (IPPG) which will be referred to later.

This thesis does not enter the debate on what development is or should be. We will concentrate on *economic performance* on the one hand and *economic development* on the other as these concepts have also been the focus of the majority of the literature on the effects of SBR. Economic performance includes primarily growth, but also investment, inflation, employment and poverty, as these are also static measures of

performance (the latter categories will feature in the within-case study, while the QCA is limited to per capita growth). Economic development presupposes growth but includes indicators of sectoral transformation and productive capacities such as the composition of exports, manufacturing growth and labour productivity (for more detail see chapter IV.2.6). While other concepts of development are not the primary concern of this study, the QCA will consider the HDI as a common measure of human development.

The analytical advantage in adopting this complex view of the dependent variable is that it enables us to discern effects of *different forms of state-business collusion* on *different dimensions of development*. While a certain type of SBR, for example, may have positive implications for *production*, it may not increase *productive capacities* by the same extent. We will see that in the case of Egypt 2004-2010, the distinction between economic performance and development is particularly important: While growth figures were remarkable, it is questionable whether they also signified economic development in a broader sense.

I.4 Outline and findings

Chapter II presents an extensive discussion of theories relevant to the research question. These are divided into three categories; the first includes theories on corruption, rent-seeking and good governance, as these concepts are at the heart of the debate about collusive SBR and economic development. Both the orthodox and the heterodox perspective will be introduced. The second focuses on the characteristics of the state and business, respectively, and how they influence economic outcomes. The third category includes literature which attempts to disaggregate SBR and identify causal mechanisms, which will be particularly relevant for the within-case study.

Chapter III presents the methods used in chapters IV and V. The largest part of the chapter is devoted to QCA and particularly fsQCA, as it constitutes a fairly recent method which has not been prominently used in political science research on the MENA region yet (an exception is Bank et al. 2015). I will then discuss the within-case study methods used: the congruence method and process-tracing. The potential shortcomings

of each method will also be addressed. Finally, the chapter includes information on data collection methods.

Chapters IV and V contain the empirical analysis. Chapter IV first discusses the case selection in more detail, taking into account the features of QCA. Each of the four countries – Morocco, Jordan, Tunisia and Egypt – is divided into country periods which constitute individual cases. As QCA requires the specification of a small number of conditions as well as outcomes, these will be discussed in reference to the theories presented in chapter II. This includes their operationalisation and calibration. The following chapters examine each of the four countries with the purpose of coding the conditions. The assigned values are then collated for the QCA, which starts with an analysis of necessary conditions before proceeding to analyse sufficient conditions.

The results show that low corruption is not a necessary condition for growth. High corruption is found to be associated with low growth, but only if states lack political capability. Furthermore, two distinct configurations of SBR are identified which both feature high corruption as well as high political capability: The first, represented by Egypt 2004-2010, is a case of dominant business elites who have direct control over economic policy-making. This configuration is sufficient for high growth, but not economic development in the wider sense. The second, represented by Tunisia, Morocco and to a lesser extent Jordan during the most recent periods up to 2010, is a case of high state coherence with low business organisation/concentration. It is found to be sufficient for moderately high growth as well as wider economic development gains. Chapter V studies the case of Egypt 2004-2010 in more detail. It starts by examining the change in SBR which took place in 2004 and compares it to indicators of economic performance and economic development. The results suggest a causal relationship between the emergence of a “collusive growth coalition” in 2004 and successful economic performance. The second part of the within-case study looks for causal process observations as evidence of the causal link between SBR and economic outcomes. It shows that the type of state-business collusion during this period and in particular the interests of both state and business actors offer an explanation for the ambiguous outcome of high economic performance on the one hand and unsatisfactory economic development in the wider sense on the other.

Finally, chapter VI draws conclusions for theory development and identifies areas for future work. It also gives an outlook on the Arab Spring and discusses lessons for development policy.

Chapter II

Theories on State-Business Relations and Economic Development

This chapter reviews the theoretical literature on SBR and economic development. It focuses on the divide between *collusive* and *collaborative* SBR – while the first are mostly seen as detrimental to economic development, much of the current literature identifies the second as helpful or even necessary. The review shows that from both a methodological and an empirical standpoint, this divide greatly oversimplifies and does not help answer the research questions posed here without considering the political and institutional context. It then moves on to discussing theories which do consider this context, and finally we will discuss attempts at disaggregating and measuring SBR.

While some of the theories below do not in fact explicitly study SBR, they are nevertheless relevant because they include hypotheses on the effects of SBR on economic development. Furthermore, some of the theories do not refer to economic development specifically, but to different concepts such as economic growth, economic transformation, industrialisation and so on – which are all relevant to our study of economic development.²

II.1 Corruption, rent-seeking and the debate on good governance

The largest body of literature which is relevant for our discussion of the effects of SBR on economic development deals with collusive SBR, that is SBR characterised by corruption, rent-seeking and similar phenomena. The literature can be divided into two competing arguments: the first holds that corruption and rent-seeking are always bad for economic development, the second is more nuanced and claims that under certain conditions, corruption and rent-seeking can either be compatible with or even conducive to economic development. In the context of development studies and cooperation, much of the discussion centres on the concept of “good governance”.

² It should also be noted that some of the “theories” discussed here may not have explicitly been put forward as such by their respective authors. Nevertheless, they are hereinafter treated as theories because they include hypotheses on the link between state-business relations and economic development (or aspects thereof) and an explanation of how this link operates, following the definition of “theory” coined by Stephen Van Evera (1997: 9).

II.1.1 Corruption, rent-seeking and bad governance as obstacles to economic development

The first argument, the “orthodox” view of collusive SBR, is based on the mainstream literature on corruption and rent-seeking (see Bardhan 1997 and Svensson 2005 for excellent overviews of the corruption literature, Congleton et al. 2008 on rent-seeking). It is presented mainly by neoclassical economists and based on economic models, econometric analyses of corruption indices and growth data and (often anecdotal) case examples. Even though the line of reasoning is similar, one should differentiate between corruption and rent-seeking. While there are several possibilities of defining corruption (see Gardiner 2009; Heidenheimer and Johnston 2009; Philp 2009), most definitions relate to the deviation from legal norms and the abuse of public office. Joseph Nye’s widely cited definition refers to corruption as “behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence” (1967: 419). Behaviour such as patronage and nepotism can be subsumed under this understanding of corruption. More recently, Daniel Kaufmann and Pedro Vicente (2005) have challenged this widely used definition and introduced the notion of “legal corruption”, behaviour which does not violate legal norms but nevertheless promotes personal gain at the expense of public welfare.

Rent-seeking, in contrast, is an economic rather than a political, legal or normative concept. It occurs when “resources are devoted to competing for rents” (Krueger 1974: 52), with rent commonly being defined as “that part of the payment to an owner of resources over and above that which those resources could command in any alternative use” (Buchanan 1980: 3). Rents can be seen as a source of corruption, for example when rent-seekers invest in bribing government officials or gaining access to positions which decide on the distribution of rents (Mauro 2009: 340-342).

Corruption is thought to inhibit growth through several mechanisms, some of which are: “sanding the wheels” of public administration (Méon and Sekkat 2005), for example when civil servants delay bureaucratic procedures (Myrdal 1968: 951-955) or limit the supply of public goods (Rose-Ackerman 2009: 358) in order to collect bribes; diverting

investments and government spending towards unproductive areas where bribes are easier to take (Shleifer and Vishny 1993: 612-615); and reducing investment by contributing to “an uncertain business climate” (Rose-Ackerman 2009: 361). Additional costs are caused by the need to keep corruption secret (Rose-Ackerman 2009: 357). Corruption was also found to reduce growth at the level of the firm, even more than taxation (Fishman and Svensson 2007).

It is generally recognised that levels of corruption and the magnitude of its negative effects vary according to other factors, including political factors. For example, Shleifer and Vishny (1993) argue that the harmful effects of corruption will be lower if it is centrally organised as opposed to a decentral bureaucracy with several independent bribe-takers and uncertain rewards, and that political competition – as present, for example, in a democratic political regime – reduces corruption as leaders face public pressure to introduce anti-corruption measures. Notwithstanding this kind of differentiation, corruption is generally seen as harmful for development.

Similarly, and sometimes overlapping with the corruption literature, the neoclassical rent-seeking literature has identified negative effects of certain business-state interactions. It claims that rents created by state intervention cause “rent-seeking” activities which have social costs in addition to the monetary transfer itself. Gordon Tullock (1967) showed that the social or welfare costs of monopolies and tariffs are much higher than previously estimated because resources are spent on lobbying and similar activities in order to achieve them; it is not just the economic inefficiency inherent to a monopolistic or restricted market which creates costs. This idea was taken up by Richard Posner (1975), who further refined the measurement of these social costs and concluded that the costs caused by state regulation are higher than those caused by private monopoly.

The term “rent-seeking” itself was coined by Anne Krueger (1974), who used it to describe activities aimed at influencing governments to issue import licenses when imports are restricted. She observed that importers not only spend resources on obtaining the licenses, but also on competing for them, causing deadweight losses. For example, if licenses are allocated according to production capacities, firms will be tempted to invest in additional plants even though they may not yield returns, and if

license allocation can be influenced by government officials, firms may spend resources on bribery.

The general argument which emerges is that governments create “arbitrary and/or artificial scarcity” (Buchanan 1980: 9) through the allocation of import licenses or monopolies, the introduction of quotas, issuance of permits and so on. Resources which could have been invested productively are instead spent to compete for rents. In contrast to this government-induced scarcity, rents would be naturally dissipated in a perfect market as new competitors enter the market and compete on equal terms and supply and demand are allowed to freely determine the price.

Jagdish Bhagwati (1982), writing from the perspective of the economics of international trade, saw rent-seeking as merely one form of “directly unproductive, profit-seeking activities” (DUP). For him, the central feature of these activities is that they use resources and yield returns, that is they are profitable, but they are not productive because they do not produce goods or services. This view also shows that from the perspective of the individual, rent-seeking is just another form of profit-seeking, but the costs for society are thought to be much higher because it is unproductive. While the rent-seeking and DUP traditions differ in their approach to the phenomenon, they draw similar conclusions regarding its negative effects on economic performance (for a thorough comparison and discussion see Rowley 1988).

Hence, the hypotheses generated by the corruption, rent-seeking and DUP literature with respect to our research question are compatible. All of these strands of literature argue that collusive SBR create social costs and have detrimental effects on economic performance.

Initially, corruption and rent-seeking theorists mainly used anecdotal evidence and economic models to support their arguments. More recently, with macro-economic and survey data becoming more readily available, econometric analyses which examine the hypothesised relationships have become commonplace. Since there is no accepted method for estimating rent-seeking costs (Del Rosal 2011), most use an index of corruption as a proxy or simply employ the terms corruption and rent-seeking interchangeably.

While measuring corruption is also difficult and contested – by definition, it will always

include a notion of subjectivity or relativity to legal norms – a multitude of cross-country indices has been constructed over the past decades (for a compilation and discussion see Sampford et al. 2006). Several widely cited econometric studies based on these indices assert that corruption and growth are negatively correlated. They usually take a growth regression as the starting point and include several standard growth determinants as explanatory variables, reflecting the empirics and determinants of growth literature (Barro 1991, 1997 are the classic examples), and then add corruption as an additional independent variable. Paolo Mauro (1995), using *Business International (BI)* country risk data for 1980-1983,³ was the first to find a negative correlation between corruption and investment rates and growth, although the effect on growth was only significant at the 10 per cent level. In contrast, an updated analysis by Jakob Svensson (2005: 38f.), using the *International Country Risk Guide (ICRG)* 1982-2000 dataset, could not find any significant correlation between corruption and growth.⁴ Svensson (2005) runs other regressions which do result in a significant negative correlation between corruption and GDP per capita. This shows that rich countries are generally less corrupt, but does not confirm the direction of causality. Other studies provided support for Mauro's initial findings. Mauro (1998) shows that corruption diverts government expenditure away from education and possibly health, and argues that this has adverse effects on long-term economic development. Mo (2001) finds a negative growth effect through political instability, a reduction of human capital and private investment, and Méon and Sekkat (2005) confirm that corruption reduces both investment and growth. A systematic, comprehensive review of the literature on corruption in low-income countries conducted by Ugur and Dasgupta (2011) concludes that corruption is generally found to have a negative effect on economic growth, even though this relationship is not uniform over time and between countries.

From the 2000s onwards, in the theory and practice of international development, corruption and rent-seeking came to be seen as some of the main impediments to

³ *Business International* has in the meantime become part of the *Economist Intelligence Unit*, which still publishes country risk ratings (http://www.eiu.com/landing/risk_analysis). Corruption was one of dozens of indicators of political risk. Mauro (1995) limited his analysis to nine indicators of institutional efficiency, corruption being one of them.

⁴ The ICRG is published by *Political Risk Services (PRS)* (for more information see <https://www.prsgroup.com/about-us/our-two-methodologies/icrg>). It will also be used in this thesis as a measure of corruption. For further discussion see chapters III.3 and IV.2.1.

economic development. The 1980s and 1990s had been dominated by the “Washington Consensus” approach to development, which emphasised a set of economic and financial reforms comprising fiscal discipline, tax reform, exchange rate liberalisation, privatisation and deregulation, among others. The aim was to achieve “structural adjustment” of the economy and cut back the state, as state intervention was seen as one of the origins of persisting underdevelopment. The Washington Consensus reforms were designed to let the market take over and achieve greater economic efficiency.⁵ During the 1990s, particularly in Latin America, it became increasingly obvious that the Washington Consensus policies had not achieved their objectives. Different explanations were offered, most of which fell in one of two camps: the policies had not failed, but countries had not implemented them as speedily, comprehensively or as diligently as they should have (see, for example, Williamson 2003); or the policies did not have the intended effects due to a lack of political institutions and bad governance which prevented markets from efficiently allocating resources (see, for example, IMF 1997 and Kaufmann et al. 1999).

Despite a short-lived revival of the Washington Consensus view with the 1997 Asian financial crisis – which was interpreted by many as having been caused at least in part by detrimental state intervention into the financial sector – the end of the 1990s and the 2000s saw a change in the view of the World Bank and other financial institutions as well as analysts and ushered in a “Post-Washington Consensus” (Kolodko 1999; Stiglitz 2008). Neo-classical economics had by now recognised the arguments of new institutional economists who argued that functioning markets relied on institutional prerequisites, in particular secure property rights. One of the earliest empirical studies investigating the relationship between property rights and economic growth was published by Stephen Knack and Philip Keefer (1995). It was based on growth models such as the one developed by Barro (1991) but used the PRS Group’s *International Country Risk Guide (ICRG)* indicators to construct a property rights index, which was found to have a significant effect on growth and investment.

This revision of the Washington Consensus meant that rather than a cutback of state intervention, institution-building moved to the forefront of the development agenda. The

⁵ For the early Washington Consensus perspective, see John Williamson (1990, 1993). It should be noted that the Washington Consensus was not a policy paper, but a summary of the prevailing views of international financial institutions at the time and the policies they promoted.

prescribed cure was now to improve state institutions and governance along with strengthening the market. The Asian financial crisis also served as an example of the detrimental effects of bad governance, as it could be seen to have been caused by widespread corruption and crony capitalism, an imperfect solution to securing property rights (Krueger 2002) – notwithstanding the fact that corruption had already been widespread during the era of the “Asian miracle” (Kang 2002, see below). Jeffrey Frankel, member of Bill Clinton’s Council of Economic Advisers, attributed the crisis in a large part to a “banking system based excessively on (...) collusive personal relationships” (1998).

The end of the 1990s and 2000s thus marked a decisive shift in development policy which started to recognise the role of institutions for the success or failure of economic reform. The stance of international financial institutions, in particular the IMF and the World Bank, and the development discourse as a whole shifted to include governance⁶ as one of the main determinants of development, with transparency at its core. The preface to the 1997 IMF publication “Good Governance. The IMF’s role” quotes IMF Managing Director Michel Camdessus:

“Good governance is important for countries at all stages of development. (...) Our approach is to concentrate on those aspects of good governance that are most closely related to our surveillance over macroeconomic policies – namely, the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private sector activity.”

Similarly, the pivotal 1999 World Bank publication by Daniel Kaufmann, Aart Kraay and Pablo Zaido-Lobatón entitled “Governance Matters” made a plea for improving governance in order to achieve development and introduced six aggregate measures for capturing governance: voice and accountability, political instability and violence, government effectiveness, regulatory burden, rule of law and graft. These six measures are still used to produce the World Bank’s annual *Worldwide Governance Indicators* (WGI), with graft having been renamed to “Control of Corruption”, defined as “capturing perceptions of the extent to which public power is exercised for private gain,

⁶ Governance is defined by the World Bank “as the traditions and institutions by which authority in a country is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (Kaufmann et al. 2004: 2).

including both petty and grand forms of corruption, as well as ‘capture’ of the state by elites and private interests” (World Bank 2018b).

Good governance was promoted by international financial institutions and NGOs alike, and grew in its scope and meaning. The IMF started to recognise the importance of good governance in its *Article IV* consultations conducted with governments of indebted countries. The World Bank *Poverty Reduction Strategy Papers* put governance issues at the forefront of the reforms demanded from developing countries, as did the World Bank’s *World Development Reports*. As Merilee Grindle (2004: 527) notes, “In the 1997 report, developing countries were advised to pay attention to 45 aspects of good governance; by 2002, the list had grown to 116 items.” The European Commission also adopted good governance as a guiding principle for its development cooperation, arguing that “(p)overly reduction and the Millennium Development Goals (MDG) will not be achieved without decisive progress in the areas of economic, social, environmental and political governance” (2006).⁷

Institution-building and the fight against bad governance, including corruption, was now seen as a prerequisite to the economic reforms envisaged by the Washington Consensus. Rather than a Post-Washington Consensus, this could just as well be seen as a reversal of the Washington Consensus principle – before, it was the state which needed to be cut back in order to let the market take over, now the state is to be reformed in order to be able to implement market-oriented reforms, and corruption is seen as one of its greatest evils.

II.1.2 Is good governance *necessary* for economic development?

Questioning these assumptions about the causal relationship between good governance and one of its elementary pillars, transparency or the absence of corruption, on the one hand and development on the other is at the heart of this chapter. Looking at the theory

⁷ It should be noted that while good governance is rarely questioned in development discourse, policy and practice, *realpolitik* has nevertheless oftentimes prevented governments and IFIs from implementing political conditionality, and, for example, cutting foreign aid as a result of bad governance (on the case of the EU and its patchy record of democracy promotion, see Youngs 2010).

and empirical evidence, there are good reasons not to believe causality is as straightforward as this.

Of course, it is hard to disagree with the idea of good governance, or with the notion that transparency and the rule of law are preferable to corruption and rent-seeking. In the words of Merilee Grindle, good governance is, indeed, “a good idea” (2010: 2). The problem is that the relevance of this idea for achieving development has been vastly exaggerated. “The popularity of the idea”, Grindle writes, “has far outpaced its capacity to deliver. In its brief life, it has also muddied the waters of thinking about the development process” (ibid). The central and commonly unquestioned misconception is that since good governance is desirable, it must be pursued in order for a country to develop, in other words, that good governance is a *necessary* condition for development – as evident in the IMF and European Commission quotes cited above.

To emphasise, there is no disagreement that there are mechanisms by which corruption, rent-seeking and bad governance *can* inhibit growth (and economic development). Likewise, there is little disagreement that less corruption is better – *ceteris paribus*. In the real world, however, everything else is *not* equal, and causality is much more uncertain in the view of empirical evidence. This position forms the theoretical starting point for this thesis.

From an empirical point of view, it is highly doubtful that good governance is or has ever been a prerequisite for successful development. A multitude of case studies show that corruption and rent-seeking *can also* coexist with growth and development, ranging from the history of today’s developed countries to successful cases of late development such as South Korea. As Noman and Stiglitz point out, “no country has ever implemented the current good governance agenda before embarking on development – not the now-developed countries nor the rapidly ‘catching-up’ countries of Asia” (2012: 32). The specific recipe prescribed is not based on empirical evidence given that “the sequence of reforms acknowledged in the good governance strategy has identified a series of steps that were never actually followed as reform priorities by any successful country making the transition from poverty to development” (Khan 2012a: 671). It may not even be possible to achieve development without corruption and rent-seeking: “There is no evidence in Asia, possibly no evidence anywhere, of long-run development taking place on a no-rent basis” (Khan 2000b: 141). Quite to the contrary, rent creation

through selective industrial policies played an essential part in kick-starting development in Europe and North America by the state systematically privileging certain industries and businesses at the expense of others (see Chang 2008: 40ff.).

Examples of such rent creation include Britain's support and protection of the textile industry under the Tudor monarchs in the 15th and 16th century and the promotion of the British manufacturing industry by the highly corrupt government of Robert Walpole in the 18th century, which created the comparative advantage necessary for the shift to free trade several decades later. The high-growth era of industrialisation in the West was also characterised by widespread corruption. A well-known example is the "spoils" system in the USA, where political parties distributed public offices based on patronage, which was only changed by the Pendleton Civil Service Reform Bill in 1883, requiring open, merit-based competition (initially for a paltry 12 percent of civil service posts only). Another striking case was the distribution of patronage in Britain until 1870 by the government chief whip, who was aptly called the "patronage secretary of the Treasury" (Chang 2008: 160-181; Neild 2002, in particular chapters 5 and 6).

Given the absence of good governance during the critical eras of economic development in today's developed countries, why should we assume that it is any more necessary today? Of course, there are cases where good governance has had positive effects, both during industrialisation in the West and in today's developing world (Botswana is an oft-cited example, see Lewin 2011). Its effects, however, have not been uniform over time and space, and neither have those of state-business collusion. While South Korea was rife with corruption both during the 1960s and 1970s and during the 1990s, the former was an era of unprecedented growth and development while the latter was marked by the Asian financial crisis (Kang 2002). Indonesia's Suharto amassed a far greater amount of private wealth through corruption than Zaire's Mobutu, yet during their respective rule, Indonesia's income per capita increased threefold while Zaire's fell by a third (Chang 2008: 160f.). The empirical evidence points to a more complex causal relationship.

The more interesting question is thus which forms of collusion are negative or positive for economic development and under which conditions, in particular with respect to today's developing world. Paul Hutchcroft (1997) proposes seven sets of questions to

address in order to assess the effect of corruption on economic development, looking for example at the origin of rents, the forms of corruption, the use of the proceeds and the political context.

From a methodological point of view, it is imperative to separate cases of late or late-late development from countries which have already developed. Orthodox econometric studies do little to help answer this question. Corruption indices do not capture differences; all instances of corruption within and across countries are treated the same. They lump all cases together, regardless of the stage of economic development and whether they are converging or diverging with developed countries. In fact, at a closer look, values of good governance indicators vary widely within the groups of converging and diverging countries (Khan and Blankenburg 2009; Khan 2012b). Empirical variation which could explain different outcomes is lost.

In other words, countries which developed first, then implemented good governance, and then developed even further (that is, Western developed countries) skew the results and provide no conclusions for questions regarding countries which have not undergone this process of economic development. Instead of uncovering determinants of economic development, this merely shows that *static efficiency is generally higher in less corrupt countries*. Referring to developing countries, some authors seem to interpret the results of econometric analyses as if one could simply change the value of corruption in order to stimulate growth.⁸ This view treats most other socio-political conditions as constant or irrelevant. In the real world, however, corruption is but one aspect of a wider institutional setting in which SBR are embedded and does not just change on its own, as one would change the temperature in a laboratory experiment. Moreover, this approach does not recognise a broader understanding of economic development, which is not about improving static efficiency but about long-term transformation, which may require state intervention to create rents and thus opportunities for corruption.

Instead, we need to disaggregate the sample of cases studied on the one hand and look more closely at causal mechanisms on the other. The goal is to understand the outcomes of collusive relations within an imperfect institutional environment, not to estimate the

⁸ See, for example, Mauro (1995: 683): “if Bangladesh were to improve the integrity and efficiency of its bureaucracy to the level of that of Uruguay, its investment rate would rise by almost five percentage points, and its yearly GDP growth rate would rise by over half a percentage point.” A similar interpretation of regression results is found in Mo (2001) and World Bank (2018b).

effect of different corruption levels under laboratory conditions (the “perfect market”, which, in reality, does not exist anywhere). This also requires a closer study of different forms of collusion and of political condition variables.⁹

If corruption, for example, refers to the deviation from formal duties and norms, its effects will depend on whether these duties and norms favour or disfavour development. James Scott notes: “Corruption (...) involves a deviation from certain standards of behaviour. The first question which arises is, what criteria shall we use to establish those standards?” (1972: 3; cf. also Gardiner 2009: 29-36). In the 1960s, Nathaniel Leff (1964), Joseph Nye (1967) and Samuel Huntington (1968: 59-71) identified conditions where corruption may produce positive effects. Their arguments rest on the idea that outcomes should depend on the legal and bureaucratic structure which is being circumvented. If the government has policy priorities other than the economy, it may be induced by entrepreneurs to take decisions favourable for business through corruption, which may also be favourable for economic development on the whole. Leff argued that corruption may facilitate investment and “safeguard against the full losses of bad economic policy” (1964: 11). Joseph Nye, attacking the “generalities of the moralists” (1967: 427) long before the good governance paradigm had become fashionable, proposed to “distinguish the roles of different types of corruption in relation to different types of development problems” (1967: 425). He demonstrated that corruption may benefit economic development by promoting capital formation (provided the capital is put to productive use), helping to circumvent red tape and overcoming discrimination against entrepreneurs from minority groups. In the same vein, Samuel Huntington famously remarked that “[i]n terms of economic growth, the only thing worse than a society with a rigid, overcentralized, dishonest bureaucracy is one with a rigid, overcentralized, honest bureaucracy” (1968: 69). Francis Lui (1985) showed that bribes can act similarly to a pricing mechanism and result in socially optimal allocation of resources, which challenges the argument that corruption is inefficient because bureaucrats delay procedures in order to attract bribes (Myrdal 1968).

Orthodox rent-seeking theory also had its critics, such as Warren Samuels and Nicholas Mercurio, who concluded that it rests on a “stylized conception of static efficiency in a closed economic system that necessarily and tautologically assures a negative view of

⁹ The use of the term “condition variable” follows Stephen Van Evera (1997: 11).

rent-seeking activity” (1984: 67). They argue that its clear-cut distinction between natural market effects and state intervention does not correspond to empirical realities and that there is a conspicuous tension in condemning state intervention in general but lauding some intervention as necessary to uphold free markets. They criticise terms like “artificial scarcity” as “presumptive and question begging (...) The result is an empty rhetorical device that serves to abet analysts in introducing selective antecedent normative premises as to acceptable and unacceptable legal-change actions of government, at least when all government legal-change action is not summarily denigrated” (1984: 69, fn. 7).

These arguments had gone out of vogue during the era of good governance, but more recent theoretical and empirical studies of rent-seeking have challenged the orthodox view once more (in particular: Khan and Sundaram 2000a). Their empirical starting point is the observation that rent-seeking has “coexisted with high growth” and even “driven growth” in many countries while it was associated with stagnation in others, and that therefore “rent-seeking describes a wide range of processes which are sometimes critical for growth and sometimes severely growth-retarding” (Khan and Sundaram 2000b: 3). Mushtaq Khan (2000a, 2000b) explains this observation by differentiating between different types of rents and between long- and short-term effects. He shows that first, not all rents are inefficient, and second, even statically inefficient rents can be instrumental in long-term economic transformation and development. The net social benefit may then be positive even if the rent initially resulted in social costs.

Khan (2000a: 22) criticises orthodox rent-seeking theory and argues that rents may be necessary in order to induce capitalists to produce certain goods or services. Producing what is most efficient at the time may not lead to investment in those industries or technologies which enable economic transformation. Orthodox rent-seeking theory does not consider whether a good could have been produced *at all* without the rent, as rent is simply defined as the excess over the next-best alternative and hence always an indicator of inefficiency. Khan contends that rents are only inefficient if capitalists had engaged in production of the good in question without the rent. Firms may however be reluctant to produce certain goods because they require investment in innovation or, as

is commonly the case in today's late developers, learning, that is the adaptation of technologies from developed countries, thus subjecting themselves to risks they may not want to take in the absence of rents.

In the case of innovation or “Schumpeterian” rents (Khan 2000a: 40-47), it is generally accepted that their creation is important, which is why patent rights exist in most developed countries. Patents restrict market entry and competition by barring other firms from copying the innovation, hence creating a rent for innovators. This is usually seen as positive because it encourages firms to invest in research and development. The rent can thus be efficient, or it may be temporarily inefficient but raise productivity in the long-term. The danger, on the other hand, is that if it is kept in place for too long, it could become a monopoly rent, so timing and the state's ability to withdraw the rent are critical.

Similar to innovation, learning can be risky and involve upfront costs such as investment in new machines or training, so rather than adapting more advanced technologies, firms could prefer to stick to time-tested techniques or industries where they know they can make a profit, especially when capital and insurance markets are weak and fail to provide capital and safeguards. Therefore, state-created rents for learning in the form of subsidies, subsidised credit or protection through tariffs may be necessary in order to induce firms to introduce new technologies or switch to new industries (Khan 2000a: 47-53). These rents are clearly inefficient in the short-term, but may pay themselves off by raising productivity and product quality and even kick-starting industrial transformation, as in the case of Britain in the 18th century. Ha-Joon Chang (2008: 65ff.) uses the analogy of his six-year old son to illustrate this point. It would be more efficient for him to work rather than study – as many children in developing countries are forced to – but in the long term the rewards will be higher if he goes to school to learn, which will enable him to engage in higher-productivity activities as an adult.

The problem with rent creation by the state is that firms could simply reap the rent rather than invest in learning, so again, the state's ability to enforce conditions and withdraw the rent if necessary is central. According to Khan (2000a: 61), the “success or failure of learning rents over time depends (...) on the administrative ability of the state to identify strategic sectors and monitor performance, and on its political ability to grant

and withhold rents as necessary”. For example, the state could base its provision of learning rents on the condition that performance criteria are met. The case of South Korea and other successful developmental states shows that under certain conditions, states are able to effectively manage rents. This points to the importance of state characteristics for determining the long-term effect of rents, which will be discussed in chapter 2. Table 1 quotes Khan’s differentiation between different types of rents, their efficiency as well as their growth implications (NSB stands for “net social benefit”).

Table 1: Relevant growth and efficiency implications of different rents

Type	Efficiency implications (static NSB)	Growth implications (NSB over time)	Observations
Monopoly rent	Inefficient	Likely to be growth-reducing	Sometimes difficult to distinguish from Schumpeterian or learning rents
Natural resource rent	Efficient	Likely to be growth-enhancing	
Rent-like transfer	Neutral, with possible incentive inefficiencies	Indeterminate: may be growth-enhancing	May be essential for primitive accumulation and to maintain political stability, but may also become inefficient very rapidly
Schumpeterian rent	May be efficient	Likely to be growth-enhancing	May become monopoly rent if it persists for too long
Rent for learning	Inefficient	May be growth-enhancing	Efficiency may depend on monitoring and enforcement ability of the state
Rent for monitoring	May be efficient	May be growth-enhancing	Efficiency may depend on monitoring and enforcement ability of monitors

Source: Khan (2000a: 68)

This disaggregation of rent shows that some rents are inefficient, some are efficient, some are only efficient under certain conditions, and some can be statically inefficient

but promote growth over time, or, vice versa, they can be efficient initially but lose efficiency over time if they are not removed.

Adding to this more refined look at rents, Mushtaq Khan (2000b) argues that the *rent-seeking process* is also more complex than acknowledged by the orthodox literature. He shows that the organisation of this process, for example in the form of patron-client relations, can differ substantially and yield different results. Defining rent-seeking as “the expenditure of resources and effort in creating, maintaining or transferring rents” (2000b: 70), Khan argues that first, classical rent-seeking literature has focused on a narrow set of rents – monopoly rents in particular – which are mainly inefficient, and that second, the cost of rent-seeking as estimated by economic models has taken precedence over the long-term implications of the rent in the wider real-world context.

From a perspective of institutional economics, rent-seeking can cause institutional change which redistributes economic rights. The outcomes of this process are not uniform and depend on additional institutional and political variables. Thus, despite costs incurred by rent creation – “input costs” –, the results of the process – “rent-outcomes” – can be positive. Inputs of rent-seeking include lobbying, bribing and so on, while outcomes include the creation, maintenance, destruction or transfer of economic rights linked, for example, to licences or subsidies. Looking at input costs of rent-seeking on their own is unrealistic because the structure of economic rights changes as a result and produces varying effects, and “if the specific rent-seeking cost at which we are looking had not been incurred, the structure of rights on which existing production is based may also have been different with further effects on final output” (Khan 2000b: 78). This means that an estimate of social costs by looking at only the input or the outcome side without considering the other is flawed.

Rent-seeking can have positive long-term political and socioeconomic implications which may outweigh short-term economic inefficiencies. Among other factors, the outcome depends on who, or which social class, gains or loses as a result of the rent-seeking process. The creation of new property rights initiated by rent-like transfers (Khan 2000a: 35-40) through political mechanisms, for example when taxes are raised to finance hand-outs to other parts of the population as well as illegal transfers, could also serve to maintain political stability during times of economic and social

transformation. Despite the social costs of these transfers, the outcomes can then be positive, for example by preventing political violence.

Transfer rents could also lead to primitive accumulation and the emergence of a capitalist class able to drive economic transformation (as in Joseph Nye's argument referred to above), but in many cases they may not. The outcomes will depend

“on how much of the transfers goes to individuals or groups who have the incentive and opportunity to make the transition to productive capitalism. (...) In some countries, transfers were associated with rapid accumulation and capitalist growth. In others, the result has been large-scale theft and the onward transfer of resources to foreign banks. The problem is that transfer-based rents were ubiquitous in *all* developing countries, not just in the stagnating ones. Thus, it is misleading to argue that economic success required the *absence* of rents based on transfers.”

(Khan 2000a: 39, emphasis in original)

Similarly, on corruption, Ha-Joon Chang argues:

“So the economic consequences of corruption depend on which decisions the corrupt act affects, how the bribes are used by the recipients and what would have been done with the money had there been no corruption.”

(Chang 2008: 364)

This mirrors Nathaniel Leff's earlier argument:

“(T)he existence of corruption *per se* indicates only that these groups participate in the decision-making process to a greater extent than would otherwise be the case. This provides information about the effective – as opposed to the formal – political system, but in itself, tells us nothing about the content and development effects of the policies so determined. These depend on the specific orientation and interests of the groups which have gained political access.”

(Leff 1964: 8)

Therefore, the groups involved in collusive relations deserve a closer look, and the fact that some benefit more than others cannot in itself be taken as a sign for negative development outcomes.

Some recent econometric studies support the claim that the effects of corruption are highly contingent. Mendez and Sepulveda (2006) confirm that they depend on the political and institutional context. They divide their sample into free and non-free countries, using the Freedom House classification, and find that the effects are different for each sample. For non-free countries, they could not find a significant correlation, and for free countries, the growth-maximising level of corruption was low but greater

than zero. They conclude that “corruption might not be an inherent evil of developing economies but the consequence of other government policies, or socio-political circumstances; and thus, that public policies designed to eliminate corruption alone might not be optimal for growth” (ibid: 96).

Similarly, Aidt et al. (2008) argue that the causal link between corruption and growth is non-linear and depends on the institutional context. Their model distinguishes between different “governance regimes” with different institutions, characterised by how likely it is that corrupt rulers will be replaced through elections, coups or revolutions. They argue that if institutional quality is high, that is when citizens can credibly threaten to replace corrupt rulers, there is a feedback loop between corruption and growth: rulers have an incentive to lower corruption in order to benefit from growth, and low corruption raises growth by encouraging engagement in the formal rather than the informal economy. Conversely, with low growth leaders have no incentive to reduce corruption and high corruption shifts investment into the informal sector, thereby lowering growth. This represents a mutually reinforcing mechanism between growth and corruption which has several equilibria. In a regime with low quality institutions, however, this mechanism does not hold true, and corruption does not have an adverse effect on growth. Hence, in this model, institutions can be seen as a conditional variable for the endogenous relation between growth and corruption.

To summarise, heterodox studies of corruption and rent-seeking claim that the effects depend on both the input cost of the rent-seeking process and its outcomes, which vary according to the type of rent created, maintained or transferred and its net social benefit or cost, as well as the resulting structure of economic rights. Outcomes of corruption vary depending on its forms and its beneficiaries and their interests as well as the resulting policies. The mere absence or presence of corruption, rents and rent-seeking is therefore neither a sufficient nor necessary condition for development success or failure. One should examine the political and institutional conditions which lead to positive or negative rent-outcomes. These conditions include, among others, the structure of the state, the motives of state decision-makers, the quality of the state bureaucracy and the interests of and power relations between the actors involved in corruption and rent-seeking, all of which will be discussed in more detail below.

II.2 State and business characteristics and their effects

Having established that collusive relations can have positive or negative effects and that it is not sufficient to consider the absolute level of rent-seeking and corruption, I now turn to those conditions inherent to the state, business and their interactions which may determine the outcomes of collusion. Chapter 2.1 discusses state and institutional characteristics, 2.2 examines the business sector and 2.3 looks at the interaction itself and attempts to disaggregate and measure SBR. Chapter 2.4 summarises variables and hypotheses.

II.2.1 The state, institutions and governance

Developmental states

State characteristics as determinants of development are at the core of the developmental state literature, which in its early variants identified state autonomy and capacity as the main factors for economic success (see, among others, Johnson 1982; White 1988; Wade 1990; for an overview see Woo-Cumings 1999). Later, authors focused on the role of state-society relations, “embedded autonomy” in particular (Evans 1995). This concept expresses that while a developmental state has acquired “sufficient power, autonomy, capacity and legitimacy at the centre to shape, pursue and encourage the achievement of explicit developmental objectives” (Leftwich 2000: 155), it is not “insulated from society”, but “embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and re-negotiation of goals and policies” (Evans 1995: 12). This also includes the “effective management of non-state economic interests” (Leftwich 1995: 405).

Heterodox rent-seeking theorists stress that developmental states are not incompatible with collusion, although this seems to be implied at times. Mushtaq Khan argues that the success of developmental states was not based on low rent-seeking costs, but on the “creation of value-enhancing rents through their rent-seeking” (2000b: 77). The type of rents created and sustained is the central explanatory variable, not whether rent-seeking

as such was high or low. The state managed rents for learning effectively and kept them from turning into inefficient and growth-retarding monopoly rents. Successful rent management requires *political capability*: the strategies of the state must be congruent with the “organisation of power in society” (Khan and Blankenburg 2009: 344). Khan (2007) also refers to these capabilities as “growth-enhancing governance” (as opposed to “market-enhancing governance”). He argues that “successful development requires critical governance capacities of states to accelerate accumulation (in both the private and public sectors) and ensure productivity growth (again in both sectors)” (2007: 2).¹⁰ The example of South Korea shows that if the state can discipline private business and enforce performance standards, it can create value-enhancing rents (Amsden 1989). Considering the case of Korea, David Kang argues “that certain configurations of government and business elites (...) can reduce transaction costs and actually promote growth” (2002: 7), explaining why developmental states were successful despite corruption. He claims that “*if there is a balance of power among a small and stable set of government and business elites, money politics can actually reduce transaction costs and make long-term agreements and investments more efficient, even while enriching those fortunate few who collude together*” (Kang 2002: 3, emphasis in original). Kang argues that neither the state nor business should have excessive power and will need to be kept from abusing it by a strong counterpart (2002: 12). For the South Korean example, Kang shows that the bureaucracy was not as autonomous from the political elite as is often assumed in the developmental state literature and that the reason for success was not low corruption, but the type of corruption prevalent.

The two main criteria Kang uses to differentiate between types of collusive SBR are state coherence and business concentration. According to Kang, “a state is coherent if it can formulate preferences independent of social influences and if political leaders have internal control over their bureaucrats” (2002: 13). The second criterion, business concentration, points to the importance of sectoral characteristics, organisation and representation of the business sector. Kang (2002: 14), citing Schneider (1998), argues that “big (and encompassing) is beautiful“. These arguments will be discussed in more detail in the following chapter.

¹⁰ Khan does not question that improving the efficiency of markets can be helpful but questions whether this is sufficient for achieving growth “(g)iven the structural limitations of markets in developing countries” (2007: 2).

Kang argues that the outcomes of collusion depend on the number of actors involved and the power relations between them. The more coherent the state and the more concentrated or organised the business sector, the stronger, and vice versa, the more fractured the state and the more dispersed or disorganised the business sector, the weaker each of them are. The combination of these criteria results in a matrix of “four types of corruption”:

Table 2: The four types of corruption

		state	
		coherent	fractured
business	small-N (concentrated)	mutual hostages	rent-seeking
	large-N (dispersed)	predatory state	laissez-faire

Source: Kang (2002: 15)

Each of these types has different implications, with the laissez-faire type exhibiting the lowest level of corruption, corresponding to “many of the advanced industrial democracies” (2002: 17). The mutual hostages type, despite medium levels of corruption, has positive development outcomes, as evidenced by the South Korean example. The other two types, the predatory state and rent-seeking type, lead to either top-down or bottom-up corruption, respectively, both of which are an impediment to economic development. It should be noted that despite the differences, all types are types of corruption (or *money politics*, in Kang’s terminology).

The theoretical background for David Kang’s argument is the institutional point of view that in order to lower transaction costs, the institution of rent-seeking may be favourable over others or the lack thereof, whereas the neo-classical rent-seeking literature contrasts the economically inefficient use of resources for rent-seeking with the optimal allocation of resources in a perfect market which may not be a realistic scenario in the real world. Indeed, one of the most prominent neo-classical rent-seeking theorists, James Buchanan, explicitly argued that “[a]s institutions *have moved away from ordered markets toward the near chaos of direct political allocation*, rent seeking has emerged as a significant social phenomenon” (Buchanan 1980: 4; emphasis added). This argument falsely presumes a supposedly natural status quo structure of property rights

(Samuels and Mercurio 1984: 62f.) which never existed in most developing countries (see also Khan 2012b).

It should be noted that although Kang's conclusions are similar to Khan's, there is a difference in the role of collusive SBR for development as seen by their models. Kang claims that corruption in a situation of "mutual hostages" is an institution which lowers transaction costs and hence results in positive outcomes, while Khan argues that even if certain types of rents imply high input costs of rent-seeking, rent outcomes such as a redistribution of property rights can lead to positive development effects.

Predatory and neopatrimonial states

The ideal-type antonym to the developmental state is commonly seen as the predatory state or (klepto-)patrimonial state (Evans 1989; Leftwich 2000). Predatory states exhibit high levels of top-down corruption as in Kang's matrix above, with a coherent state but dispersed business and a weak or non-existent civil society. State leaders treat the economy as their personal patrimony and extract resources for their own and their clients' benefit. The classical example is Mobutu's Zaire (see Evans 1989: 569-571). While it could be argued that the predatory state is autonomous in the sense that it is "unconstrained by any set organized social interests", on the whole it lacks autonomy because "decisions are eminently up for sale to private elites" (Evans 1989: 571). Corruption is thus regarded as the main impediment to development in predatory or (klepto-)patrimonial states.

Distinct from the discussion on developmental and predatory states, there is a large body of literature on *neo*-patrimonialism and *neo*-patrimonial states (for example Médard 1982; Pawelka 1985; Van de Walle 2001; Erdmann and Engel 2006). A neopatrimonial state is characterised by the combination of Max Weber's legal-rational and patrimonial types of state (see Weber 2006 [1922]: Part One, Chapter III): Neopatrimonialism is "a form of organisation in which relationships of a broadly patrimonial type pervade a political and administrative system which is formally constructed on rational-legal lines" (Clapham 1985: 48). While modern legal-rational elements exist, such as a professional bureaucracy, ministries and so on, patrimonial patterns of rule permeate these on an informal level. The neopatrimonial leader is linked to elites in all sectors of the state, economy and society through patron-client relations,

which exist within and across formal institutions. The leader arbitrates between these elites, shuffles positions and replaces elites if necessary in order to secure political survival and eliminate any potential rivals. In contrast to the division of person and office in the modern legal-rational state, there are no clear boundaries between the person of the ruler and other officeholders on the one hand and the state and the state offices they occupy on the other. Moreover, formal offices are no clear indication of the power held by individuals; informal advisers or family members could very well be more powerful than state officials such as ministers.

In a neopatrimonial state, the economy is one sector which is embedded in the wider logic of neopatrimonial governance, the ultimate goal of which is the maintenance of the ruler's power. Hence, SBR mainly exist in the form of patron-client relations and are subject to the overarching rationale of political survival. If economic development is conducive to political survival, the neopatrimonial ruler may encourage it, but it is more important to preserve the loyalties of vital elite clients or sectors of society, which may contradict any strategy of economic development.

Oliver Schlumberger (2008) shows that in times of externally-induced economic reform and structural adjustment, informal patterns of neopatrimonial rule will skew the implementation and results of reform policies, leading not to a free market economy characterised by free competition and a level playing field, but to a “patrimonial capitalist” economy. Patrimonial capitalism, while dominated by a capitalist mode of production, largely benefits those economic actors who have preferential access to the political elite through patron-client relations or are members of the core political elite themselves. Schlumberger contends that as a result, patrimonial capitalism does not encourage economic development as economic actors strive to use their political influence in order to make profits rather than invest productively.

While neopatrimonial governance has had a decisive impact on the content and implementation pattern of economic reform, the opposite phenomenon is also evident: economic reform and globalisation have altered neopatrimonial governance. In recent decades, neopatrimonial states have become more fractured and less coherent. One aspect is the influence of external pressures from global economic and financial systems and actors, such as creditors. Another is the retreat of the state from societal and economic functions due to a lack of resources. Sectors of the society and economy

which had previously been under the control of the state have been penetrated by societal forces, such as NGOs, Islamist organisations (in the MENA region), and, which is of particular relevance here, private business elites. Peter Pawelka (2008: 48-53) argues that this has resulted in a “penetrated” neopatrimonial state, which has succeeded the “autonomous” or “sovereign” neopatrimonial state of the 1950s-1980s. The state needs to make concessions and is not able to exert direct control over many sectors.

This model of the “penetrated” neopatrimonial state suggests that SBR have moved from the predatory state closer to the “rent seeking” type of corruption, with higher levels of bottom-up rent-seeking. It should be noted, however, that such a distinction between the state and business is in many respects artificial, as a defining feature of a neopatrimonial state is the lack of clear boundaries between the state as an institution with its rational-legal elements and the ruling elites as individuals – who could come from the business sector – or, in other words, the state offices and the officeholders. Hence, SBR may in a sense be found within the same individuals if it is businesspeople who hold vital state offices. This point will be discussed further in the case study on Egypt (chapter V).

The empirical evidence shows a more complex picture than either the developmental or predatory state ideal types suggest, and it is more positive than the view presented by most authors on neopatrimonialism. The empirical scarcity of ideal-type developmental states and the observation that even states in East and Southeast Asia differed markedly from the ideal of embedded autonomy have sparked a debate on whether and how they can be built (see, for example, Tan 2009). Adrian Leftwich argued that they “cannot be had to order” (2008: 3) and require particular political processes which are rare. There is, however, a potential for “effective states”, characterised by a monopoly of power, legitimacy and capacity (2008: 20). Thandika Mkandawire (2001) and, more recently, Tim Kelsall (2012, 2013) have claimed that developmental states can be found where they are not commonly sought, in particular in parts of Sub Sahara Africa during certain periods. They show that even neopatrimonial states can be developmental, contrary to the predominant view presented above. Kelsall contends that neopatrimonial governance can be “good enough” (see Grindle 2002, 2004) as long as rent-seeking is centralised and oriented to the long term, which depends on the “presence of a strong and visionary leader”, constrained political competition through dictatorship or “a single

or dominant party system”, a “top-down patron-client network” and a “competent and confident, vertically disciplined economic technocracy” (Kelsall 2013: 27). Thus, even collusive SBR – a defining feature of neopatrimonial governance – are not necessarily an impediment to economic development. Again, this indicates that development outcomes do not just depend on the presence or absence of rent-seeking or corruption, but on their characteristics and a range of conditional variables.

Rentier or allocation states

The rentier-state literature is related to, but distinct from the literature on rents and rent-seeking (see in particular Beblawi and Luciani 1987a). Rentier states are characterised by the high importance of rent as a proportion of state income and the high ratio of state expenditure to GDP. This rent is typically derived from the export of natural resources, in particular oil. In the MENA region, the nationalisation of oil supplies – starting with Iran in 1951 – and the control over production and prices through the foundation of OPEC in 1960/61 led to a huge increase in profits from oil production and export, in particular during the oil crises of 1973 and 1979. This revenue was re-distributed within the region through economic aid and migrant remittances, so that even resource-poor countries received a large share of oil rent, a phenomenon termed “political petrolism” by Bahgat Korany (1986).

Due to the high global demand for oil and the relative accessibility of oil reserves and low cost of production in many MENA states, most of the profits from oil export can be regarded as rent, in reference to Buchanan’s (1980: 3) definition cited above. Some authors distinguish between absolute rent (*absolute Grundrente*) and differential rent (*Differentialrente*), following the Marxist tradition. Absolute rent refers to the gains from oil production which accrue to the owner of the land, while differential rent stems from the relatively higher productivity of MENA oil extraction as compared to other sources, such as North Sea oil (cf. Schmid 1997; Richter and Steiner 2008).

Rentier-state theory often includes other forms of rent next to income from natural resources. Richter and Steiner (2008: 943; see also Jenkins et al. 2011) identify five additional types of rent: “location” rents – for example, Suez Canal revenue in the case of Egypt (cf. Richter 2007: 182) –, strategic rents, such as military aid, political rents, such as development assistance, workers’ remittances (also termed migrant transfers).

Finally, they argue that tourism revenue can also be seen as rent, because at least part of this revenue is a form of rent since it is not tied to investment or production, but due to geographical location. This is particularly relevant for Egypt, due to the pyramids and other ancient monuments. It should be noted that effects will depend on which part of these rents accrue directly to the state directly or indirectly (for example, through taxes or the public banking system).

Giacomo Luciani (1987) suggests two other ways of referring to rentier states. First, he calls them “exoteric” states, since their primary source of revenue stems from abroad, as opposed to “esoteric” states, which derive most of their income from domestic sources and taxation. Second, he uses the term “allocation” states, not after their source of income but after their primary function, and, thus, their economic policies: the state allocates external income according to political criteria, while “production” states aim at fostering production and *re-allocating* revenue. Luciani defines allocation states as “all those states whose revenue derives predominantly (>40 per cent) from oil or other foreign sources, and whose expenditure is a substantial share of GDP” (1987: 70). The somewhat arbitrary 40 percent threshold is oft-cited and has become widely accepted as the definition of a rentier state.¹¹

Rentier-state theory contends that if rents form a significant part of state income, they can offer explanations for state characteristics, governance and policies. There are also important consequences for SBR with regard to the prevalence of rent-seeking and corruption as well as the autonomy of the state and power relations between the state, societal actors and business.

When income from rent accrues directly to the state, for example from oil production and export, the state is able to use this freely without having to consider investment into productive industries nor investors’ interests. Instead, political leaders can use this income for political purposes, for example to quell dissent through large-scale handouts and social services such as free healthcare, or through investment into large security forces to discourage opposition. The state is in a strong position as compared to private capitalists because they do not fulfil an essential economic function in a state-dominated

¹¹ In their study of rentierism in the MENA region, Jenkins et al. (2011) use a rent threshold of at least 30 percent of GDP in order to determine whether a state is a rentier state. Using a measure of percentage of GDP rather than percentage of state income is more convenient for measurement due to the better availability of data, but it should be noted that this may lead to a different categorisation.

rentier economy which does not depend on production (Pawelka 2008: 46). The private sector is thus reduced to “a state client” (Moore 2004: 21). In addition, the state has sufficient resources to construct a strong bureaucratic apparatus. Hence, most of the rentier state literature assumes that rentier states are strong, autonomous states.

The overwhelming importance of rents also has consequences for the economy as a whole as well as individual economic actors. Michel Chatelus and Yves Schemeil (1984: 255) designate the resulting rent economy a “circulation economy”, in which “most economic activities are to be considered as means of ensuring income circulation, rather than production-oriented behaviour”. They argue that in the Middle Eastern Arab states of the time, “a growing part of the population depends for its living, either directly or indirectly, on unrequited transfers. (...) There is at best a tenuous link between individual income and activity. *Getting access to the rent circuit is a greater preoccupation than reaching productive efficiency*” (1984: 256, emphasis in original; see also Beblawi and Luciani 1987b: 14). In other words, the allocation of rents by the state encourages rent-seeking behaviour on the part of its citizens. Terry Lynn Karl argues that the influx of oil rents had an adverse effect on development and discouraged productive investment:

“approximately 65 to 75 percent of the post-1974 GDP went toward public and private consumption – aimed first and foremost toward the key constituencies supporting the rulers of oil states. Much of this took place through subsidies to social groups, friends, family and political supporters of the government, and much through the awarding of contracts on what were most often non-market criteria.” (1999: 42)

The rentier state literature is thus closely linked to the literatures on rent-seeking and corruption, and generally assumes that rent-seeking inhibits productive economic development.

There is also a link to the literature on neopatrimonialism. Neopatrimonial leaders of rentier states can use rent income in order to allocate resources to their clients and buy off dissenters. A neopatrimonial rentier state should therefore be especially resilient to internal pressures, as long as the source of income remains stable – which means, for example, that oil prices should remain high and markets stable. Foreign policy is thus central and aims to achieve regional stability (Pawelka 1997: 220-224). Should rent

income fall, a rentier state is forced to implement a variety of internal and external strategies in order to compensate (Schmid and Pawelka 1990).

In the case of rentier states which are not oil-rich, but where external rent income derives from other, less easily controllable sources such as migrant transfers or foreign aid, a high degree of state autonomy is not as easily attainable. These states, where rents from natural resources do not amount to over 40% of state income, are often termed semi-rentier states (Beblawi 1987; Pawelka 1993: 126ff.). The mainly indirect rents earned by semi-rentier states can lead to similar effects as oil rents, but the state is more susceptible to disruption of their flows and external and internal pressures. With regard to foreign aid, it is received directly but states may have to enact certain policies in return, often economic or foreign policies, and hence sacrifice part of their political autonomy in order to please donors. With regard to migrant transfers, rent income does not accrue directly to the state, but is generated by and often channelled via and to individuals and societal forces, which can have ambivalent effects on the balance of SBR. On the one hand, they contribute to the economy and may alleviate societal pressures and thus strengthen the state, on the other, they strengthen societal groups and make them less dependent on state allocation of rent (Pawelka 1997: 225f.). States often attempt to mitigate this problem by taking their share through the state banking system (Luciani 1987: 70). If private businesspeople manage to get access to transnational rent, however, this will tilt the balance of power in their favour.

Some authors argue against the notion of rentier states – even pure oil rentiers – being particularly autonomous and strong. Kiren Aziz Chaudhry considers “the ability of the government to formulate and implement policies” as state capacity, which “includes an institutional and a political component” (1989: 102). She contends that rentier states are weak in an institutional sense because they are unable to alter the institutions established for the purpose of allocation. For example, it is very difficult for a rentier state to introduce an effective taxation system. Allocation states are thus locked into the mode of allocation and their legitimacy depends on it.

Similarly, Steffen Hertog argues that “clientelist fiscal obligations” (2010a: 5) can limit state autonomy. The allocation of rent “means incurring obligations, even if individualized, and these can reduce a regime’s leeway to change institutions over time” (2010a: 267). While rentier states are autonomous from society, it is nonetheless

difficult to translate this autonomy into actual policy outcomes. Hertog distinguishes between three levels of policymaking and argues that while there is a “macro- and meso-dominance of the state”, that is the state is capable to formulate policies autonomously and possesses large bureaucratic capacity, it lacks “regulatory power and autonomy on the bureaucratic micro-level” which often prevents policies from being implemented as intended (2010a: 260). This is due to the “micro-penetration of society” by clientelism. In his study of Saudi Arabian policymaking, Hertog shows how rent allocation caused a system of “segmented clientelism”, where the state bureaucracy – which is needed in order to implement policies – is fragmented and largely ineffective. This is in contrast to developmental states with meritocratic bureaucracies which are capable on all three levels (2010a: 261).

However, Steffen Hertog also shows that even rentier states can be surprisingly effective in economic policymaking when it comes to the profitability of state-owned enterprises (SOEs) such as Saudi Arabia’s Basic Industries Corporation (SABIC). He observes that

“several of the Gulf Cooperation Council’s (GCC) (...) oil monarchies have poured a considerable share of their rents into a new generation of sleek, profit- and market-oriented public companies. Instead of nationalizing, they are creating new state assets or expanding existing ones, while leaving ample investment opportunities for local and foreign private sectors. Instead of using them as political tools, they are taking pains to signal that the business of their public sectors is only that: business.” (2010b: 262)

Hertog argues that two conditions are central to the success of these SOEs: the “absence of a populist-mobilizational history of economic development” and “substantial decisional autonomy of the regime leadership from interest groups within state and society” (2010b: 263, emphasis removed). While these rentier states do not have the capacity to change institutions, they are able to create “islands of efficiency” which are autonomous in their day-to-day business. GCC states with successful SOEs are not tied to policies of economic populism which may lead to inefficiencies, such as price controls, but are “politically quietist, conservative on matters of class structure, and openly probusiness” (2010b: 281). They are also sufficiently stable, coherent and autonomous from clients and interest groups in order to implement economic policies oriented to long-term development, at least in limited, insulated areas “through small teams of elite technocrats by way of targeted technology acquisition, export promotion,

infrastructure politics, and protectionist measures” (2010b: 293). Hertog argues that this represents a *sui generis* type of developmental strategy distinct from that of developmental states but also from predatory states:

“a hybrid regime broadly based on patronage, yet commanding important pockets of efficiency. Despite the state’s fragmentation, the regime core is cohesive and autonomous enough to control the compartmentalized apparatus from the top down. The dualism of state structures is perhaps a luxury that only permanent rent income can afford.” (2010b: 294)

Hence, Hertog is less categorical than most rentier state theorists in his assessment of the developmental potential of rentier states. Again, we find that recognising additional political and institutional conditions is important to determine the effect of rent-seeking and corruption on economic outcomes.

II.2.2 The business sector

Characteristics of the business sector may also condition the effects of collusive SBR on economic development. Hypotheses vary according to the level at which business is conceptualised. Haggard et al. (1997) identify five levels which have different implications for the relation between SBR and economic development: The aggregate view of “business as capital” maintains that the control of private business over capital and particularly the threat of capital flight place constraints on state policies. Businesses can threaten capital flight in order to prevent economic reforms or make them more costly, in particular in countries where “exit” is an easier option than to “voice” political preferences (Hirschman 1978: 100). Businesses could also take decisions to adapt to the impact of reforms, such as lay off employees or restrict investment, which would have negative political effects on any incumbent who enacts such reforms and may thus “imprison” policy-making (Lindblom 1982).

This structural power of capital can tilt the power balance of SBR and thus change the outcome of collusion as shown by David Kang (2002, 2003). We should expect business to be more powerful when the domestic financial market is liberalised or when there is substantial foreign investment as opposed to capital being provided by state-controlled banks under financial repression (Henry 1996: 1-25; Roll 2010a and Roll 2010b: 51-57

for the Egyptian case). Another conceptualisation of business focuses on sectoral differences which may determine interests, coalitions and policies. Examples are Ronald Rogowski's (1989) study which uses the structure of factor endowments to explain domestic interest cleavages with respect to trade policy and Michael Shafer's (1994) argument that the characteristics of a country's leading sector determine the capacity of the state to achieve development. This is what Pete Moore (2004: 13) calls the "top-down macro perspective on business-state relations in the developing world", adding to it the rentier-state approach discussed above. Even though, as Moore goes on to criticise, this structural view can be too deterministic and too pessimistic on the likelihood of collective action in the business sector, it will have to be taken into account in the case of the MENA region, where rentier and semi-rentier states are especially prevalent. Melani Cammett's (2007) analysis of SBR in North Africa shows how sector-specific characteristics – in this case of the textile industry – can influence preferences on economic policy such as trade liberalisation and shape business organisation and interaction with the state.

Thirdly, from the perspective of business as a firm, "the size, financing, and diversification of big business in developing countries can have important implications for relations between government and business" (Haggard et al. 1997: 48). Concentration and conglomeration are central variables. With regard to collusive relations, these variables may affect interests and power relations, and outcomes may differ according to whether the dominant firm whose interests are realised is engaged in productive investment and whether its production corresponds to an economy's endowment structure and competitive advantage.

The fourth perspective, which highlights the organisation of business, is particularly relevant for our study of the effects of collusive SBR and merits more detailed discussion. Following Mancur Olson's (1982) argument that special interests tend to form rent-seeking "distributional coalitions" which reduce overall efficiency, it is often assumed that strong business associations are harmful for economic development. Exceptions are interest groups with "encompassing" rather than narrow interests, including "peak associations" (Olson 1982: 47-53), as they are thought to be more likely to promote issues which benefit society as a whole rather than an individual business.

Ben Ross Schneider (2004) shows that strong encompassing business associations have indeed promoted economic development in Latin America. However, he criticises the “Olsonian” literature for its neglect of the role of the state in organising or disorganising business, arguing that state corporatism (like in Brazil) or the lack of corporatism (like in Argentina) inhibit voluntary business organisation while societal corporatism (like in Mexico, Chile, Colombia) coincides with strong voluntary associations (2004: 9, fn. 8; see also Schmitter 1974: 103-105). Hence, the impact of business associations cannot be analysed independent of their relations to the state and how the state organises business (Schneider 2004: 5). Similarly, Pete Moore (2004: 26) urges that the societal context and organisational factors beyond “encompassingness” should be taken into account. In addition, Doner and Schneider (2000) provide evidence that even non-encompassing, distributional business associations can promote economic development, provided they possess “internal associational capacities” and are subject to “external pressures to make productive use of that capacity” (2000: 262), which points to the vital role of the state and its interactions with business.

Deborah Bräutigam et al. identify a type of SBR they term “growth coalition”, designating relations between business associations and the state which “take the form of active cooperation towards the goal of policies that both parties expect will foster investment and increases in productivity” (2002: 520). They name three variables determining the role of business associations: their capacity “to credibly engage the state in technical policy discussions”, their “size, composition, and resources” and their “access to selective, non-public benefits that are linked to performance” (2002: 522). The higher the capacity, the more representative and encompassing and the more benefits it uses that are linked to performance, the more likely it will contribute to a “growth coalition”. The source of business capital is also an important factor, as a business community which is not dependent on rents, but based on entrepreneurship, is more likely part of a growth coalition, especially if it is export-dependent and/or oriented toward the global economy. Again, however, even when business seems to be well organised, the right combination of state characteristics such as leadership, ideas and capacity is still important, for example for being able to grant selective benefits to association members and tie these benefits to performance standards.

It should be noted that in the view of Bräutigam et al. (2002), such relations between

business associations and the state are collaborative, not collusive. In other words, they identify factors which may prevent collusion, not those factors which may make collusive relations effective for economic development, which is what we are mainly interested in. It is, however, easily possible to imagine a “growth coalition” which both colludes for their own gain *and* enacts growth-promoting policies. There are two scenarios where this might be the case: 1) If a business association or cross-sectoral conglomerate entering into a collusive coalition with the state feels that overall economic growth would benefit them more than their competitors and hence supports growth-promoting policies, and 2) if narrow sectoral policies involuntarily lead to economic growth and possibly economic development, for example if rents for learning lead to gains in productivity which have positive long-term effects for the entire economy (see Khan 2000a, 2000b and above). Both these scenarios are compatible with corruption and/or rent-seeking. A good example, again, is South Korea (Kang 2002, 2003).

Finally, from a fifth perspective, an analysis of business can focus on individual capitalists who are part of informal personal networks (Haggard et al. 1997: 53-57). In the MENA region, such personal interaction often takes the form of intercession by intermediaries, such as family or friends, called *wasta* in Arabic. In order to achieve an objective, one seeks a favour from a member of their personal network to intervene on their behalf, while it is understood that the same would be provided in return (for a comprehensive treatment of *wasta*, see Cunningham and Sarayrah 1993).

Patron-client relations are a special form of personal networks in that they are reciprocal but asymmetric. They are vertical, dyadic, and typically informal relations between individuals of different power. They are in principle entered into voluntarily and based on an exchange of benefits; typically, clients provide loyalty and support and patrons provide access to resources such as jobs or public contracts (Eisenstadt and Roniger 1980, 1984; Mainwaring 1999: 177-180). Patron-client relations characterise relations between rulers and ruled in many developing countries. In neopatrimonial states, patron-client relations are an integral mode of state-society relations as they organise the relationships between the different levels of powerholders and ultimately between the rulers and ruled, for example within the party system, creating a support base for the neopatrimonial leader (Clapham 1985: 54-59). The term clientelism describes a “social

structure” or “mode of social stratification” (Lemarchand 1981: 15) which is characterised by patron-client relations.

Patron-client relations can also be used to capture and disseminate rents (Khan and Sundaram 2000b: 5-12; Khan 2000a). From the point of view of the heterodox literature on rent-seeking, the organisation of patron-client relations, the relative power of patrons and clients and their interests may determine rent-seeking patterns and produce varying effects, as Khan (2000b: 89-104) shows for the Indian subcontinent, South Korea, Malaysia and Thailand and Hutchcroft (2000) for the Philippines. Similar to Kang (2002, 2003), Khan argues that “the *pattern* of economic and political transfers matters much more than the fact that transfers take place, and (...) the pattern depends on how competing groups are organized” (2000a: 39, emphasis in original). An analysis of rent outcomes should therefore examine whether and how informal patterns of social exchange such as patron-client relations are used for rent-seeking.

II.3 Summary: Types of SBR and their effects

Table 3 summarises what can be seen as the most relevant of the theories discussed above in order to give an overview of hypotheses which can be tested at a later stage. Many of these theories are *typological theories* in the sense that they focus on one or several types of SBR and posit certain effects on growth, economic performance or economic development. Considering the explanatory variables associated with SBR in terms of SBR *types* rather than individual variables makes sense methodologically as SBR are empirically complex and are usually determined by a configuration of variables.

Some theories may choose to ignore this complexity and instead focus on one variable only, such as corruption. Even if these theories do not speak of SBR types as such, we present them as types and the table below presents the associated hypotheses in the form of a causal relation between SBR type and effects. In the case of the orthodox corruption literature, for example, the SBR type is presented as “corrupt SBR” – defined by a single variable – and would be determined by measuring the level of corruption, as suggested by the literature. This approach enables testing these theories alongside the more complex theories through a qualitative comparative analysis (QCA) in chapter IV.

In addition to the type of SBR, the table identifies whether this type is seen as collusive or collaborative, the central independent and, if applicable, conditional variables, as well as the hypothesised effects on economic growth, performance or development. Not all strands of literature and their main variables discussed above are represented by their own type of SBR as they often feature in several hypotheses on SBR from different theoretical traditions. Patterns of patron-client relations, for example, are seen as important distinguishing characteristics of different types of corrupt SBR in the view of the heterodox corruption and rent-seeking literature discussed above, and patron-client relations are also a defining characteristic of neopatrimonial SBR. Therefore, the table should be seen as one but not the only possible way to summarise the theoretical literature on SBR.

Table 3: Types of state-business relations and their effects

Type of SBR	Collusive/collaborative?	Central independent and conditional variables*	Hypothesised intervening variables* and effects	Literature
Corrupt SBR	collusive	Corruption	Low economic performance, deadweight losses	Orthodox corruption and rent-seeking literature; Good Governance literature
Rent-seeking SBR	collusive	Rent-seeking Rentierism		
Different types of corruption and rent-seeking	collusive	Corruption, rent creation, rent-seeking processes Range of socio-political and institutional conditional variables (economic policy, state structure, bureaucracy, rent-management capacities, power relations, pattern of patron-client relations etc.)	Low or high economic performance and development depending on conditional variables	Heterodox corruption and rent-seeking literature
Embedded autonomy	collaborative	State autonomy, capacity, embeddedness, political leadership	Low corruption, effective economic policies, high economic performance	Developmental state literature
	collusive	Business and state organisation, state coherence, business concentration	High corruption but low transaction costs ("mutual hostages"), economic development	Heterodox corruption and rent-seeking literature

<i>Neopatrimonial SBR</i>	collusive	Predatory or neopatrimonial state, patron-client relations Centralisation and orientation of rent-seeking and patron-client relations in neopatrimonial states, “good enough” governance	High corruption, low chance of economic development No negative or even positive effects on economic development	Neopatrimonialism, clientelism, developmental state literature Recent neopatrimonial state literature, “good enough” governance literature
<i>Rentier state/circulation economy</i>	collusive	Rents as proportion of state revenue	High corruption and rent-seeking (rentier society), low productivity and low chance of economic development	Rentier state literature
<i>Segmented clientelism</i>	collusive	Clientelism, rentierism, state autonomy and cohesion	Low economic performance with pockets of efficiency	Hertog (2010a, 2010b)
<i>Distributional coalition</i>	collusive	Business organisation, business interests	Low economic performance	“Olsonian” literature
<i>Corporatism</i>	collusive or collaborative	Business organisation, state organisation of business	Low or high economic performance depending on type of corporatism	Corporatism literature
<i>Growth coalition</i>	collaborative (could also be valid for collusive relations)	Business organisation, business capacity, state capacity	High economic performance	Bräutigam et al. (2002)

* The use of these terms follows Van Evera (1997: 11). It should be noted that in the analysis in chapter IV, these terms will be dropped in favour of the set-theoretic terminology of conditions and outcomes which will be explained in chapter III.1.

II.4 Disaggregating state-business relations

Most of the theories discussed above yield hypotheses on the causal *effect* of SBR on economic growth or economic development by identifying economic, political or institutional factors, but they do not analyse which aspects of the state-business interaction itself constitute the causal *processes*. Variables such as state structure, the character of the state bureaucracy, the number and strength of business associations, the capacity of the private sector and so on are static measures of SBR. Their values delineate the institutional configuration of SBR in a given country, but do not capture the actual interaction between the state and business during the economic policy-making process. As Ben Ross Schneider and Sylvia Maxfield note, “the institutionalist case is typically cast at such an aggregate level it is difficult to specify the causal mechanisms” (1997: 5).¹²

In order to be able to study causal mechanisms in SBR, Schneider and Maxfield “disaggregate various facets of the relationship in order to specify their impact on various aspects of economic performance, such as policy implementation, exporting, and investment” (1997: 5), thus showing how SBR can “contribute to better policies” (1997: 7) and hence influence economic performance (and development). The four mechanisms of SBR they identify are: *information exchange*, *reciprocity*, *credibility* and *trust*.

Schneider and Maxfield argue that *information exchange*, that is the “flow of accurate, reliable information between business and the government” (1997: 7), enables both sides to take better decisions. It gives state officials information on the expected effects of policies and business actors information on issues such as export opportunities, the labour market or future policies, helping them take better decisions on investments. Business associations can play an important role in transmitting information from the state to business actors and vice versa, and transparent relations can facilitate exchange and reduce monitoring costs for the state (1997: 9).

Reciprocity in SBR guarantees that the obtained information is not used “in the pursuit of private gain at the expense of the public good” (1997: 10). Following Amsden (1989: 146), this “means that in direct exchange for subsidies, the state exacts certain

¹² For a more detailed discussion of causal process versus effect, see chapter III.2.2.

performance standards from firms”. There are institutional prerequisites, namely that “state actors must have the capacity and autonomy to require improved performance in return for subsidies” (Schneider and Maxfield 1997: 10).

Finally, *credibility* and *trust* are two closely interrelated features of SBR which can reduce political uncertainty and transaction costs and thus improve policy outcomes and investment decisions. Trust means that “protagonists on each side expect those on the other not to betray them” (Schneider and Maxfield 1997: 13). If capitalists place trust in politicians and policies, they will commit to long-term investments because they can expect the state to help them in the future, and trust can make active monitoring by state officials unnecessary. Credibility is weaker than and not as enduring as trust, and policies can be credible even without trust. Credibility then depends on “the type of policy”, “flows of information” and “the reputations of officials associated with the measure”, among other factors (Schneider and Maxfield 1997: 11).

The 1997 publication by Schneider and Maxfield laid important groundwork which was, however, rarely used systematically, perhaps because it is difficult to apply in empirical studies. More recently, however, it informed one of the main approaches taken by the SBR cluster of the IPPG (Improving Institutions for Pro-Poor Growth) research consortium at the University of Manchester, which ran from 2005 to 2010.¹³ IPPG aimed to investigate the effect of SBR on economic performance using an institutional approach. While one of the strands of research was qualitative, including case studies of SBR in Africa and India, another was quantitative, constructing an index of SBR in an attempt to measure the effect of “good” SBR on economic performance.

In constructing this index of SBR, John Harriss (2006), Kunal Sen and Dirk Te Velde (2009) as well as other participants of the IPPG project (see Sen 2013a) took up Schneider and Maxfield’s four aspects as those characteristics of SBR which can promote economic growth. In order to capture the “institutional relations between states and businesses”, Sen and Te Velde (2009: 1270-1272) propose a measurement of four indicators of SBR: “the way the private sector is organised vis-à-vis the public sector”, “the way the government is organised vis-à-vis the private sector”, “the practice and institutionalisation of state-business relations” and “mechanisms to avoid harmful collusive behaviour”.

¹³ For an overview see IPPG’s website at <http://www.ippg.org.uk/>.

The first and second dimensions capture state and business characteristics with respect to formal organisation. The first indicator assesses whether and how long there has been a private sector umbrella organisation.¹⁴ The second indicator takes account of the “presence and effectiveness of an investment promotion agency (IPA)” (ibid: 1271). The third indicator concerns the interaction itself and asks “whether there is a mechanism of public-private dialogue” (ibid), giving higher scores for more frequent meetings. Finally, the fourth indicator assesses the existence and length of existence of competition policies as well as their effectiveness.

Schneider and Maxfield’s (1997) work as well as the index of effective SBR suggested by IPPG authors are important steps towards the disaggregation and measurement of SBR and their effects. However, there are two main methodological shortcomings: First, while the authors explicitly recognise that there can be developmental SBR, they adopt a normative bias by constructing a dichotomy between “bad”, meaning collusive, predatory and growth-preventing relations on the one hand, and “good”, meaning collaborative, transparent and growth-promoting relations on the other hand. As discussed above, this dichotomy does not correspond to empirical realities. SBR can clearly be collusive *and* developmental, depending on the type of collusion and the type of development in question.

Second, it is still unclear how one can account for the complex causality between SBR and economic outcomes and uncover causal mechanisms. Most of the indicators developed by Sen and Te Velde (2009) in fact measure a narrow range of formal state and business characteristics rather than processes. For example, the presence and effectiveness of an IPA as measure for government organisation towards the private sector focuses on whether there is a formal support structure for private business in place but does not capture the involvement of the private sector in policy-making. Each of these methodological criticisms will be discussed in more detail.

Normative bias

Both Schneider and Maxfield’s (1997) and IPPG’s conceptualisations show a normative bias. Schneider and Maxfield (1997: 5) contrast “collaborative relations” with “corruption”, “collusion” and “rent seeking”. The IPPG research agenda focuses on the

¹⁴ A previous version (Te Velde 2006) also included the number of business associations and membership numbers, their perceived effectiveness and their position in the overall business community.

question “how societies can transform the collusive and rent-seeking arrangements (...) to collaborative and synergistic relations” (Sen 2013b: 1) and how these collaborative relations can enhance economic performance. Sen and Te Velde (2009) explicitly link their contribution to the good governance debate and propose the measurement of “good” SBR. The indicator “mechanisms to avoid harmful collusive behaviour”, for example, is problematic since it is not obvious what harmful is from a theoretical point of view – as shown during the discussion above, there are clearly forms of collusive behaviour which are not harmful. Sen (2013b) pits “collusive” against “synergistic” or “collaborative” relations, which are even seen as “a *necessary* condition for economic progress” by another IPPG author (Chingaipe 2013: 123, emphasis added). Sen and Te Velde define “effective” SBR as “a set of highly institutionalized, responsive, and public interactions between the state and the business sector” (2012: 318). They thereby axiomatically preclude the possibility of collusive, informal and intransparent relations having positive effects on economic growth. In this respect, their arguments mirror the hypotheses of the orthodox corruption literature.

Two main problems result from this normative bias: it unnecessarily limits the applicability of the approach, and it distracts from more important determinants of effective SBR. Thus, we are no closer to answering the question at the heart of this study, which is why different forms of *collusive* SBR – which, in developing countries, are far more empirically relevant than non-collusive SBR – vary in their effects. Empirical variations get lost due to them all being *a priori* branded as “ineffective”.

Yet, this bias is easily removed from these ideas to disaggregate SBR, and the suggested categories can still be used for analysing collusive SBR. As some examples may demonstrate, the posited causal mechanisms are relevant irrespective of whether SBR are collaborative or collusive. First, an *exchange of information* can certainly occur between corrupt state officials and well-connected businesspeople. The result would likely be the creation and/or capture of rents by those investors with insider information, but as discussed above, this need not necessarily be an obstacle to economic development, depending on additional conditions. What matters is who gets what kind of information, which investments it is used for and what the rent outcomes are.

Second, as pointed out by Alice Amsden (1989: 146) in reference to Korea on the very page cited by Schneider and Maxfield (1997: 10), *reciprocal relations* can certainly be

corrupt. They may have positive effects on economic development despite the pursuit of personal gain being the primary interest. The outcomes rather depend on conditional variables such as the number of actors involved and the power relations between them (Kang 2002, 2003).

Finally, there is no reason to assume that collusive relations cannot be characterised by *trust* and *credibility*. If they are grounded in interpersonal ties based on kinship, friendship or patron-client relationships, trust is likely even higher than in formal, transparent relations, since trust is a defining element (Eisenstadt and Roniger 1984). Again, the example cited by Schneider and Maxfield (1997: 13), Rosemary Thorp's study of economic development in Peru and Colombia, highlights not only the role of formal relations between business associations and the state, but also that of "the web of friendships and contacts" (1991: 197) and "links of mutual self interest" (1991: 199). In their study of *wasta*, Cunningham and Sarayrah (1993: 196), recognise that "strong personal relationships" built through *wasta* do not necessarily have to be an obstacle, but can serve as a basis for development.

Hence, Schneider and Maxfield's efforts at disaggregation seem unnecessarily limited by their good governance approach. Their analytical categories could well prove just as useful for discovering the causal mechanisms which link *collusive* SBR and economic development.

Causal processes and complex causality

The IPPG publications demonstrate how difficult it is to operationalise SBR in a way which allows testing for complex, non-linear and asymmetric causal relationships. Schneider and Maxfield (1997) suggested to disaggregate SBR in order to uncover the causal mechanisms, but it is difficult if not impossible to translate this into a quantitative index. Sen and Te Velde's (2009) first and second indicators test causal effect hypotheses, many of which had already been discussed above – in particular, the posited role of business and state organisation and their associated characteristics. The third and fourth indicators are the only ones which try to capture Schneider and Maxfield's causal process hypotheses: "the practice and institutionalisation of state-business relations" and "mechanisms to avoid harmful collusive behaviour".

Thus, half of the indicators are not in fact indicators of a causal mechanism at all but

measure static state and business characteristics. Even the others, however, hardly capture processes but are mainly concerned with formal arrangements and institutions, without taking into account actual state-business interactions. For example, a country scores points on indicator 4 if it has formal competition laws and the longer they have been in place, the higher the score. Points are deducted in cases where competition laws were not implemented (Sen and Te Velde 2009: 1280), however this still does not measure how competition laws make state-business interactions more developmental but presumes that this is an effect of enforced competition. This follows the orthodox logic that an efficiently operating market will lead to development and negates the role of state intervention and rent creation in economic development discussed above. Indicator 3, similarly, measures the frequency of meetings between state and business representatives, but cannot capture the interests represented there, the process of information exchange and the effect this has on policies which then influence economic outcomes.

The underlying problem is that if these indicators were meant to capture causal processes, they would require a causal process analysis which does not easily translate into a quantitative index. Furthermore, some indicators could be a function of others. The “practice and institutionalisation of state-business relations” is unlikely to be independent from the way the private sector and the government are organised towards each other, as a high degree of organisation would be expected to contribute to the institutionalisation of SBRs.

These problems are compounded by the additive form of the index. It suggests that SBR are measurable along a single scale which extends from “bad” to “good” SBR. Such an index cannot account for the complex causalities between collusive SBR and development discussed above. It does not model different configurations of the four indicators and rather measures the effect of the overall score, and the authors have taken an *a priori* decision on which indicators are positively or negatively correlated with the outcome. In addition, as it is questionable whether all indicators are independent from each other, the effect of one factor could easily be overestimated because it is included in the addition several times. The additive index thus masks the effect of variations in individual aspects of SBR on individual aspects of development and cannot capture complex causality such as equifinality, multifinality or conjunctural causation.

Qualitative Comparative Analysis (QCA) and within-case study

The operationalisation and measurement of SBR is, no doubt, a difficult endeavour, and this stark criticism is not meant to imply that the efforts of the IPPG authors are entirely flawed. It was my intention to show that a quantitative approach to measuring the effects of SBR on economic performance and development has its – likely unavoidable – problems and may not be the best method to answer the research question. It is difficult to translate a model aimed at tracing processes into a set of variables which can be measured intersubjectively and correlated with economic performance. Both the orthodox econometric approaches of the corruption literature and the newer quantitative approaches based on disaggregated SBR characteristics are ill-suited for testing the complex hypotheses on developmental effects of SBR and examining the associated causal mechanisms.

Hence, this study takes a different approach, distinguishing between a causal effect and a causal process logic. With respect to causal effects, much of the theoretical literature cited above assumes that the link between SBR and economic outcomes is best explained by typological and configurational theories, that is they identify different types or configurations of SBR which have different effects on different types of development (see summary table 3). In other words, a single variable such as a high degree of business organisation or corruption (“harmful collusive behaviour”) cannot *a priori* be assumed to have a specific effect on economic outcomes, but it is the combination with other variables such as state characteristics or political capability which changes the causal effect. Equifinality and multifinality can also be part of such complex causalities. A method more suited to uncovering these is the *Qualitative Comparative Analysis (QCA)* developed by Charles Ragin and other authors (see chapter III.1).

In an effort of method triangulation, chapter V presents a within-case study which adopts a causal effects logic within the first part, using the “congruence method” (George and Bennett 2005: 181-204), and a causal process logic in the second part, using process-tracing. Both methods will be explained in chapter III.2. By tracing configurations of SBR and indicators of economic performance and development over time, causal effect hypotheses can be disaggregated in order to uncover causal mechanisms and address the endogeneity problem. This is recognised by Te Velde

(2009: 9), who calls for “case studies, where the effects of SBRs are presented using a causal-chain analysis”, next to econometric studies. The framework developed by Schneider and Maxfield (1997) and the IPPG authors will guide the within-case study as it provides helpful suggestions where to look for causal mechanisms and along which real-world phenomena they could unfold. As process-tracing requires more detailed analysis of empirical evidence, I will not examine all cases in such a thorough way but limit its application to an especially striking case of high collusion *with* extraordinarily high economic performance, the case of Egypt between 2004 and 2010. This case stands out from the QCA conducted below and begs further investigation.

The next chapter will discuss QCA as well as case study methods in more detail.

Chapter III

Research Methods and Research Design

This chapter introduces the methods used to test the theories presented in chapter II, fuzzy-set Qualitative Comparative Analysis (fsQCA; Ragin 2008) and a within-case study (congruence method and process-tracing; George and Bennett 2005), discusses the underlying methodology, epistemology and ontology, and develops the research design which guides the analysis in chapters IV and V. Due to the relations of complex causality between SBR and economic development and the shortcomings of correlational, quantitative analysis, we will use QCA in chapter IV as the central method as it is well-suited for addressing these issues. Recognising the need to disaggregate SBR as expressed by Schneider and Maxfield (1997) and taking up a suggestion made in the QCA literature (see below), we will conduct a within-case study in chapter V in a second step in order to investigate causal mechanisms in more detail. The case chosen for this within-case study is Egypt between 2004 and 2010, which emerges as a particularly interesting case from the qualitative comparative analysis in chapter IV.

III.1 Qualitative Comparative Analysis (QCA)

III.1.1 Why QCA?

QCA was developed mainly by the U.S. American social scientist Charles Ragin (1987, 2000, 2008). It builds on earlier forms of qualitative comparative research methods but uses distinct algorithms in order to analyse a larger number of cases and account for complex causality. This makes it particularly suited for medium-N analyses, although this is not its only use and it has in fact been employed for large-N analysis as well, usually the domain of quantitative methods.

QCA is often seen as a “third way between quantitative statistical techniques and case-study methodology”, which is, however, misleading (Schneider and Wagemann 2012: 10). QCA is – as implied by its name – a *qualitative* method at heart. While it does employ algorithms in order to analyse set relations and can be used to analyse quantitative data, any calculations done within QCA rest on qualitative assessments which require both theoretical and case knowledge. Cases remain identifiable after any

calculations have been performed and it is thus always possible to interpret the results of the analysis with regard to a particular case.

Within qualitative methods, QCA can be classified as a configurational comparative (Rihoux and Ragin 2009) or set-theoretic (Schneider and Wagemann 2012) method. We will follow Schneider and Wagemann (2012), authors of the most recent and comprehensive QCA textbook published in English, in describing QCA as a set-theoretic method¹⁵: these “model social reality in terms of set-theoretic relations” (Schneider and Wagemann 2012: 7). First of all, this means that the properties of a case are expressed in terms of its membership in a set. In the original variant, known as Boolean or crisp-set QCA, a case is either a member or a non-member in a set, for example a country could be either a member or a non-member in the group of rich countries. In fuzzy-set QCA, which will be used here, membership can take varying degrees from 0 to 1, although there always remains a qualitative difference between membership and non-membership at the 0.5 threshold. A country could thus be classified as a rich country, but its score could be differentiated to show whether it is richer or poorer than other rich countries, for example according to its GDP per capita.

Second, QCA as a set-theoretic method regards “relations between social phenomena as set relations” (Schneider and Wagemann 2012: 3). The statement that all X are characterised by Y can be rephrased to “X is a subset of Y”. For example, we might say that all Western European countries are rich countries, meaning that the set of Western European countries is a subset of the set of rich countries.

Third, set and subset relations are expressed in terms of necessity and sufficiency. Necessity implies that “whenever the outcome is present, the necessary condition is also present” (Schneider and Wagemann 2012: 69). If we regard Y as the outcome and X as the condition, X is a necessary condition if set X wholly encompasses set Y. In other words, all members of Y are also members of X. This relation is expressed as $X \leftarrow Y$. Vice versa, sufficiency implies that whenever a sufficient condition is present, the outcome is also present. X is a sufficient condition if set Y wholly encompasses set X, and this relation is expressed as $X \rightarrow Y$. All members of X are also members of Y.

While uncovering a causal relationship is often the aim of a QCA, relations between social phenomena remain conceptualised as set relations, and thus the elements of a

¹⁵ John Stuart Mill’s “logical methods” which are often used in Comparative Politics can also be subsumed under the category of set-theoretic methods (Schneider and Wagemann 2012: 6f.).

presumed causal relationship – the explanans and the explanandum in Hempel’s terms – are referred to as conditions and outcomes rather than independent and dependent variables. QCA does not measure the net effect of a change in independent variables on the dependent variable as a correlational analysis would, it aims to determine to which degree conditions and combination of conditions (this set is called “solution term”) is a subset of the outcome and how much of the outcome can be explained (“covered”) by this set. In Charles Ragin’s words, it aims to identify “a causal ‘recipe’ – a specific combination of causally relevant ingredients linked to an outcome” (2008: 9), and “to understand causally relevant conditions as intersections of forces and events” (2008: 109).

While thinking of causal relationships in terms of set relations may seem very different from the way hypotheses and theories are usually framed, statements of sufficiency and necessity are in fact very common in social science, even though not often made explicit (Schneider and Wagemann 2012: 4; see Goertz and Starr 2002a for a comprehensive examination of necessary conditions in social science research). It is precisely this strength at examining complex causality between conditions and outcomes why QCA has been chosen for examining the relationship between SBR and economic development. Many of the theories discussed above identify complex causal relationships between causes and effects, including, in particular, conditional variables in Van Evera’s (1997) terms and combinations of conditions, in short, *configurations*. These are notoriously difficult to incorporate in conventional quantitative methods, which assume that independent variables have linear and additive effects (Ragin 2008: 112-114). The effects of several independent variables compete within a regression model; the researcher is only interested in the net effect of each variable on its own. Usually, configurations would be modelled using interaction terms, but this is difficult to do when it comes to higher-order interactions (reflecting, for example, multi-step causal processes) and does not recognise that the supposed independent variables may not in fact be independent from each other.

QCA, in contrast, is able to account for this kind of “configurational thinking” (Ragin 2008: 109), including complex causal relations involving so-called INUS and SUIN conditions (Schneider and Wagemann 2012: 79f.). An INUS condition is a condition which is an “insufficient but necessary part of a condition which is itself unnecessary

but sufficient for the result” (Mackie 1974: 62, cited in Schneider and Wagemann 2012: 79). Condition A is such a condition in this example:¹⁶

$$A*B + \sim B*C + D*\sim F \rightarrow Y.$$

A is insufficient by itself, but a necessary part of the conjunction A*B, which in turn is sufficient, but not necessary for Y (as other conjunctions are linked to A*B through a logical OR). A SUIN condition is a “sufficient, but unnecessary part of a factor that is insufficient, but necessary for the result” (Mahoney et al. 2009: 126, cited in Schneider and Wagemann 2012: 79). Each of the conditions A, B, C and ~D is a SUIN condition in this example:

$$(A+B) * (C+\sim D) \leftarrow Y.$$

Such relationships would not be possible to test using conventional quantitative methods which assume linear, additive factors.¹⁷ Charles Ragin sums up this understanding of complex causality in QCA:

“The key issue is not which variable is the strongest (i.e., has the biggest net effect) but how different conditions combine and whether there is only one combination or several different combinations of conditions (causal recipes) capable of generating the same outcome.” (Ragin 2008: 114)

The discussion of the theoretical literature on SBR and economic development has shown that equifinality, conjunctural causation and causal asymmetry are hypothesised in much of the literature and that only part of the orthodox corruption literature assumes linear, additive relationships. Equifinality, for example, is highlighted by the heterodox corruption and rent-seeking literature, which shows that there are “paths” to economic development involving both high and low levels of corruption. The causal relationships are more complex than a linear correlation between corruption and economic development; while low corruption in conjunction with certain socio-political factors may lead to economic development, high corruption in conjunction with other factors may also lead to this result. This is also an example for conjunctural causation, where corruption alone is not a cause of qualitative differences in economic development, but only in conjunction with a complex set of additional socio-political and institutional conditions. Causal asymmetry is implied by these theories as well; while the absence of corruption may be accepted as a sufficient condition for economic development in some

¹⁶ The sign “~” will be used throughout this thesis to indicate negation as is common practice in QCA.

¹⁷ For an overview of the standard assumptions made by mainstream quantitative methods not accepted by QCA, see Berg-Schlosser et al. (2009: 8f.).

cases, its complement – the presence of corruption – is rejected as a sufficient condition for the lack of economic development in light of the overwhelming empirical evidence which shows that this condition is and was present in cases of both economic development and its complement. QCA allows for separate tests of sufficiency for the outcome and its complement, so it is well-suited for uncovering such a relationship.

An additional advantage of QCA and other set-theoretic methods is that they are more exact when applying social science concepts and when used for concept formation, in particular with regard to the necessity and sufficiency of conditions. When a concept is expressed as a configuration of certain properties, QCA would regard the phenomena present in a certain case as the case being a member of these sets and a non-member in others, whereas a quantitative approach would include factors in an additive manner, which could lead to a high score in some factors outweighing low scores in others. Even though in fuzzy-set QCA, a case can be a member or non-member of these sets to varying degrees, the threshold between membership and non-membership needs to be clearly set on theoretical grounds, so there remains a qualitative difference.

This distinction is important in order to address issues of concept misformation and conceptual stretching which often arise in Comparative Politics (cf. Sartori 1970). For example, as Schneider and Wagemann (2012: 7) argue, if democracies were defined as the set of countries which have free and fair elections as well as civil liberties, “averaging the two indicators of free elections and civil liberties would mean that a totally illiberal country that happens to hold free elections would count as a half-democracy, whereas the set-theoretic approach would classify it as a non-democracy”.¹⁸ The ability to capture and analyse causal complexity while avoiding conceptual and methodological fallacies is one of the main reasons why QCA is used in order to answer the research questions posed in this thesis.

¹⁸ On the subject of conceptual stretching in the democratisation literature and its consequences for empirical research in the MENA region, see Albrecht and Schlumberger (2004).

III.1.2 A summary of fuzzy-set QCA¹⁹

There are several variants of QCA (see Schneider and Wagemann 2012: 13-16). The original method presented by Charles Ragin (1987) is today termed crisp-set QCA or csQCA. Additional versions were developed over the years, notably fuzzy-set QCA (fsQCA) introduced by Ragin (2000), temporal QCA (tQCA) introduced by Caren and Panofsky (2005) and multi-value QCA (mvQCA) introduced by Cronqvist and Berg-Schlosser (2009). Most of the conditions and outcomes which will be examined can be represented as fuzzy sets, so the focus here is on fsQCA.²⁰ In order to explain fsQCA, however, it is necessary to discuss csQCA as well; while fsQCA starts out differently, using fuzzy-set values, it then applies the same analytical steps as csQCA. I will not go further into the latter two variants, tQCA and mvQCA, as they will not be employed here.

Data matrix and truth table

QCA starts with a data matrix (see the example in table 4), which is essentially a tool for structuring the empirical data so that it can be used for truth table analysis later. The matrix shows the membership of a case or unit of observation in a number of conditions and the outcome(s), and each case is represented by a row in the data matrix. These conditions are derived from theoretical expectations which one would like to test for relations of sufficiency and necessity with respect to a certain outcome, including combinations of conditions. In csQCA, elements are either members or non-members of each condition and the outcome, with 1 indicating membership and 0 indicating non-membership.

¹⁹ This introduction to fuzzy-set QCA follows the processes and techniques as presented in Schneider and Wagemann (2012) and Ragin (2008).

²⁰ Charles Ragin (2008: 141) argues that “if researchers can represent their causal conditions and outcomes as fuzzy sets, they should not use crisp sets. The use of crisp sets should be reserved for phenomena that are categorical in nature.” Chapter IV.2 will explain how conditions were chosen and operationalised. All are represented as fuzzy sets.

Table 4: csQCA data matrix with six cases, three conditions and outcome

Row	Conditions			Outcome	Cases
	A	B	C	Y	
1	1	0	1	1	Case I
2	1	1	1	1	Case II
3	0	1	1	0	Case III
4	0	0	0	1	Case IV
5	1	0	1	1	Case V
6	1	0	0	0	Case VI

Source: adapted from Schneider and Wagemann (2012: 95)

In a second step, we construct a truth table (see table 5, using the data from table 4), which shifts focus from cases to configurations of conditions. The truth table is at the heart of QCA and will be used for formal analysis in order to identify necessary and sufficient conditions or combinations of conditions. It enables testing hypotheses, including those which imply relations of complex causality, in a structured manner utilising the available empirical data within the case selection. A truth table presents all logically possible AND combinations (conjunctions) of conditions and whether they are members of the outcome. This will result in 2^k rows with k being the number of conditions. Each configuration of conditions is represented by one row in the matrix.

In csQCA, real-world cases – as represented by the rows of the data matrix shown in table 4 – are either full members or non-members of each truth table row, that is each configuration of conditions. Row 1, for example, represents Case II, while Row 3 represents Cases I and V. Some rows, however, such as Rows 2, 6 and 7 in the example, may not be represented by any real-world cases. This phenomenon is known as *limited diversity* and leads to *logical remainders* in the truth table analysis. The more conditions used in the analysis, the higher the number of logically possible configurations and the higher the likelihood that a row is not covered by empirical data. It should be noted that while logical remainders become visible in QCA and there are techniques for dealing with them, this is not a feature of QCA but a feature of the data being analysed (Schneider and Wagemann 2012: 157-160). In regression analysis, logical remainders

are not uncovered due to the additive nature of the regression equation and are therefore ignored. Interestingly, even though Mill’s logical methods can be seen as set-theoretic, they also ignore logical remainders. They only consider configurations where either the conditions are similar and the outcome is different or where the conditions are different and the outcome is similar, thereby ignoring configurations where some conditions are similar and others different or combinations of similar conditions with similar outcomes and different conditions with different outcomes. They can only consider a certain configuration of conditions at a time, while QCA can include different configurations of several conditions in one analysis.

Table 5: *csQCA truth table with six cases, three conditions and outcome*

Row	Conditions			Outcome	Cases
	A	B	C	Y	
1	1	1	1	1	Case II
2	1	1	0	?	no cases
3	1	0	1	1	Cases I, V
4	1	0	0	0	Case VI
5	0	1	1	0	Case III
6	0	1	0	?	no cases
7	0	0	1	?	no cases
8	0	0	0	1	Case IV

Source: adapted from Schneider and Wagemann (2012: 96)

After assigning cases to the matching truth table row, we fill in the outcome of each row based on the outcome of the cases corresponding to that row. For example, Case II falls into Row 1 ($A*B*C$) and its outcome value is 1, so the outcome for Row 1 equals 1. Row 3 includes two cases, I and V, and both their outcome $Y=1$, hence $Y=1$ for truth table row 3 as well.

Depending on the underlying real data, the outcome of cases which correspond to the same truth table row could be different. These *contradictory rows* need to be dissolved before proceeding with the analysis by adding a condition, respecifying the population

by redefining scope conditions or respecifying the conditions or outcome, which may change the assigned values (Schneider and Wagemann 2012: 120-123). Adding a condition will of course increase the number of logically possible configurations, which will not only lead to a less parsimonious hypothesis but also increase the problem of limited diversity and logical remainders unless additional cases are added.²¹ Researchers should also be careful about respecifications. These should always follow plausible theoretical arguments and not simply be done to make the data a better fit; the truth table should reflect the empirical data as closely as possible. It is normal, however, to amend the research design following the construction of the truth table, and, as for other qualitative methods, “the back-and-forth between the use of data to improve theory and the use of theory to guide the exploration of data” (Ragin 2000: 4) is permissible and encouraged.

It may not be possible to resolve all logical contradictions in this way, and it is normal for a QCA to contain some contradictory rows. Whether they can still be regarded as sufficient for the outcome and included in truth table analysis depends on two parameters of fit, *consistency* and *coverage*, which will be discussed below (Schneider and Wagemann 2012: 120-123).

In fsQCA, elements can have partial membership in a set. This is useful as much of social reality is not in black and white but in shades of grey. Still, a qualitative distinction is made between membership and non-membership: at the threshold of 0.5, an element is neither a member nor a non-member of the set. This provides three anchor points: 0, 0.5 and 1. Different scales can be used to show the degree to which an element is a member or non-member, depending on the original data at hand and theoretical considerations. This also means that a case can be partial member of a set and partial non-member at the same time, for example if the membership value in A is 0.67, then membership in $\sim A$ is 0.33.²²

²¹ From the perspective of Mill’s methods, adding another condition is what researchers would usually do. A contradictory row means there are two or more cases with similar conditions but different outcomes, so we would need to look for another condition to account for the difference in outcome.

²² It is important not to confuse set-membership values with probabilities. Ragin (2008: 88) illustrates the distinction with the example of beer: beer could be considered to have a membership value of about 0.05 in the set of deadly poisons. If its *probability* of being a deadly poison was 0.05 – meaning that one in 20 beers was deadly – it would certainly not be as popular.

Empirical data should, however, never be converted into fuzzy-set values simply by using a mathematical transformation. Using qualitative criteria is essential, as it is important to remember that behind each value lies a qualitative assessment whether the element is a member or a non-member of the set. Thus, the anchor points should be determined first, using criteria based on theoretical considerations. Behind each numerical value stands a qualitative assessment of the case, and the results of the analysis can always be interpreted with reference to the individual cases used.

This is an example of a fuzzy set using four values:

Table 6: Four-value fuzzy set

Fuzzy value	Qualitative coding: the element is...
1	Fully in
0.67	More in than out
0.33	More out than in
0	Fully out

Source: adapted from Ragin (2008: 31) and Schneider and Wagemann (2012: 29)

This looks very similar to scales used by other qualitative methods, such as Mill’s methods (where researchers often assign qualitative values of “high” and “low”, for example). Again, this shows that QCA is a qualitative method; while numerical values are assigned to qualitative assessments in order to be able to employ truth table analysis, the underlying reasoning is distinctly qualitative.

In the case of statistical data on an interval or ratio scale, it is feasible to set the 0, 0.5 and 1 thresholds according to theoretical considerations and then conduct a linear transformation in order to transform the data into fuzzy values, which will yield a continuous fuzzy set while retaining qualitative meaning. Data should never be transformed into fuzzy values without first setting the thresholds as they are the

qualitative anchors. This is important for further calculations because ultimately the truth table algorithm employed in fsQCA is the same as in csQCA, and a case will be assigned to the truth table row in which its membership is more than 0.5. Likewise, 0 and 1 do not necessarily need to represent the minimum and maximum values within the dataset as they are also qualitative anchors; for example, there could be theoretical reasons for assigning the value 1 to more than one element in the dataset if they arguably represent full membership even though the actual data points might be different.²³

Finally, some concepts best correspond to a crisp-set dichotomous logic, and in these cases, it is not necessary to use fuzzy values. Any number of different scales can be combined within the same fsQCA as long as the qualitative anchors are set for each according to theoretical considerations.²⁴

Assuming that we are using the same empirical data as in the example table 4, but this time coded with a more fine-grained four-value fuzzy set, a hypothetical fsQCA data matrix might look like this:

Table 7: fsQCA data matrix with six cases, three conditions and outcome

<i>Row</i>	<i>Conditions</i>			<i>Outcome</i>	<i>Cases</i>
	<i>A</i>	<i>B</i>	<i>C</i>	<i>Y</i>	
<i>1</i>	0.67	0	0.67	0.67	<i>Case I</i>
<i>2</i>	1	0.67	1	1	<i>Case II</i>
<i>3</i>	0	1	0.67	0.33	<i>Case III</i>
<i>4</i>	0.33	0	0.33	0.67	<i>Case IV</i>
<i>5</i>	1	0	0.67	1	<i>Case V</i>
<i>6</i>	0.67	0.33	0	0	<i>Case VI</i>

Source: adapted from Schneider and Wagemann (2012: 102)

²³ An oft-cited example concerns economic development and per-capita GDP; one could argue that there is no qualitative difference between countries with a per-capita GDP of \$21,000 and \$22,000 (as compared to the difference between countries at \$1,000 and \$2,000, for example), so the scale could be capped at, for example, \$21,000, with any country reaching this number being assigned a 1 regardless of by how much it exceeds the threshold (cf. Ragin 2008: 75 fn. 3, 90).

²⁴ For a more detailed discussion of scales and calibration see Schneider and Wagemann (2012: 24-41) and Ragin (2008: 30-33, 85-105).

Similar to csQCA, the second step is to construct a truth table showing all possible configurations of conditions. Using fuzzy-set data to populate the truth table, however, is more complicated, as most if not all rows or cases in the data matrix will not exactly match one of the possible configurations. In order to determine which truth table row a case most closely resembles, we identify the configuration of conditions it has the highest membership in. In other words, we are interested in its membership in every possible conjunction of the conditions, which is calculated by taking the *minimum* membership value across all conditions. For example, Case I would have a membership of 0 in $A*B*C$ but a membership of 0.67 in $A*\sim B*C$.

The rows in a truth table can be seen as ideal types, with the real-world cases being members of an ideal-type set to a greater or lesser degree (Schneider and Wagemann 2012: 96-103). Another way of illustrating this concept is to imagine each row of the truth table as a corner of a three-dimensional (in the case of three conditions) property space, with the ideal types being represented by the corners and the real types being situated at various points within the space, but always in closer proximity to one corner than another. The only case in which a real-type case can be equally close to more than one ideal type is if at least one condition has been assigned a value of 0.5, in which case the minimum membership across conditions cannot exceed 0.5 mathematically. For this reason, it is not recommended to assign exactly 0.5, the “point of maximum ambiguity” (Ragin 2000, cited in Schneider and Wagemann 2012: 100). If 0.5 has not been assigned, each case can only have a membership greater than 0.5 in exactly one row.²⁵

Taking the same fuzzy-set data as in table 7 and assigning cases to configurations according to their membership values results in table 8. Unsurprisingly, the cases are assigned to the same rows as in the csQCA truth table above, as the fuzzy-set values were chosen to reflect the same qualitative assessment of membership or non-membership as the crisp-set data.

²⁵ If it is not possible to decide whether a case is either a member or non-member of the set, one could use multi-value QCA (mvQCA) which enables coding non-dichotomous ordinal or interval data and avoids the creation of dummy variables and additional logical remainders (Cronqvist and Berg-Schlusser 2009).

Table 8: fsQCA truth table with six cases and three conditions

<i>Row</i>	<i>Conditions</i>			<i>Cases with membership > 0.5 in row</i>
	<i>A</i>	<i>B</i>	<i>C</i>	
<i>1</i>	1	1	1	<i>Case II</i>
<i>2</i>	1	1	0	<i>no cases</i>
<i>3</i>	1	0	1	<i>Cases I, V</i>
<i>4</i>	1	0	0	<i>Case VI</i>
<i>5</i>	0	1	1	<i>Case III</i>
<i>6</i>	0	1	0	<i>no cases</i>
<i>7</i>	0	0	1	<i>no cases</i>
<i>8</i>	0	0	0	<i>Case IV</i>

Source: adapted from Schneider and Wagemann (2012: 104)

In fsQCA (and in csQCA when there are contradictory rows), it is not easily possible to decide whether a configuration can be regarded as a member of the outcome, that is whether the row should be assigned $Y=1$. First, we need to determine whether we are satisfied with the row being a consistent subset of the outcome. This requires calculating a *consistency score* for each row.

Consistency of sufficient conditions

Analysing a truth table in order to uncover relations of sufficiency and necessity is at the core of QCA. Separate analyses should be performed for sufficiency and necessity. A relationship of sufficiency requires that no case of a condition $X=1$ can be observed where the outcome $Y=0$, or in other words, that $X \leq Y$. In csQCA, this can be illustrated using a two-by-two table:

Table 9: Two-by-two table showing a relation of sufficiency

Outcome Y	1	allowed (but not relevant)	allowed
	0	allowed (but not relevant)	not allowed
		0	1
		Condition X	

Source: adapted from Schneider and Wagemann (2012: 59)

If cases fall into the top-right cell but not into the bottom-right cell, this indicates a relation of sufficiency. The cells in the left column are irrelevant for a test for sufficiency of condition X as they are not members of condition X.

If there are cases in both cells on the right, this means there are contradictory rows, and a decision needs to be taken whether or not a condition should be considered sufficient. The two-by-two tables below (table 10) illustrate different case distributions for potentially sufficient conditions. The number within the cells indicates the number of cases which assume the corresponding values of X and Y. The first table does not have any cases in the bottom right cell; all cases fulfil the criterion of $X_1 \leq Y$ and are thus fully consistent with the statement that X_1 is sufficient for Y. The second table, however, shows 10 cases in the bottom right cell, indicating contradictory rows. In the third table, there is an even larger number of cases in that cell, hence it is even less consistent with the statement that X is sufficient for Y.

Table 10: Consistency of sufficient conditions in csQCA

Outcome Y	1	80	100
	0	15	0
		0	1

Condition X₁

Outcome Y	1	80	90
	0	15	10
		0	1

Condition X₂

Outcome Y	1	80	8
	0	15	92
		0	1

Condition X₃

Source: adapted from Schneider and Wagemann (2012: 124)

In order to calculate the consistency of X as a sufficient condition for Y, csQCA employs the following formula:

$$\text{Consistency of X as a sufficient condition for Y} = \frac{\text{Number of cases where X=1 and Y=1}}{\text{Number of cases where X=1}}$$

In the example above, consistency of X₁ is 1, consistency of X₂ is 0.9 and consistency of X₃ is 0.08. A consistency of 0.9 and higher is generally accepted to be high enough to warrant a statement of sufficiency. However, QCA does not specify a minimum consistency. Charles Ragin (2008: 136) advises against thresholds lower than 0.75. Schneider and Wagemann argue that the decision depends on the research context:

“researchers should not justify their choice of the consistency threshold by making reference to some sort of universally accepted consistency threshold, akin to the (largely non-reflected) use of the 95 percent confidence interval in inferential statistics. Instead, researchers should guide their decision by making reference to various research-specific features.” (2012: 127f.)

There could, for example, be gaps in the data which show an obvious difference between clusters above and below a certain threshold, so it is useful to sort rows in order of consistency.

In fsQCA, the calculation of consistency scores is an essential part of the construction of the truth table (for a more detailed discussion see Schneider and Wagemann 2012: 123-129; Ragin 2008: 44-54). The researcher takes a decision on the outcome value of each row based on its consistency score. Only rows with a high consistency will be deemed sufficient for the outcome and thus be given an outcome value of 1. It is important to note that consistency is calculated using all cases, not just the ones which are members of that particular row. Perfect consistency is uncommon as fuzzy sets will be both members and non-members of conditions and the outcome unless fuzzy-set values are exactly 0 or 1. In this respect, fsQCA places higher demands on sufficiency than csQCA (Schneider and Wagemann 2012: 192).

This is the formula to calculate consistency in fsQCA:

$$\text{Consistency } (X_i \leq Y_i) = \sum [\min(X_i, Y_i)] / (\sum X_i)$$

The formula takes into account not just how many real-type cases deviate from the ideal-type rows but also by how much they deviate.²⁶ Hence, while the resulting fsQCA truth table will only contain crisp values, the finer information of the underlying fuzzy-set values is contained in the consistency score which informs the decision whether or not a row should be considered sufficient for the outcome.

As in csQCA, the cut-off point should be chosen carefully based on the research context and not mechanically, and particular attention should be paid to whether low consistency is due to “true logical contradictions”, that is whether there are cases which have a membership of more than 0.5 in the hypothesised sufficient condition but less than 0.5 in the outcome, which indicates substantial empirical inconsistency (Schneider and Wagemann 2012: 185).

²⁶ Only this revised formula developed by Charles Ragin (2008: 44-54), which is used in the fsQCA computer application, takes into account by how much fuzzy-set values deviate from a consistent subset relation as this information is included in the numerator. In Ragin (2000), consistency was calculated only on the basis of which proportion of cases was on or above the main diagonal.

Continuing with the example from table 8, we can now assign outcome values to each row:

Table 11: fsQCA truth table with six cases and three conditions

<i>Row</i>	<i>Truth table row</i>			<i>Consistency score</i>	<i>Is row deemed sufficient for Y?</i>	<i>Cases with membership > 0.5 in row</i>
	A	B	C		Y	
1	1	1	1	1.00	1	Case II
2	1	1	0	-	?	no cases
3	1	0	1	1.00	1	Cases I, V
4	1	0	0	0.60	0	Case VI
5	0	1	1	0.49	0	Case III
6	0	1	0	-	?	no cases
7	0	0	1	-	?	no cases
8	0	0	0	0.75	0	Case IV

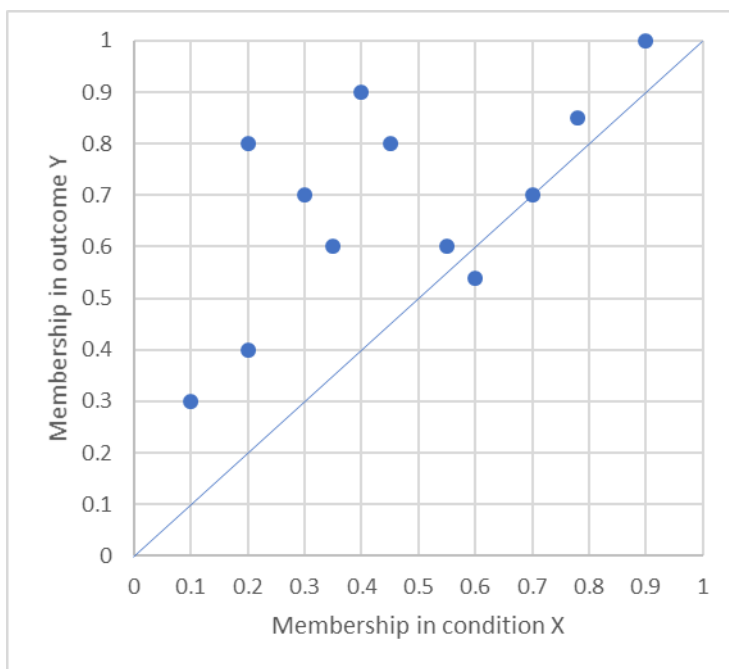
Source: adapted from Schneider and Wagemann (2012: 187)

As consistency for rows 1 and 3 is 1.00, we can confidently assign an outcome value of 1 to these rows. Rows 4 and 5 are clearly inconsistent, so they are assigned Y=0. Rows 2, 6 and 7 are logical remainders as there is no case information for these rows. Row 8 has a consistency score of 0.75. It is therefore advisable to take a closer look at the case-level data to find out what the reason for this score is, whether there are true logical contradictions and so on. In this case, there are no true logical contradictions, and we do not have enough information to take a decision based on the research context as the table contained hypothetical data. As 0.75 is at the lower end of acceptable consistency scores and there is a substantial gap to the next-highest score (1.00), one could reasonably assume that the row is not sufficient for the outcome and assign 0.

Unsurprisingly, as the hypothetical fuzzy-set data used in tables 7, 8 and 11 was based on the crisp-set data used in tables 4 and 5, both resulting truth tables are very similar. The more fine-grained values assigned to cases in the fsQCA, however, did lead to a difference with regard to Row 8 which could have important ramifications for the overall solution term, depending on whether the researcher decides to accept the row as consistent with a statement of sufficiency. fsQCA contains more fine-grained information which results in a more cautious assessment of sufficiency.

An XY plot (using different hypothetical data) is better suited than a two-by-two table to illustrate sufficiency in fsQCA:

Figure 1: Hypothetical subset relation in fsQCA (sufficiency)



Source: adapted from Ragin (2008: 48)

All cases on or above the diagonal fulfil the criterion that $X \geq Y$ and hence support the statement that X is sufficient for Y. One case is below the diagonal as $X=0.6$ and $Y=0.55$, meaning that it narrowly misses the sufficiency requirement. Nevertheless, given that the overwhelming majority of cases are located on or above the diagonal and as this case is not a true logical contradiction (membership in both X and Y is above 0.5), there are good reasons for arguing that X is sufficient for Y. The consistency score is 0.99.

The XY plot illustrates an important methodological difference between how causality is assessed in QCA as opposed to quantitative methods. In econometric analysis, cases close to, both above and below, the diagonal would be considered support for the claim that there is a causal relationship, while cases such as $X=0.2/Y=0.8$ would be seen as errors and weaken the correlation. In QCA, cases below the diagonal do not fulfil the criterion of sufficiency and lower consistency, while cases such as $X=0.2/Y=0.8$ do—they are fully consistent with the claim that X is sufficient for Y, even though they are not as relevant because the case is only a part-member of condition X (this is addressed by the measure of *coverage*, see below). This shows that QCA allows for *equifinality*: these cases display the outcome due to conditions other than X (Ragin 2008: 47f.).

Importantly, consistency scores in fsQCA should be calculated separately for the outcome and the negation of the outcome. This enables fsQCA to account for *asymmetric causality*. Mathematically, this is because membership in a conjunction of conditions is calculated using the minimum membership across conditions so it is not symmetric. Ragin points out that “no mathematical reason exists to expect consistency scores calculated for the negation of an outcome to be perfectly negatively correlated with consistency scores for the original outcome, as they are in crisp-set analysis” (2008: 137).

QCA also allows for *conjunctural causation* by assessing sufficiency for single conditions as well as different combinations of conditions, for example the conjunction (logical AND, written $A*B$) or disjunction (logical OR, written $A+B$) of individual conditions (Schneider and Wagemann 2012: 42-55). To calculate membership in a conjunction, we take the minimum membership value across the conditions; for example, Row 1 has a membership value of 0.33 in $A*B$. Vice versa, to calculate membership in a disjunction, we take the maximum membership value, for example Row 1 would have a membership of 0.67 in $A+B$. It is thus possible to calculate a case’s membership in any configuration and relate the solution term back to the empirical data.

Coverage of sufficient conditions

A second important measure of fit in QCA is *coverage*. Coverage is an expression of how much of the outcome is “explained” by a condition deemed as sufficient. In other words, the coverage score expresses “the empirical importance of X for explaining Y”

(Schneider and Wagemann 2012: 129). In set-theoretic terms, it shows how much of set Y is covered by set X. The higher the coverage, the more relevant X is as a sufficient condition. If the coverage of X is small, this means that significant parts of Y are still unexplained and that there must be other important sufficient conditions. Again, this shows how QCA accounts for equifinality.

Coverage in csQCA is calculated as follows:

$$\text{Coverage of X as a sufficient condition for Y} = \frac{\text{Number of cases where } X=1 \text{ and } Y=1}{\text{Number of cases where } Y=1}$$

Parallel to the consistency formula, the coverage formula in fsQCA takes advantage of fuzzy-set values:

$$\text{Coverage} = \sum [\min(X_i, Y_i)] / (\sum Y_i)$$

With regard to the XY plot given in figure 1, cases toward the top left corner decrease the coverage score. These are cases which display the outcome but are only members of the condition to a small degree. While they do not violate the sufficiency criterion, they indicate that there must be other sufficient conditions for Y apart from X.

Schneider and Wagemann (2012: 148-150) note that there is often a trade-off between high consistency and high coverage scores. Consistency can be increased by adding conditions, in other words by making the solution term more complex, but this will decrease the size of the subset and thus decrease its coverage of the outcome. Researchers should not try to manipulate the data in a way which maximises both parameters; consistency should always be assessed first, and coverage can then show the significance of the sufficient condition found and point to open research questions.

Logical minimisation: the truth table algorithm

Once the outcome value for each row in the truth table has been determined, every configuration of conditions for which the outcome Y=1 is a sufficient condition for the outcome. In order to represent the truth table as a whole, we can include all these rows – which are called *primitive expressions* – in one Boolean expression which links them as disjunctions. In the example from table 11, this would be

$$A*B*C + A*\sim B*C \rightarrow Y.$$

This Boolean expression can now be made more parsimonious using principles of logical minimisation (for a detailed discussion see Schneider and Wagemann 2012: 104-115). Comparing similar conjunctions pairwise may show that some conditions are logically redundant, for example if they as well as their complement feature as part of two primitive expressions which were both deemed sufficient for the outcome (B and \sim B in the example). Several logical minimisations might be possible, as long as the minimised formula remains logically equivalent. The end products of this process are called *prime implicants*, which are linked by a logical OR expression.

In the example above, logical minimisation would result in just one prime implicant:

$$A * C \rightarrow Y.$$

In more complex solution terms, a prime implicant could, however, still be logically redundant. This is the case “if all of the primitive expressions are covered without it being included in the solution formula” (Schneider and Wagemann 2012: 109). For example, as Schneider and Wagemann (2012: 109-111) show, the primitive expressions

$$R * E * P + R * E * \sim P + \sim R * E * P + \sim R * \sim E * P$$

can be minimised to these prime implicants:

$$R * E + E * P + \sim R * P$$

which cannot be reduced any further using the logical minimisation process described above. However, one of the prime implicants can be removed with all original primitive expressions still covered. This can be shown using a prime implicant chart:

Table 12: Hypothetical prime implicant chart

Primitive expressions/Truth table rows

<i>Prime implicants</i>	$R * E * P$	$R * E * \sim P$	$\sim R * E * P$	$\sim R * \sim E * P$
$R * E$	X	X		
$E * P$	X		X	
$\sim R * P$			X	X

Source: adapted from Schneider and Wagemann (2012: 111)

This shows that $E * P$ is logically redundant as all primitive expressions are covered by the other two prime implicants alone, and the solution term can thus be minimised to $R * E + \sim R * P \rightarrow Y$.

A solution term which has undergone these two steps of logical minimisation is called the *conservative or complex solution*. It should be noted that a researcher might wish to include a logically redundant prime implicant in the solution term if it imparts information which is interesting from a theoretical point of view.

These steps of logical minimisation are included in the Quine-McCluskey algorithm, which is part of the fsQCA software used below (Ragin and Davey 2016). The software performs these steps automatically.

At this point, there could still be logical remainders left in the truth table which have not been included in the minimisation, as in table 11. There could, however, be good reasons for including logical remainders in the minimisation process. In order to decide which logical remainders to include in the minimisation, it is important to distinguish between different types of logical remainders. Schneider and Wagemann (2012: 154-157) identify three different types: arithmetic remainders, clustered remainders and impossible remainders. *Arithmetic remainders* occur because there are more logically possible combinations than cases studied, so there must be some rows which do not represent any empirical data. *Clustered remainders* are configurations which do not exist in social reality, but are possible in principle, such as a country with a strong trade union but without a strong left-wing party. They occur because social reality is “structured by historical, social, cultural, and other processes” (ibid: 154) which produce certain configurations and preclude others. Finally, *impossible remainders* are configurations which are “impossible in the light of what we know about the world” (ibid: 155), including the “proverbial pregnant man”. Assumptions need to be made carefully in order to avoid including rows in the minimisation process which represent the latter type of logical remainder.

Assumptions are usually made in order to arrive at a more parsimonious solution. The *most parsimonious solution* is the solution term which includes the least amount of conditions and logical operators. This means that assumptions on logical remainders are made in a way which enables further minimisation. These assumptions are made by the

software, which means that researchers need to be very careful about drawing conclusions based on the most parsimonious solution as it could be based on assumptions on impossible remainders.

A solution between the most parsimonious and the conservative solution term is called *intermediate solution term*. This is a solution which is based on *easy counterfactuals*. Easy counterfactuals are “simplifying assumptions that are in line with both the empirical evidence at hand and existing theoretical knowledge on the effect of the single conditions that compose the logical remainder” (ibid: 168). Rather than letting the software decide on which logical remainders to include, the researcher takes a conscious decision which rows to include, carefully avoiding the inclusion of impossible remainders. It is therefore recommended to base conclusions on the conservative or intermediate solution and treat the most parsimonious solution with caution (for a more detailed discussion of limited diversity and counterfactual arguments see Schneider and Wagemann 2012: 151-177, 197-219; Ragin 2008: 147-175 and Rohlfing 2012: 168-179).

This logical minimisation procedure shows an advantage of QCA as compared to other qualitative methods, such as Mill’s methods. Due to the structured way in which QCA organises empirical data along theoretical configurations, using a truth table, it is possible to apply Boolean methods in order to arrive at a more parsimonious solution while retaining its truth value. The algorithm of logical minimisation used in QCA allows a qualitative comparison between a large number of cases while taking into account several conditions and combinations of conditions without requiring either similar conditions or similar outcomes across all cases, as Mill’s methods would. QCA thus combines the method of difference and the method of agreement while explicitly recognising limited diversity and allowing the researcher to make assumptions on logical remainders which would have been ignored by Mill’s methods. The computerised technique which is part of QCA can be seen as a tool for performing a qualitative comparison more effectively rather than a mimicking of quantitative methods.

Testing for necessary conditions

As mentioned above, QCA as a set-theoretic method distinguishes between two main types of subset relations, sufficiency and necessity. Testing for necessary conditions is a separate step from the test for sufficiency described earlier. A relation of necessity is the mirror image of a relation of sufficiency: it requires that no case of an outcome $Y=1$ can be observed where the condition $X=0$, or, in other words, that $X \geq Y$. In csQCA, this can once more be illustrated using a two-by-two table:

Table 13: Two-by-two table showing a relation of necessity

	1	not allowed	allowed
Outcome Y	0	allowed (but not relevant)	allowed (but not relevant)
		0	1
		Condition X	

Source: adapted from Schneider and Wagemann (2012: 71)

When testing for a relation of necessity, only cases where the outcome is present are relevant (Schneider and Wagemann 2012: 70). This means that we are selecting on the dependent variable, which, of course, goes against standard advice usually given on social science research design, in particular by King et al. (1994: 129-137). This approach is, however, perfectly suitable for examining relations of necessity, which are often postulated in social science theories but seldom explicitly tested (Goertz and Starr 2002b: 13). Still, as a QCA usually aims to uncover relations of both necessity and sufficiency, it is advisable to include cases which display both Y and $\sim Y$.

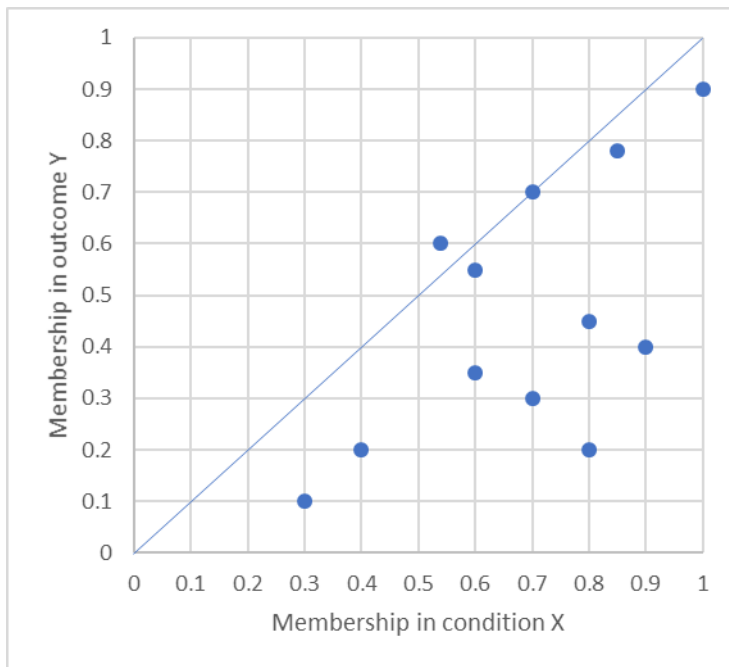
Similar to sufficiency, there are two important parameters of fit for necessary conditions, consistency and coverage. The formulas are the opposite of the ones used for sufficiency. In csQCA, they are:

$$\text{Consistency of X as a necessary condition for Y} = \frac{\text{Number of cases where X=1 and Y=1}}{\text{Number of cases where Y=1}}$$

$$\text{Coverage of X as a necessary condition for Y} = \frac{\text{Number of cases where X=1 and Y=1}}{\text{Number of cases where Y=1}}$$

To illustrate a relation of necessity in fsQCA, an XY plot is helpful again:

Figure 2: Hypothetical subset relation in fsQCA (necessity)



Source: adapted from Ragin (2008: 54)

All cases on or below the main diagonal support the claim that X is necessary for Y. Cases above the diagonal decrease consistency. Again, this shows the difference between QCA and quantitative methods, which would not distinguish between sufficiency and necessity and only show a correlation between X and Y. Regression analysis could uncover a perfectly linear correlation between X and Y, but not analyse sufficiency and necessity separately as QCA can. In fsQCA, only if cases are on the main diagonal then there is “perfect set coincidence”, that is X is both sufficient and necessary for Y (Schneider and Wagemann 2012: 85).

The formulas to calculate consistency and coverage for necessity in fsQCA are, again, the mirror images of the formulas for sufficiency:

$$\text{Consistency } (X_i \leq Y_i) = \sum [\min(X_i, Y_i) / (\sum Y_i)]$$

and

$$\text{Coverage} = \sum [\min(X_i, Y_i) / (\sum X_i)].$$

As for sufficiency, the inclusion of the minimum values of X, Y ensures that the information contained in the fuzzy-set values is utilised.

When testing for necessity, there is, however, a basic difference to the test for sufficiency. Tests for necessity begin with an analysis of single conditions and do not employ the logical minimisation algorithm. This is because an AND combination of conditions cannot be necessary unless each individual element is necessary. Thus, testing for the necessity of combinations of conditions only makes sense once it has been established that each element is necessary. If no single necessary conditions have been found, it is possible to test for necessary OR combinations of conditions, which makes it more likely that a necessary combination will be found. Researchers should be careful, however, to base such an argument on plausible theoretical assumptions. It should also be noted that not every social phenomenon has a necessary condition, so the analysis might not yield any results. Consistency values for necessary conditions should be 0.9 or higher to be considered a valid result (Schneider and Wagemann 2012: 71-75, 139-143).

Another difference to the test for sufficiency is the interpretation of the coverage parameter. A low coverage score for a highly consistent necessary condition points to trivialness. A trivial necessary condition is a condition which needs to be present in order for the outcome to occur, but which is not of any interest theoretically. In set-theoretic terms, the subset Y (the outcome of interest) is so much smaller than the superset X (the necessary condition) that the relation of necessity becomes meaningless. For example, grievances could be seen as necessary for the organisation of social movements, but grievances are so commonplace that this is an irrelevant finding (Ragin 2008: 60f.).

In summary, an fsQCA should usually proceed as follows (Schneider and Wagemann 2012: 178, 275-284):

- 1) Designation of conditions and outcome
- 2) Calibration of set-membership scores / qualitative coding
- 3) Analysis of necessary conditions
- 4) Analysis of sufficient conditions using the truth table algorithm (conversion of data matrix into truth table, attribution of outcome values based on consistency, logical minimisation)
- 5) Presentation and interpretation of results.

Note that while issues related to sufficiency were covered first in this chapter, Schneider and Wagemann (2012) recommend that in research practice, tests for necessity should be done before testing for sufficiency in order to be able to avoid losing necessary conditions in the logical minimisation procedure.

III.1.3 Shortcomings of QCA

Despite the many advantages of QCA discussed above, there are also shortcomings and risks, and the analysis undertaken in chapter IV will endeavour to address these by adopting best practice. As QCA is a relatively new method and was only slowly taken up in mainstream social science literature, there is a dearth of articles from a methodological point of view, so this discussion is still in its infancy.

Jason Seawright (2005) draws attention to several analytic assumptions made by QCA and compares them to assumptions made in regression analysis. Explicit assumptions are made regarding the outcome of logical remainders, and Seawright (2005: 8) argues that QCA forces researchers to make these. As discussed above, while assumptions on logical remainders can be made, this is not necessary if one is happy with the conservative solution which does not take into account logical remainder rows. On the other hand, it could be argued that by non-inclusion of these rows, researchers are in fact making an assumption that these configurations would not be sufficient for the outcome – which is standard practice when using other qualitative methods. Seawright does give credit to QCA for being open and frank about assumptions on logical remainders where other methods simply ignore them.

Seawright (2005: 8-16) also discusses assumptions made on the form of causal relationships, in particular in relation to the threshold set during the coding and calibration of conditions and the outcome. He is correct in cautioning researchers

against mechanically assigning threshold values and illustrates how changes in threshold values and set calibration can lead to different results. Hence it is advisable to be careful when setting threshold values and rely on solid theoretical arguments. In the analysis below, threshold values will be explicitly discussed to mitigate this potential risk. It seems however that his criticism applies mostly to QCA of a large number of cases and quantitative data, while the QCA below will include a limited number of cases where it is always possible to refer back to case-level data.

Simon Hug (2013) argues that QCA is vulnerable to a distortion of results because of measurement error, and that robustness tests are not as developed and common as in quantitative methods. This is correct, and it is important to, on the one hand, address this issue by testing robustness insofar possible, and on the other, not to interpret results in reliance on a false sense of validity and intersubjectivity. As stressed above, QCA is a qualitative method, and results are only as exact as the underlying data, some of it being qualitative and open to interpretation. Results produced by the QCA software should always be carefully assessed and referred back to cases as well as theoretical knowledge.

Nevertheless, there are suggested techniques for assessing robustness and addressing uncertainty in QCA (Schneider and Wagemann 2012: 284-295). The two parameters of fit, consistency and coverage, enable the researcher to interpret results critically and qualify the results obtained. It is, for example, advisable to present separate analyses for higher and lower consistency scores to see whether this impacts upon the results, and this will be done in chapter IV (Ragin 2008: 144).

Hug (2013) also stresses that QCA was originally not intended to be used inductively and that it is dangerous to use it for theory construction because of its reliance on the case selection. While I do not agree with this argument entirely – QCA has a different understanding of hypothesis testing and explicitly calls for “moving back and forth between ideas and evidence” (Schneider and Wagemann 2012: 296) – the present study does not aim to use QCA in the way criticised by Hug but uses it to test different hypotheses of complex set relations. QCA was deliberately chosen here as it is well suited to the configurational character of many of the theories on SBR discussed above. The research design combines two common QCA approaches listed by Yamasaki and Rihoux (2009: 125): “The *perspective* approach, where a set of conditions representing

two or three theories are tested in the same model”, and the “*conjectural* approach (advocated by Amenta & Poulsen), where conditions are selected on the basis of ‘theories that are conjunctural or combinatorial in construction and that predict multiple causal combinations for one outcome’” (citing Amenta and Poulsen 1994: 29; emphasis in original).

Omitted variable bias is another potential risk of QCA, just like for most other qualitative as well as quantitative methods. Seawright (2005: 17) argues that the Boolean-algebraic character of QCA “requires researchers to assume that no causally relevant variables are missing from the analysis (...) because QCA requires researchers to resolve all contradictions in the process of creating the truth table, the technique in effect treats all cases with the same combination of values on the independent variables as causally identical.” If QCA is used in order to support a comprehensive explanation for a given outcome, then this is indeed a problem. However, QCA does not see conditions in the same way as variables in a regression analysis, seeking to measure their net effect. Rather, it aims to identify set relations of sufficiency and necessity between conditions and the outcome, which do allow conclusions regarding the validity of causal theories but do not amount to an explanation of the outcome. As Meur et al. (2009: 159) stress, there are no “assumptions made regarding conditions (variables) outside of the model – one chief reason being that (...) the goal of QCA algorithms (the computer-run part of QCA) is not to provide an ‘explanation’ of a given outcome”.

Yet, while an effort has been made to keep economic context variables reasonably constant through careful case selection (see chapter IV.1), there are still many economic variables outside the scope of this study which are certainly relevant for the outcome but are not included in the “specification” of the “model” – see, for example, the literature on the determinants of growth (Barro 1997). The conclusions will thus only address the theories on SBR and their claims of the sufficiency or necessity of certain configurations of conditions for economic growth and development, not provide a *model* of growth or development.

This means that while the theories discussed in chapter II will be “tested” in the QCA below, the resulting solution term cannot be expected to explain economic growth or development and identify all potential causal variables. The design rather aims to include the central variables identified by the SBR literature and identify whether they

or their different combinations are sufficient or necessary for different outcomes. The research design is based on a small population, is case-oriented and limited to one geographical region in order to reduce risk of omitted variable bias, and I will discuss the potential influence of exogenous variables where appropriate.

It should be said that many of the criticisms addressed at QCA come from the perspective of quantitative methods and apply equally or even more so to other qualitative methods, such as Mill's methods, where similarities between cases are approximate and decisive differences could remain unaccounted for. QCA has an advantage over these methods by being more systematic and transparent in explicating the truth table which remains hidden in other qualitative designs. QCA enables the researcher to counter methodological shortcomings to some degree through the parameters of consistency and coverage as well as the possibility of running separate analyses to account for potential measurement error. QCA is also more easily replicable and more transparent than less formalised qualitative comparative methods (Berg-Schlusser et al. 2009: 14). Also, QCA was not designed to replace regression analysis entirely, but "to allow systematic cross-case comparisons, while at the same time giving justice to within-case complexity, particularly in small- and intermediate-N research designs" (Rihoux and Ragin 2009: xviii, emphasis removed).

The main criticism which could be raised from a qualitative point of view, however, is that QCA runs the danger of giving up case knowledge in favour of a mechanistic approach and a reliance on the logical minimisation algorithm. This could obscure empirical interlinkages, for example by dropping conditions which would be seen as important from a case perspective. The analysis below seeks to address this criticism in two ways: first, each case is discussed in considerable detail with reference to case-specific literature before values are assigned, and results are interpreted by referring back to the case level. Second, it is recognised that QCA is a static method which has difficulty in acknowledging temporal processes and causal mechanisms. This is why it is combined with case study methods to explore the supposed causal mechanisms in more detail. While the QCA concentrates on examining the causal effect theories discussed in chapters II.1 and II.2, the within-case study focuses on the disaggregated aspects of SBR discussed in chapter II.4. This form of method triangulation is also suggested in the QCA literature (Schneider and Wagemann 2012: 305-312).

III.2 Case study methods

The case study mainly follows the method laid out in George and Bennett's seminal work on case studies and theory development (2005: 181): "the within-case method of causal interpretation, which may include congruence, process-tracing, or both." It will proceed in two steps. The first sections represent what George and Bennett (2005: 181-204) call "the congruence method": they consider changes of the independent and dependent variables separately, assessing the plausibility of a causal relationship, in particular with respect to the timing of the changes. The second part collects "causal-process observations", that is it looks for observable implications of the causal mechanisms linking SBR and economic outcomes (Collier et al. 2010b: 184-196; George and Bennett 2005: 205-232).

The objective of the case study is to contribute to theory development by applying the existing theories discussed in chapter II to the case of Egypt 2004-2010, in order to uncover shortcomings and omitted variables and suggest new hypotheses. It thus falls into the category of a "disciplined configurative" case study, which can "impugn established theories if the theories ought to fit it but do not" and identify the "need for new theory in neglected areas" (Eckstein 1975: 99, cited in George and Bennett 2005: 75).

III.2.1 The congruence method

The congruence method is often used in within-case studies but seldom explicated and systematically applied. It does not involve tracing the causal process but examines a posited relationship between independent and dependent variables by measuring the change in independent variables first and testing whether the theoretical expectation for the change in the dependent variable is consistent with the actual value of the dependent variable. In other words, it is a comparison between values of the independent and dependent variables at different points in time within a single case in order to establish whether they are congruent and therefore potentially causally related. Rather than

applied within a single case, this method can also be combined with a comparison of another, counterfactual, case.

The within-case study in chapter V will first examine the independent variable, SBR in Egypt, and in particular the change in the type of SBR which defines the start of the period (2004-2010) under study. The theories previously discussed in chapter II would expect this change to lead to changes in the dependent variable, economic outcomes. These are then measured throughout the period 2000-2010 in order to find out whether they did change in congruence with the change in SBR type in 2004, that is whether their values are consistent with a causal relationship. Economic outcomes are subdivided into economic performance indicators and economic development indicators in order to account for the possibility that the change in SBR had different effects on each, as discussed in chapter I.

It is important to note that while the results of the congruence method can support or weaken claims of causal relationships, they cannot conclusively prove that changes in the dependent variable(s) are caused by changes in the independent variable(s). The relationship could be spurious, for example when changes in both variables are caused by changes in a third variable (George and Bennett 2005: 185). George and Bennett (2005: 182) suggest that “process-tracing can be combined with the congruence method to assess whether the congruence between independent and dependent variables is causal or spurious”, and this is exactly what will be done in the second part of the within-case study.

III.2.2 Process-tracing

Process-tracing “attempts to empirically establish the posited intervening variables and implications that should be true in a case if a particular explanation of that case is true” (George and Bennett 2005: 147). It does this by looking for empirical evidence in support of or opposition to different possible explanations, similar to a detective looking for clues (the excellent discussion of process-tracing by David Collier (2011) uses a Sherlock Holmes story as illustration). Of particular importance is the sequence of observations in order to establish whether a causal relationship is probable. This is a

clear advantage over most quantitative methods which cannot analyse the sequence of empirical phenomena.

This means of course that before conducting a process-tracing analysis, it is necessary to have theoretical expectations of which variables will be part of the causal chain and what the causal mechanisms could be. As Peter Hall (2008: 309) stresses, “the crucial point is that the investigator should approach the case, not only with a principal theory, but with it and one or more other theories that could plausibly be adduced to explain the outcome. The object will be to test one theory against another.” This principle will be applied by looking for those causal process observations which would be expected by the theories discussed in chapter II, particularly the two opposed orthodox and heterodox viewpoints.

Process-tracing adopts an understanding of causality different from the logic of causal effects as commonly understood in the Hempel-Oppenheim D-N (deductive-nomological) model, which “invokes only one aspect of causality, the outcomes or effects of putatively causal processes” (George and Bennett 2005: 137). In other words, in the D-N model, “the causal effect is the expected value of the change in outcome if we could run a perfect experiment in which only one independent variable changes” (ibid: 138). This is also the understanding of causality underpinning King et al.’s influential “*Designing Social Inquiry*” (1994: 76-82).

Process-tracing, in contrast, seeks to uncover causal mechanisms rather than causal effects. George and Bennett (2005: 137) define causal mechanisms as

“ultimately unobservable physical, social, or psychological processes through which agents with causal capacities operate, but only in specific contexts or conditions, to transfer energy, information, or matter to other entities. In so doing, the causal agent changes the affected entity’s characteristics, capacities, or propensities in ways that persist until subsequent causal mechanisms act upon it.”

The process-tracing method therefore does not purely aim to increase the number of observations as it is seen by King et al. (1994: 226-228) but aims to identify the causal process which links independent and dependent variables. It is, however, not in competition with causal effect methods but can be used in a complementary way, such as in this study (cf. George and Bennett 2005: 207-208).

In practice, it is of course difficult to live up to the “commitment in principle to making our explanations and models consistent with the most continuous spatial-temporal sequences we can describe at the finest level of detail that we can observe” (ibid: 140). George and Bennett (2005: 143) allow that

“(n)o matter how far down we push the border between the observable and the unobservable, some irreducibly unobservable aspect of causal mechanisms remains. (...) Unlike the D-N model, however, the causal mechanism model, at every point up to the potentially movable border of the unobservable, explains hypotheses or laws with reference to observable implications on underlying processes at a lower level of analysis.”

In terms of state-business interaction, the case study below will aim to move to a lower level of analysis by observing the behaviour of state and business actors as well as their motivations, using publicly available secondary literature, media reports and data as well as personal interviews. The disaggregated aspects of SBR as suggested by Schneider and Maxfield (1997) are difficult to observe directly, but it should be possible to find specific instances of state-business interactions where these mechanisms can be evidenced by either the behaviour or statements of key actors.

The way process-tracing is used in the study below is similar to the “before-after” research design as described by George and Bennett (2005: 166-167). The study traces independent, intervening and dependent variables before and after the change in SBR, with careful attention to sequence to assess whether or not they constitute a causal chain. The intervening variables are of particular importance as this is where the causal processes should be observed.²⁷ In Schneider and Maxfield’s (1997) conceptualisation, it is during economic policy-making that the mechanisms of information exchange, reciprocity, credibility and trust influence economic outcomes. The emphasis will therefore be on examining state-business interaction during different stages of the policy cycle, particularly policy formulation – for example, how business elites or associations are involved – and policy implementation – for example, whether business elites or associations can influence the implementation of anti-trust legislation.

It is not necessary (nor possible within a concise case study) to describe all state-business interaction during policy-making in detail. It is more important to look at those instances of interaction which will allow us to judge whether the observed processes

²⁷ The use of the term “intervening variable” follows Van Evera (1997).

support or weaken the causal claims of the theories described in chapter II: “What matters is not the amount of evidence, but its contribution to adjudicating among alternative hypotheses” (Bennett 2010: 209).

For this purpose, I will refer to four types of tests for affirming causal inference: straw-in-the-wind tests, hoop tests, smoking-gun tests, and doubly-decisive tests. They were originally suggested by Van Evera (1997: 31f.) and refined by Bennett (2010: 210f.) and Collier (2011: 825-828). A straw-in-the-wind test is neither sufficient nor necessary to establish causation; failing it weakens a hypothesis and passing strengthens it. Passing a hoop test, however, is necessary for accepting a hypothesis, and failing it eliminates it. A smoking-gun test can confirm a hypothesis if it is passed – like the literal smoking gun in the hands of the suspect – but does not eliminate the hypothesis if it is failed. A doubly-decisive test, which is very rare, can at the same time confirm one hypothesis and eliminate others. The within-case study will focus on submitting empirical evidence to hoop and smoking-gun tests in order to confirm or reject certain theoretical expectations.

III.2.3 Limitations of within-case studies

There has been a range of criticism of single-case studies following King et al. (1994) who favour qualitative studies which adopt the seemingly more rigorous approaches of quantitative studies and posit that qualitative studies have limited use for theory testing and theory development. As George and Bennett (2005: 220) point out, some of this criticism is based on a misunderstanding of case studies as a “single observation” of the dependent variable, although King et al. do allow that “since one case may actually contain many potential observations, pessimism is actually unjustified” (1994: 208, cited in George and Bennett 2005: 220). The approach adopted here ensures that the one within-case study contains a number of observations of the independent and dependent variables, both causal effect observations gained from the congruence method as well as causal process observations from the process-tracing method. The case study is not a snapshot of one case at one point in time, but it systematically compares observations taken at different points in time *within* a case, paying close attention to sequence. On

top of this, it observes two different sets of dependent variables, those associated with economic growth and those associated with economic development, in order to differentiate between different outcomes of collusive SBR. Moreover, process-tracing “has the capacity for disproving claims that a single variable is necessary or sufficient for an outcome” (George and Bennett 2005: 220) – the focus here will of course be on whether corruption is sufficient for the absence of economic growth and development and whether the absence of corruption is necessary for economic growth and development as presumed or implied by the orthodox corruption literature discussed in chapter II.

Measurement error is also identified by King et al. (1994: 210) as a major risk which they regard as higher than in quantitative studies because the conclusion depends on a single observation. Due to the interpretative nature of the method and the involvement of the researcher with the case, it is certainly possible that measurement of variables is influenced by subjective factors and that another researcher would assess empirical evidence differently. This means that it is important to be as transparent as possible when presenting “facts”, especially when these are based on personal interviews, as they may be distorted by the personal motivations of the interviewee or the circumstances of the interview. I will endeavour to give multiple examples of such evidence based on different sources in order to counter this risk. However, it needs to be said that the risk of measurement error is not necessarily larger than in quantitative studies because “case study research (...) can intensively assess a few variables along several qualitative dimensions, rather than having to quantify variables across many cases” (George and Bennett 2005: 220). Also, as argued above, a within-case study can hardly be seen as a “single observation”.

Similarly, omitted variable bias is a problem, but the detailed nature of within-case studies allows the researcher to take into account a much wider range of variables than quantitative studies or even other types of qualitative studies (including QCA). Especially when systematically conducting the four types of tests above, the risk is mitigated as variables are considered according to their relevance to causal inference.

Another point of criticism is that a single within-case study does not have another case as point of comparison and hence forgoes the advantages of comparative methods such as Mill’s methods in isolating or eliminating potential causal variables through

systematic comparison. To some degree this is true and the reason why this thesis chose QCA and a within-case study as complementary methods. However, it would be misleading to assume that a comparison is automatically stronger at inferring causality. As Collier et al. (2010a: 10) argue, a small-N comparison using Mill's methods is "much weaker as a basis for causal inference. It involves, after all, what is in effect a correlation analysis with such a small N that it is not an appropriate basis for evaluating causal claims." Moreover, as stressed above, process-tracing has a different understanding of causality and aims to uncover causal mechanisms rather than the causal effects which are at the centre of a comparative analysis (or the set relations at the heart of QCA).

III.3 Data collection

This chapter briefly describes the methods of data collection used in chapters IV and V. The QCA in chapter IV includes different types of data, both qualitative and quantitative, which is then calibrated for the purposes of the QCA algorithm. The within-case study in chapter V also features qualitative and quantitative data. The latter includes mainly economic indicators which are, however, interpreted qualitatively.

In addition to the primary sources discussed below, secondary literature will inform much of the analysis. The country sub-chapters which are part of the QCA in chapter IV will draw on well-known accounts of the political economy of the MENA region such as Henry and Springborg (2001, 2010) as well as country-specific literature, much of which was already mentioned in chapters I and II.

Databases

Corruption, one of the major concepts in this study and potential independent variable, or condition in QCA terminology, is measured using the *International Country Risk Guide* (ICRG) published by the PRS Group. The author has purchased the corruption indicator dataset for the years 1984-2010 (December values). The average raw values are shown in the appendix with permission from the publisher. For further details on the reasons for having selected this indicator, calibration and coding see chapter IV.2.1.

In the within-case study, the starting point for the prevalence of corruption is the ICRG data, but this is then explored in more detail using other indicators and surveys as well as qualitative data, such as newspaper articles and interviews.

The dependent variable, or outcome in QCA terminology, is measured using economic indicators. The main database consulted is the *World Development Indicators* (WDI), published by the World Bank. It is the most comprehensive and accessible database of economic indicators and is widely cited in studies on economic performance and development. It contains data across all cases for most of the indicators used here, such as GDP, GDP per capita, growth of manufacturing and others. Additional databases, such as the UNDP *Human Development Index* (HDI) and the UN Statistics Division *Comtrade Database*, are used where appropriate. Chapter IV.2.6 will discuss in more detail which indicators are used for measuring the outcome(s) in the QCA, and chapter V will refer to a number of country-specific sources of quantitative data for the within-case study of Egypt 2004-2010, such as the *Egypt Human Development Reports* published by UNDP and statistics from the *Central Bank of Egypt* (CBE) and *Central Agency for Public Mobilization and Statistics* (CAPMAS).

Newspaper articles

The within-case study in chapter V cites a number of newspaper articles on Egyptian political and economic affairs. In particular, I consulted *Al-Masry al-Youm*, one of few independent Egyptian newspapers (later called *Egypt Independent*, it was officially shut down in 2013, but the staff continued as *Mada Masr*),²⁸ as well as *Al-Ahram Weekly*²⁹ and *Ahram Online*,³⁰ which are state-run. The monthly business magazine *Business Today Egypt* was also used. Newspaper articles are referenced by the author's name and year of publication where possible and listed in the references section.

Interviews

Field research for the case study was conducted in Cairo between October and December 2010 and in September 2011. Sections also draw on field research conducted in Cairo between April and June 2006 for the author's M.A. dissertation (Matzke 2008).

²⁸ <https://www.madamasr.com/en>

²⁹ <http://weekly.ahram.org.eg/>

³⁰ <http://english.ahram.org.eg/>

Interviews were held primarily in English as interviewees were generally competent English speakers. They were semi-structured and not recorded in order to encourage interviewees to speak freely.

Asking interview questions on political and economic affairs in an authoritarian state requires particular awareness of the context in which answers are given and any potential risks to the interviewee (cf. Clark 2006). Participants gave their consent to be cited; where interviewees requested to remain anonymous, this was respected and only their general profession and place and date of the interview are listed. All cited interviews are listed in the references section.

Chapter IV

Comparing Configurations of State-Business Relations in Morocco, Jordan, Tunisia and Egypt

This chapter presents the qualitative comparative analysis of SBR in selected cases and the discussion of the results. After a description of the case selection process, each condition as well as the outcomes will be defined and operationalised. This includes the calibration of thresholds for the QCA. Then, four country chapters, mainly drawing on secondary literature and available economic data, will discuss and assign values to the qualitatively measured conditions. These will be collated together with the quantitative corruption and economic outcomes data into a data matrix. This allows for tests for necessary conditions and the construction of a truth table, which is followed by the technical analysis of sufficient conditions. Finally, the results are interpreted and critically evaluated.

IV.1 Case selection

Depending on the definition of the Middle East and North Africa (MENA), the region comprises approximately 20 countries. Of these, this study is only interested in countries which are at similar stages of development, addressing one of the criticisms of quantitative research designs voiced by Khan and Blankenburg (2009) and Chang (2008), as discussed in chapter II. In particular, I am concerned with countries where we can observe the effects of different types of SBR during processes of late-late development. This is why four particular countries have been chosen for the QCA: Morocco, Jordan, Tunisia and Egypt, during 1984-2010.

First of all, the oil-rich MENA countries were excluded from the case selection. This is because on the one hand, many of them have a much higher GDP per capita due to the oil income, which places them in a different stage of development, and on the other, because the amount of oil income is the most significant source of state revenue and constitutes such a dominant determinant of growth that any changes in oil income are likely much more important for their development pattern than any changes in SBR. Of course, due to the importance of oil and other mineral resources throughout the entire region, rent income and the corresponding effects suggested by rentier state theory cannot be completely excluded from the analysis, and there are few MENA countries where income from mineral resources, political or transfer rents does not play a role.

However, to limit the influence of this factor as compared to other conditions, only semi-rentiers were selected.

Second, I am interested in cases where the private sector is of considerable economic importance. As the focus of the study is SBR, I am not interested purely in different instances of state-led development, but in the interplay of state and business during economic transformation. This means that I have chosen countries where, by the early 1980s, the private sector had grown to a size where we can meaningfully examine SBR. For practical reasons, the starting point is 1984 in particular (see IV.2.1). The cut-off point is the outbreak of the Arab Spring in December 2010/January 2011, meaning that 2010 is the last year under study. The Arab Spring has changed many of the SBR configurations studied here substantially, but it is too short and too volatile of a phase to be meaningfully included in the QCA. Chapter VI will include conclusions regarding the Arab Spring and an outlook on how SBR may change in the future.

Third, the cases were selected in a way which mitigates potential omitted variable bias and controls for exogenous economic variables as far as possible. All selected countries have undergone economic reform and structural adjustment programmes mandated by the IMF and the World Bank, and they “experienced similar economic trends in the period immediately preceding their IMF and World Bank reform programs” (Harrigan and El-Said 2010: 1). After the economic liberalisation of the 1970s, they were all mixed economies by 1984, despite the socialist/populist reforms in the post-independence republics (ibid: 2-3). All four countries faced debt crises in the 1980s which eventually necessitated formal structural adjustment programmes (Morocco 1983, Tunisia 1986, Jordan 1989, Egypt 1991). The selection of these four countries hence allows for a systematic comparison of SBR during a period of economic transformation shaped by economic reform and structural adjustment.

In regression analysis, models of growth would usually include a range of economic variables. As the focus of this study, however, is not on identifying economic explanations of growth but on conditions related to SBR, the aim is to compare countries with respect to SBR types defined largely by socio-political variables (or conditions in QCA) and keep economic conditions similar.³¹ In this respect, the research

³¹ As mentioned in chapter III.1.3, I do not consider variables from the determinants of growth literature (Barro 1997) as conditions as this is beyond the scope of this research. An additional methodological problem would have been that the growth models commonly used include variables which can be

design resembles a most similar, different outcome (MSDO) design with similar economic context but potentially decisive political and institutional differences as described below (see Berg-Schlosser and Meur 2009: 21-23 for MSDO in QCA). Still, this QCA design has an advantage over classic “Mill’s methods”-type comparisons in that it can consider more complicated configurations involving more conditions. In other words, QCA enables a more complex set of similarities and differences to be compared. Also, as shown above, theories on SBR are largely typological and configurational, and QCA lends itself to an evaluation of such theories. With an ordinary method of difference or MSDO design which favours a simpler four-quadrant matrix of cases, only a small number of variables could have been considered.

Fourth, chapter II emphasised the importance of political and institutional characteristics. Hence, despite the intended similarity between countries in economic context variables, I am particularly interested in variance at the state, regime and societal level. Two of the countries, Tunisia and Egypt, are instances of what Henry and Springborg (2001) call “bully praetorian states”, states where the ruling elite relies “almost exclusively on the institutional power of the military/security/party apparatus” and “the state provides the primary underpinning for these regimes” (ibid: 134). The “structural power of capital” is small (ibid: 63) and “rent-seeking arrangements with crony capitalists are more for the purposes of serving state-based patronage networks than for broadening ruling coalitions” (ibid: 134).³² Morocco and Jordan, on the other hand, are termed “globalizing monarchies” with “more active private sectors” and “concentrated financial systems (...) that enable them to engage in a controlled liberalization”. They are however “politically more vulnerable than the praetorians because they did not undergo the full political transformation of a colonial dialectic”, and “depend just as much as the other regimes (...) on their military and police forces to stay in power” (ibid: 168). The typology laid out in Schlumberger (2005: 84) also puts these countries into two different categories: Tunisia and Egypt represent resource-poor, bureaucratic authoritarian states, while Morocco and Jordan represent resource-poor, traditional-authoritarian states. It might be expected that the different history of regime legitimisation and social mobilisation in these two categories will have had different

influenced by SBR, such as investment ratio or trade openness, and this would have compounded the endogeneity problem of these models.

³² Chapter V will show that this changed in Egypt during the 2000s.

effects on SBR, and the selection of these two groups of cases will enable us to investigate whether economic outcomes may have differed as a result.

The four selected countries are not synonymous with the cases studied in the QCA. Each country case is further divided into several time periods, with the goal of each case representing one configuration or type of SBR, allowing for a test of the configurational theories of SBR discussed in chapter II.³³ This is done in order to address the “temporality problem”; as Meur et al. (2009: 161) admit, “QCA does not explicitly integrate the time dimension and therefore does not allow for analysis of temporal processes”. A certain configuration of conditions and outcome representing a case in QCA does not reflect any changes within the observed period, which means that when studying a longer historical period, conditions would be averaged and any changes within this period lost. By dividing each country case into what Bank et al. (2015) call “country periods”, I follow Meur et al.’s (2009: 162) advice to “introduce the temporal dimension in the definition of the cases themselves”. This ensures that variations of SBR are captured more accurately as changing conditions are recognised, in particular those which can be interpreted as changes in SBR type, instead of assigning average values over a larger time period. In contrast to a purely static comparison of country cases at a specific point in time, this method recognises that causal processes may unfold over longer periods of time and enables the analysis of patterns across several historical periods (see Møller 2017 on the importance of comparative historical analysis for questions of state formation and economic development). Methodologically, dividing the chosen country cases into several time periods provides another advantage: it increases the number of observations, providing a better basis for causal inference (cf. King et al. 1994: 221-223). For the purposes of QCA, in particular, a larger number of cases is beneficial in order to counter the problem of *limited diversity* discussed above.³⁴ Importantly, the division of country cases into country periods requires theoretical justification as each case should be representative of a configuration of conditions, that is a type of SBR (using fsQCA means that these are ideal types). This is why the

³³ This understanding of a “case” follows Eckstein (1975: 85): “a phenomenon for which we report and interpret only a single measure on any pertinent variable”.

³⁴ The lack of temporal dimension in QCA will also be remedied by the use of process-tracing in the case study of Egypt 2004-2010 as recommended by Meur et al. (2009: 159-161).

individual cases are not defined *a priori* but will emerge from the country-level analyses below. Some QCA studies just use arbitrary intervals – as do most quantitative studies – for example the calendar year. There is however no theoretical basis for the assumption that changes in types of SBR take place between calendar years. The same is true for decades or any similar time interval. Also, cases will not be defined according to the reign of political rulers, as qualitative shifts may occur during the reign of a given ruler when other conditions change, and these differences would be lost if conditions were averaged over such periods. Finally, cases will not be selected according to growth cycles, which would amount to the oft-criticised practice of selecting on the dependent variable.³⁵ The aim is to select strictly on the independent variable – in this case, the configuration of conditions representing a type of SBR – rather than divide time periods artificially along other criteria.

Hence, a more detailed country-level discussion is required in order to establish at which junctures SBR can be interpreted as having shifted from one configuration to another, rather than using a predetermined time period to define each case. Cases should therefore be defined according to typological criteria, following from the theoretical considerations laid out in chapter II. As the conditions used are largely qualitative (except for corruption, see below), we will have to qualitatively assess when types of SBR change. Whenever the value of any condition passes over the threshold of 0.5 (for the calibration of conditions see the following chapters), the configuration can be assumed to have changed. This means that not just any change in SBR qualifies as the indicator of a new case, but those changes which – in line with the theoretical expectations discussed in chapter II – can be seen as heralding a new type of SBR. Each country chapter will narratively discuss developments with regard to each condition, and use historical junctures to argue when types change. As each condition is seen as a defining category for types of SBR, a qualitative change of a condition is taken as an indicator for a shift in SBR. The chapters below will suggest potential critical junctures at which qualitative changes of each condition could be expected from a theoretical point of view.

One might criticise the combination of synchronic and diachronic comparison in a single analysis. Of course, this design means that the cases are not independent of each

³⁵ This would be acceptable if I only tested for necessary conditions, as mentioned above (Goertz and Starr 2002b: 13).

other, since conditions present in earlier time periods influence those in later periods. As Meur et al. (2009: 162), drawing on King et al. (1994: 222), note, the cases defined by country periods are not as independent of each other as cases across countries.³⁶ Still, increasing the number of observations in this fashion is worthwhile “unless we can perfectly predict the new data from the existing data” (ibid: 222), which we cannot as the periods are chosen according to significant changes in SBR.

In addition, it is not necessarily problematic methodologically if the cases are not independent of each other as the QCA method in itself only shows how a certain configuration of conditions is associated with a certain outcome – that is, whether set memberships in types of SBR and economic outcomes overlap and are consistent with statements of sufficiency and necessity – rather than the net effect of changes in single variables which need to be kept analytically independent from other variables, like they would in regression analysis. The possible dependencies should, however, and will be taken into account when the results of the analysis are interpreted and causal inferences are made. The results will have to be assessed carefully and checked for whether time-specific effects may have played a role by going back to the cases which are represented by each QCA row. This is where QCA’s emphasis of case knowledge is particularly helpful (whereas in regression analysis, where annual data often constitute individual observations, it is not usually possible to go back to the data and analyse causal processes).

The country chapters will be structured similarly: for each period, the conditions below will be discussed and coded separately, assessing when qualitative shifts occurred which usher in a new period. Finally, all conditions will be presented together, including the corruption indicator which has been calculated from the ICRG data (see data appendix). This will give a picture of changes in types of SBR, the country periods and the values used for the QCA and enable the construction of the truth table.

³⁶ Even cases of different countries during the same time period, however, will rarely be completely independent of each other, particularly if they are part of the same world region, and this is a common problem with any kind of comparison.

IV.2 Designation of conditions and outcomes, operationalisation and calibration

In order to test theories in QCA, we need to model their hypotheses as closely as possible by including the hypothesised independent and conditional variables as conditions and the dependent variable as the outcome, keeping in mind that QCA permits complex causal “recipes” to be tested, including different combinations of independent and conditional variables which can be seen as an SBR “type”. From a theoretical point of view, the hypothesised causal conditions should be particularly suited to represent *variations of collusive SBR*.

In order to limit the omitted variable problem discussed above, it is important to incorporate those conditions which are identified as potential causal conditions in the literature. At the same time, they should be modelled only as complex as necessary in order to keep the amount of logically possible combinations and thus the expected number of logical remainders low.³⁷ Therefore, I have restricted the analysis to four conditions which represent as many hypotheses as possible without leaving out any causally important conditions. Restriction to less than four conditions would exclude too many relevant hypotheses identified in chapter II.

The four conditions chosen for this study are:

CORR: corruption

STACOH: state coherence

BUSORG: business organisation OR business concentration

POLCAP: political capability

Each of the conditions will be discussed in detail, including how they will be coded and calibrated. Finally, I will discuss why other potential conditions were excluded or how they are understood to be included in the conditions above.

³⁷ The number of cases in this study will be 11 as a result of the discussion in chapter IV.3; if we chose six conditions, then, according to Schulze-Bentrop (2011; cited in Schneider 2011), the expected share of empirically existing configurations would be only 16.5 percent, thus leaving a substantial 83.5 percent of configurations as logical remainders. With five conditions, the share rises to about 27.2 percent; with four conditions, the expected share increases to a much more desirable 44.9 percent. The truth tables in chapter IV.4 show that the actual share of empirically existing configurations is between 43.75 and 50 percent, depending on calibration. The minimum recommended number of cases given this distribution is 10, which confirms that selecting four conditions for this study is appropriate in order to mitigate the issue of limited diversity. (The formula used for this calculation is: $N = e^c \times \Delta^2$, where N is the desired minimum number of cases, c is the number of conditions and Δ is the proportion of existing to logically possible configurations.)

IV.2.1 Corruption

The first condition, CORR, features in hypotheses deduced from almost all theories discussed in chapter II. They disagree with respect to the causal role of the condition – for some, its extent determines development outcomes, for others, it only influences development in combination with the presence of other conditions, and possibly even in a positive way, but corruption features in almost all. It is also the one likely to take the spotlight in the news and the eyes of the general public when it comes to state-business relations and economic development. As the condition occupies such a central place – both in the orthodox theories which stress its damaging effects and the heterodox theories which aim to show that there is more to the story than corruption – any study of the effect of SBR on economic development would be incomplete without including it.

As the aim is neither to refine existing definitions nor to arrive at a new understanding of corruption, but put existing theories involving corruption to the test, it seems reasonable to adopt a pragmatic approach and follow the mainstream view, in particular the one represented in the orthodox body of literature. This view falls into the category of what Heidenheimer and Johnston (2009: 7) term “public-office-centered definitions”, broadly referring to the “misuse of authority as a result of considerations of personal gain, which need not be monetary” by those in public office, for example in the form of bribery, nepotism, patronage or misappropriation. It is represented by Joseph Nye’s definition referred to in chapter II above (1967; 2009, cited in Heidenheimer and Johnston 2009: 8). Indices of corruption are often based on this understanding, including the index which will be used here.

Of course, rent-seeking also features prominently in the orthodox as well as heterodox literature, but given that, as discussed in chapter II.1.1, there is no accepted method of measuring rent-seeking (cf. Del Rosal 2011) and most orthodox – and quantitative – studies simply refer to measures of corruption instead, it is not represented as a separate condition here. Since the overlap can reasonably be assumed to be very high, rent-seeking SBR are subsumed under CORR. In the neoclassical rent-seeking literature, corruption is seen as closely related to rent-seeking, since corrupt behaviour often occurs in order to create and/or capture rents. Meanwhile, the heterodox hypotheses

stress that it is not the level of rent-seeking which determines development outcomes but other factors, many of which are covered by the other three conditions. This is not entirely satisfactory from a theoretical point of view, but as quantitative studies testing the effects of rent-seeking usually rely on corruption indices as well, it seems acceptable to do so in this study also. Using a different measure to test the orthodox theories may even invite criticism that the results are invalid for this reason.

Hypotheses

Corruption is in many ways the main feature of the different types of SBR discussed here. From the outset, it is clear that in all selected cases, we are dealing with *collusive* SBR, that is with types of SBR characterised by corruption. The mainstream neoclassical corruption literature claims that corruption negatively affects economic development, and sometimes even seems to suggest that an absence of corruption is a necessary condition for economic development. Corruption is clearly the main independent variable in these theories and also the main distinguishing characteristic of SBR which are seen as obstructive for economic development. By including corruption as a condition, these hypotheses can be tested. The orthodox theories would expect the QCA to show that a higher degree of corruption is a sufficient condition for poor development outcomes, and low corruption to be a necessary condition for better development outcomes. Most heterodox theories make no particular claim concerning this condition on its own other than that it is not a necessary condition for growth and that it can have different effects depending on other, more complex mechanisms.

It will be obvious by now that I am very critical of the simplistic orthodox hypotheses, and beside merely testing these, I find it more interesting to examine more complex configurations of corruption and other conditions which are thought to be conducive or detrimental to economic development. Of particular interest are combinations of high CORR with high STACOH and high BUSORG, which may represent David Kang's (2002) "mutual hostage" argument, combinations of low CORR with high STACOH and high BUSORG, representing Bräutigam et al.'s (2002) "growth coalition", and high CORR in combination with high POLCAP, in order to test Khan and Blankenburg's (2009) and Tim Kelsall's (2013) theories.

Operationalisation and calibration

Given that corruption is usually operationalised in the mainstream orthodox literature by using one of a number of well-known corruption indicators or indices and that one of the aims here is to test these arguments, it seems reasonable to do the same in this study. Likely the most well-known current index is the *Corruption Perceptions Index* (CPI) published by Transparency International. It is a “poll of polls” based on a number of sources, including PricewaterhouseCoopers, the World Economic Forum and the Economist Intelligence Unit. With regard to the purposes of this study, the difficulty is that the CPI has only existed since 1995, when it included only 41 countries and none of the cases selected here, and that the methodology as well as the sources have changed over the years. Also, prior to 2012, the ratings for each country were relative to other countries rather than absolute scores which means that we cannot use them for a comparison over time (Transparency International 2012).

Two of the indicators which form or formed part of the CPI are prevalent in the corruption literature on their own and date back longer than the CPI. One of the most influential publications on corruption cited in chapter II, Mauro (1995), relied on the *Business International* (BI) country risk data for 1980-1983. BI became part of the *Economist Intelligence Unit* (EIU), which publishes a country risk model including a corruption indicator. The EIU country risk indicators are available for 141 countries and include the selected country cases. However, they only go back to 1997 and are therefore not suitable for the period under study either (EIU 2016).

The second indicator is also part of a wider set of country risk indicators, the *International Country Risk Guide* (ICRG), published by The PRS Group. It is available for 135 countries, including all selected country cases, starting from 1984 (1982 for a limited number of countries). It was used, among others, in the influential Knack and Keefer (1995) study, was one of the sources for the CPI until 2001 and is still a source for the World Bank *Worldwide Governance Indicators* (see chapter II.1.1; World Bank 2018c). Hence, the ICRG corruption indicator will be used to measure corruption here, given that it is the only indicator which consistently covers all selected cases during the period under study, has not changed substantially over the years, thus allowing comparison over time, and has been prominently used in the orthodox corruption literature.

The ICRG corruption indicator scores are assigned by country experts, meaning that this is a subjective indicator. Subjective corruption indices are usually either based on an expert rating or a survey of businesses. The advantage of expert ratings is that they take a more holistic view of corruption rather than the perception of businesses which may capture only the part of corruption they are facing. Of course, the subjective character of the indicator may be perceived as a flaw. However, it should be noted that seemingly “objective” data are problematic as well. As Fredrik Galtung (2006: 101) notes, “a ‘hard data’ survey of conviction rates for embezzlement, extortion and bribery (...) would, after all, reveal more about the independence and effectiveness of the judiciary than it would about the actual incidence of corruption or the size of bribes in any given country”. Also, corruption indices have repeatedly been shown to be highly correlated, making it unlikely that there are profound measurement errors (see, for example, Treisman 2000).

Therefore, it needs to be stressed that despite the numerical corruption score and the lack of qualitative discussion on my part – different from the scoring of the remaining three conditions below –, the score is still based on a qualitative assessment. As in the case of CORR, and different from the other conditions, there is pre-existing qualitative data in the form of the ICRG data, I decided to refrain from assigning the qualitative values myself. On the one hand, this could have opened the study to criticism that any results were due to corruption ratings markedly different from the ones assigned by indicators commonly used in the literature, and on the other, there do not seem to be sufficient grounds for arguing that I could arrive at corruption scores any more valid than the panel of country experts consulted for the ICRG.

The understanding of corruption chosen by the ICRG is broad and reflects the mainstream definition discussed above:

“This is an assessment of corruption within the political system. (...) The most common form of corruption met directly by business is financial corruption in the form of demands for special payments and bribes connected with import and export licenses, exchange controls, tax assessments, police protection, or loans. (...) Although our measure takes such corruption into account, it is more concerned with actual or potential corruption in the form of excessive patronage, nepotism, job reservations, ‘favor-for-favors’, secret party funding, and suspiciously close ties between politics and business” (The PRS Group 2012: 4).

The advantage of the ICRG indicator is also that it allows comparisons over time due to its consistent measurement methodology (ibid: 2). The nature of the research design mitigates the remaining methodological issues related to the comparability of corruption scores over time. We are not comparing between cases on an annual basis but between phases spanning several years, and other cases within the same region are taken as basis of the comparison which addresses potential regional bias. The ICRG indicators are published monthly rather than annually. Like the World Bank *Worldwide Governance Indicators* (World Bank 2018b), I decided to use the December indicator value of each year.

Calibration of the 0, 0.5 and 1 anchors should ideally be along qualitative, theoretical considerations. Unfortunately, there are no qualitative thresholds inherent to the index and PRS Group does not clearly explain which values are deemed to stand for corrupt or non-corrupt cases. The scores are assigned along a continuum between 0 and 6, with 6 signifying the lowest degree of corruption and 0 the highest. There are hardly any countries in the world which are assigned the lowest value of 6, so if we were only to take 6 to signify instances of ~CORR and values of 5 or lower as CORR, there would not be much variance. In other words, almost every country exhibits some degree of corruption, so from a theoretical point of view, the 0.5 anchor should be chosen in a way which allows to differentiate between cases of high corruption and low corruption as the objective is to assess set relations between high and low corruption, respectively, and the outcome. Given that this is an interval scale, it seems reasonable to assume that 3 is meant as the middle of the scale and any case above is seen as exhibiting high corruption, any case below as exhibiting low corruption. It is, as discussed in chapter III.1, not recommended to assign exactly 0.5 to any case, but it is possible that some country cases will have a score of exactly 3. In order to prevent this from happening, I will add 0.001 to all CORR values, following Fiss (2011: 407, fn. 9; see also Schneider and Wagemann 2012: 100f.). This enables these rows to be included in the analysis while keeping as close as possible to the original data. From a theoretical point of view, this means that I consider a value of 3 to represent a case which is more corrupt than not, if only just. The analysis will carefully consider whether this decision has any effect on results by also calculating an alternative corruption value (CORRALT) which regards these cases as more non-corrupt than corrupt.

As 6 is the lowest corruption value, this will be taken as the “0” anchor and the highest, 0, as the “1” anchor. Any values in between these qualitative anchors will be calibrated using Ragin’s “direct” method based on logistic transformation (Ragin 2008: 89-94; Schneider and Wagemann 2012: 35-38). This ensures that the more fine-grained variation provided by the indicator is not lost and will impact on the consistency value.

IV.2.2 State coherence

This condition, STACOH, was chosen so that several of the hypotheses related to state characteristics discussed in chapter II can be represented. In particular, we will follow David Kang’s conceptualisation (2002: 13f.): “a state is coherent if it can formulate preferences independent of social influences and if political leaders have internal control over their bureaucrats“, and “the most fractured situation exists when leaders survive only tenuously, they engage in constant conflict with political organizations over the form and content of the state, and bureaucrats can play off ‘multiple principals’ to their own advantage. At the heart is the question of control”.³⁸

There are other terms often used in the literature to describe very similar concepts to STACOH which should be addressed briefly in order to clarify its meaning. In particular, these include state autonomy, state capacity, and state strength or power.

As discussed in chapter II.2.1, classical rentier state theory would usually assume that rentier states are *autonomous* from society, while this is debated in the more recent literature. The concept of *state autonomy* is very similar to STACOH. Steffen Hertog defines state autonomy – inspired by Evans (1995) – as “a coherent regime core that can make economic decisions independent of larger interest groups within state and society” (2010b: 282, emphasis removed). Autonomy can be ambiguous; as discussed in chapter II.2.1, the typical predatory state is autonomous in the sense that it is independent of organised interests, but not autonomous overall because of the influence of private elites on the state (Evans 1989: 569-571). In Kang’s concept, this would be described as high STACOH with high CORR, despite low autonomy. On the other hand, STACOH explicitly demands that full coherence includes internal control over the state

³⁸ Kang’s reference to multiple principals follows Spiller’s multiple-principals agency theory of regulation (1990).

bureaucracy, that is the state apparatus, and it focuses more widely on the state as an institution rather than the autonomy of the ruling elite referred to in Hertog's definition.³⁹

Hertog's argument that state autonomy in rentier states is contingent on clientelist obligations when it comes to policymaking in turn centres on the concept of *state capacity* – “a measure of how effectively state decisions can be turned into changes on the ground” (2010a: 263). This relates to STACOH in the sense that low state coherence – for example, a fractured state due to segmented clientelism – limits state capacity. State capacity is thus a more specific concept which is dependent on state coherence: “The very coherence of the state can influence state capacity on the meso-level: if agencies, however efficient and goal-oriented by themselves, are not capable of coordinating their policies, implementation will suffer” (ibid).

State strength or *power* usually refers to the state's capability to fulfil specific functions ascribed to ideal-type states. In Joel Migdal's oft-cited conceptualisation, strong states have high capabilities “to *penetrate* society, *regulate* social relationships, *extract* resources, and *appropriate* or use resources in determined ways“ (1988: 4, emphasis in original). The question whether MENA states are strong or weak has been much debated (see Vandewalle 1998: 6-13). They had often been described as strong, originating in the Marxist notion of an “Asiatic mode of production” dominated by a strong, centralised, bureaucratic state which administers irrigation (see Ayubi 1995: 41-49 for a discussion). Nazih Ayubi (1995), in contrast, sees Arab states as mostly weak due to their high dependency on external sources of income and weak tax systems. Similarly, Rolf Schwarz (2008) regards most MENA states as weak as their level of tax collection is low, especially with regard to direct taxes. Dirk Vandewalle (1998; 2001) approaches the question of state strength or power from an institutional point of view and argues that “the crucial keys to understanding the power of the state and state-building in oil exporters (and other late developers) are the precise tasks these states are asked to perform, the power they derive from performing those tasks, and the institutions they create in the process” (2001: 12).⁴⁰ He argues that “Migdal's juxtaposition of ‘weak

³⁹ When Hertog speaks of “a coherent regime core”, I take this to mean the ruling elite as I follow Schmitter and Karl's (1991) definition of *regime* in this study. A regime in this sense does not refer to individual rulers, but to a form of political rule.

⁴⁰ It should be noted that with respect to rentier states, Vandewalle assumes state capacity to be low. This generalisation is criticised by Hertog (2010a: 271f.).

states, strong societies’ is somewhat deceptive” (2001: 48) – a weak society in the sense of the absence of a *civil society* which could challenge the state politically often coincides with a weak state, which can then appear stronger than it is.

Aspects of this debate are useful for assessing state coherence, but the concept of state strength goes in a different direction. Whichever way state strength is understood exactly, the concept is more demanding than STACOH as it asks whether or not a state is capable of fulfilling certain functions or perform tasks, while STACOH is more about whether the state can control policy-making internally and independent from societal influences, without specifying the nature of the policies. A strong state would be seen as coherent, while a state could be coherent but weak. The assessment of country periods below will generally take this position and argue that rent income strengthens state coherence if it reduces societal influence over policy-making.

Hypotheses

STACOH mostly features in configurational hypotheses rather than as an independent variable on its own. The classical developmental state theories would expect successful developmental outcomes with high STACOH, but only in a situation of low CORR. The early forms would posit this independent of business organisation, while the later developmental state literature would require high STACOH, high BUSORG and low CORR – this is the “growth coalition” type of SBR put forward by Bräutigam et al. (2002).

In David Kang’s (2002) conceptualisation of the “four types of corruption”, high STACOH is conducive to economic development in conjunction with a concentrated, strong business sector – the “mutual hostages” scenario –, and an obstacle to economic development in conjunction with a dispersed, weak business sector – the typical “predatory state” scenario of the developmental state literature. CORR is not conceptualised as a condition but rather as a corollary of the type of SBR – in the former scenario, CORR is expected to be medium but with low transaction costs and in the latter, high with high transaction costs.

High STACOH, high CORR and low BUSORG is not just the typical “predatory state” configuration, but can also be seen to represent the classical neopatrimonial state. In the more recent “penetrated” neopatrimonial state (Pawelka 2008) discussed in chapter

II.2.2, it could be argued that STACOH is lower while BUSORG is higher. Mkandawire (2001) and Kelsall (2012, 2013) have argued that in combination with high POLCAP, this could still result in positive development outcomes. In any case, the ambiguous character of the state, featuring legal-rational as well as traditional elements, will need to be carefully taken into account when operationalising and measuring STACOH.

The rentier state literature also has a differentiated view of STACOH. On the one hand, in the classical conceptualisation, rentier states can be seen as highly coherent because they are independent from societal influence, in particular as they are not reliant on taxes. On the other hand, from an institutional point of view (Chaudhry 1989; Hertog 2010a, 2010b), they face the need to maintain patterns of rent allocation and are restricted in economic policy-making. CORR in rentier states is expected to be high and BUSORG low, but development outcomes are not uniform. Economic performance should be high in oil-rich states at times of high oil prices, but low at times of low oil prices – in short, oil price is the best predictor for growth. Economic development prospects are typically deemed to be low due to the lack of urgency and low potential for sectoral transformation and productive investment (Mahdavy 1970). While Hertog attests rentier states a “general propensity” to become fragmented (2010a: 271) – in his case the “segmented clientelism” of a typical rentier state, Saudi Arabia –, he argues that they can still have sufficient “decisional autonomy” to implement economic policies effectively, thereby creating “islands of efficiency” which can lead to insular economic development.

Low STACOH – a fractured state – is, in David Kang’s (2002) theory, not necessarily an impediment to economic development. In conjunction with low BUSORG, it represents the type with the lowest expected level of CORR and is the closest to a “laissez-faire” type of SBR as in developed economies. In conjunction with high BUSORG, however, Kang expects high levels of rent-seeking (“bottom-up corruption”) which do impede economic development – in Khan’s (2000a) terminology, resulting in inefficient rents such as monopoly rents, for example because the state does not manage to retain control over subsidies and demand productivity gains from businesses in return.

The scenario of low STACOH and high BUSORG can be seen to represent the classical Olsonian argument referred to in chapter II.2.2, where this would lead to a distributional coalition and low economic performance. In combination with high POLCAP, however,

such a situation could still lead to high economic performance, as argued by Schneider (2004).

Operationalisation and calibration

STACOH will be assessed qualitatively in the respective country chapters, but it seems helpful to lay out indicators which will inform the coding. The *number of state elites* is the main indicator for state cohesion in Kang's theory. He suggests that with few strong actors, in particular if the state is dominated by a "dictator", the state is coherent and decision-making is generally effective.⁴¹ If state elites are too many, the state is fragmented with many veto players (and multiple principals) and Kang expects "[w]idely fluctuating economic policies, frequent renegotiation of agreements, overreliance on personal connections, and an unpredictable investment climate" (2003: 444). The *composition of the state apparatus* will also be important, in particular whether bureaucracies are under full control of state leaders, but also whether the bureaucracy has sufficient capacity for economic policy-making. The influence of *societal forces* such as special interest groups on decision-making can limit state control (there is a connection to the BUSORG condition, see the next chapter). In light of the arguments derived from rentier state theory, the *source of state revenues* will be an important indicator. As all selected cases can be regarded as semi-rentier states, the ambiguous nature of state autonomy, power and capacity discussed above will have to be considered when assigning a value to the case. Finally, *external influence*, such as from the IMF and World Bank through mandated structural adjustment programmes, could limit state coherence (but may not in practice, as states often manage to flout the conditions).

The qualitative anchors follow David Kang: "A state is coherent if it can formulate preferences independent of social influences" (2002a: 13) and "when political leaders have full control over their political organizations and their bureaucrats" (2002a: 14) represents the highest value, "1", and "the most fractured situation exists when leaders survive only tenuously, when they engage in constant conflict with political organizations over the form and content of the state, and bureaucrats can play off

⁴¹ Still, this does not necessarily result in positive development outcomes, which depend on the business side as well, as "without a group that can counterbalance the dictator, arrangements are highly contingent" (Kang 2003: 444).

‘multiple principals’ to their own advantage” (ibid) the lowest, “0”. Real-world states could of course exhibit characteristics between these two extremes, and in order to be able to take into account these differences, a more fine-grained four-value scale will be adopted.

The 0.5 threshold is particularly important as it differentiates between coherent and fractured states. This means that from a theoretical point of view, we should expect the hypothesised causalities to be dependent on this threshold, and outcomes on economic development to differ qualitatively depending on whether states are scored higher or lower. As the question whether states can *control* economic policy-making is at the core of the hypothesised effect of STACOH, this should be the defining difference between scores above and below the threshold. Taking into account Hertog’s (2010a, 2010b) contributions, we will assign a score of 0.67 to cases where the state is fractured, for example due to segmented clientelism, but does have sufficient control in the sense of decisional autonomy. On the other hand, we can imagine even more fractured states where economic policies cannot be implemented effectively due to a lack of control and penetration of societal forces but leaders’ survival is not constantly in question and the form and content of the state are reasonably secure. This type would be assigned a 0.33.

Table 14: Four-value fuzzy set scale for STACOH

1	The state can formulate preferences independent of social influences and political leaders have full control over their political organisations and their bureaucrats
0.67	The state is partly fractured, for example due to segmented clientelism, but does have sufficient decisional autonomy over economic policy-making
0.33	The state is sufficiently coherent to uphold political order on a macro-level, but societal forces penetrate economic policy-making
0	Leaders survive only tenuously, engage in constant conflict with political organisations over the form and content of the state, and bureaucrats can play off multiple principals to their own advantage

There are a number of events which could represent critical junctures for a change in SBR due to a change in STACOH. A change in statehood due to a war or civil war could make the state less coherent. Changes in the state apparatus could significantly alter

coherence, for example successful bureaucratic capacity-building, a reform of administrative procedures or a reorganisation of ministries. Regime change or a change in government could also change state coherence, for example by introducing new clientelist obligations or new state elites. On a policy level, political liberalisation or deliberalisation could change coherence by increasing or lowering the potential of societal interference in policy-making. This is not to say that these events will necessarily result in such configurational shifts but they will be of particular interest in the country chapters.

IV.2.3 Business organisation

This condition aims at capturing the business characteristic most relevant for the effects of SBR on economic development, business organisation (BUSORG), referring to the way the private sector is organised (or not). It is emphasised by many of the theories discussed in chapter II, such as the developmental state literature, the Olsonian literature, the corporatism literature, the literature on growth coalitions and the IPPG literature. David Kang (2002b) focuses on business concentration more than organisation, but he builds on Ben Ross Schneider's (1998) work on business organisation, in particular the composition and power of business associations. Big and encompassing associations are regarded as potential drivers of economic development, such as in parts of Latin America (Schneider 2004), and even non-encompassing associations with high capacity can drive development (Doner and Schneider 2000). Kang's business concentration mirrors the role of business associations from a conceptual point of view. A concentrated business sector consists of a small number of large businesses or conglomerates with diversified sectoral interests (as in the case of the South Korean *chaebol*) and can fulfil a similar role to business associations. Schneider (2004: 45) also points out that collective action is not necessary when concentration is high and enables dominant firms to approach decision-makers informally. Hence, I did not single out business concentration as a separate condition but included such conglomerates in the operationalisation of BUSORG in the interests of parsimony and to counter the problem of limited diversity by keeping the number of

conditions as low as possible, effectively defining BUSORG as business organisation OR business concentration.

Hypotheses

The core arguments are on the one hand that high BUSORG will permit the private sector to effectively push for growth-oriented economic policies and preclude a predatory state scenario following Schneider's and Kang's arguments. On the other hand, in the more negative view of the Olsonian literature, well-organised business could lead to a scenario where a distributional coalition impedes economic development through narrow rent-seeking behaviours. Of central importance in this respect are the configurations of high BUSORG and high CORR.

High BUSORG in conjunction with low CORR and high STACOH corresponds to the "growth coalition" type (Bräutigam et al. 2002) discussed in chapter II.2.2, with a presumed positive effect on development outcomes. High BUSORG in conjunction with high STACOH would fit the societal corporatism type discussed above, while low BUSORG together with high STACOH would represent state corporatism. In the former configuration, there is a positive expected effect on development outcomes, in the latter, a negative.

Further hypotheses involving BUSORG from a state perspective were already mentioned in the previous chapter.

Operationalisation and calibration

The maximum BUSORG value of 1, in terms of business organisation, is taken to mean that businesses have the capacity to organise collectively and influence policy-making, for example as in the "growth coalition" scenario. They need to be politically and financially independent from the state. Encompassingness is not already implied in this value as this would already presuppose that such business associations will not engage in narrow rent-seeking behaviour, while this condition should deliberately have the potential to be in a configuration with either high CORR (in the case of a distributional coalition) or low CORR (in the case of encompassing or peak associations) to model the Olsonian hypotheses which would expect different outcomes for each.

Alternatively, following Kang, a "diversified business group, comprised of well-

organized firms that cover many sectors of the economy” (2002: 15) could fulfil a similar role and influence government policy, such as in the case of the Korean *chaebol*. Even if it cannot exert direct influence, the state would need to consider its views in order to prevent capital flight – the “exit” option discussed by Hirschman (1978). If such groups or conglomerates possess high power through capital, we will consider business as highly concentrated and functionally equivalent to organised business, also assigning “1”.

Table 15: Four-value fuzzy set scale for BUSORG

1	The private sector is organised in voluntary business associations which are politically and financially independent from the state and have the capacity to organise collective action, or the private sector is dominated by a small number of large businesses or conglomerates with diversified sectoral interests
0.67	There are politically and financially independent business associations which have the capacity to organise collective action, but are limited in scope (e.g. to particular sectors)
0.33	Business associations have a political role but are dependent on or organised by the state (e.g. through state corporatism or patron-client relations)
0	Business associations do not exist or do not have any political importance, or business is dispersed

A value of 0 would apply where there are no business associations or they are not involved in politics at all, not even through state corporatism. This could be the case where private sectors are immature and economies dominated by the state, or where the private sector is dispersed with mostly small businesses and small membership in business associations. The two intermediate values reflect that there is a range of different forms of business organisation or business concentration empirically. In order to determine whether a case is above or below the 0.5 threshold, it is important to assess whether business associations (or conglomerates) are independent from the state or not as this is the central issue in most hypotheses on the expected outcome. We can imagine a scenario where there are independent associations but in limited sectors or for certain types of businesses which do have the capacity to organise but with limited potential to influence economic policy-making (value 0.67). On the other hand, there could be

a case where business associations are consulted during policy-making but top-down and organised by the state (in the case of state corporatism) or where business associations are tied to the ruling elite through patron-client relations, which would co-opt rather than give influence to business (value 0.33).

What kind of events will be catalysts for changes in these conditions and thus changes in SBR and should be closely examined in the country case chapters? Economic and financial liberalisation or deliberalisation as well as privatisation could result in private sector growth or changes in private sector composition and organisation. (De-) Liberalisation could enable new groups to form and old ones to collapse or make some sectors or industries more profitable than others, and privatisation could change the size or structure of the private sector and diminish state control. Financial liberalisation is important in that it affects the source of capital for business, particularly whether it can be controlled by the state. Political liberalisation or deliberalisation could also have an effect, for example when big business is integrated into policymaking processes, new business associations are formed, or, in the latter case, when business associations are dissolved or business elites imprisoned for political reasons (which could be framed as anti-corruption measures).

IV.2.4 Political capability

The fourth condition is *political capability* (POLCAP), which is related to state characteristics but different from STACOH in that it introduces a more dynamic, politics- and policy-focused dimension which takes into account the socio-political context. It is alternatively referred to as *political capability*, *political capacity* or *capabilities*, and the terms *growth-enhancing governance capabilities* or *capabilities* are used in reference to governance characteristics.

The argument rests on an understanding of economic development which entails structural transformation and technological upgrading rather than market-led efficiency gains in the current, low value-added economic activity which is prevalent in developing countries. In order to enable economies to catch up with developed countries, states need to intervene and create incentives for upgrading as the private

sector is risk-averse and would not invest in new technologies and increase productivity on its own. State intervention, however, creates rents – learning rents in particular – which need to be effectively managed to achieve positive rent outcomes, as discussed in chapter II.1.2. The importance of rent management follows from the different types of rents and their varied efficiency and growth implications (see table 1).

Effective rent management “requires critical *political capacities*; in particular, the organization of power in society must be compatible with the rent management that state institutions are trying to implement. Otherwise rent reallocations are likely to be blocked by groups or factions that would lose out from such reallocations” (Khan and Blankenburg 2009: 344, emphasis in original). This looks at a more detailed political level than the STACOH condition; the “core argument is that managing rents for technology acquisition is not just constrained by state capacities, but also and often primarily by political constraints that prevent specific strategies of rent management from being implemented” (ibid: 348).

Hence, while the good governance agenda promotes “market-enhancing” governance capabilities, Khan (2009: 202) calls for a focus on “growth-enhancing” governance capabilities which “allow developing countries to cope with the property-right instability of early development, manage technological catching-up, and maintain political stability in a context of endemic and structural reliance on patron-client politics”. The capability to effectively implement industrial policy is particularly important. In reference to Sub-Saharan Africa, Khan argues that “(a)n important growth-enhancing governance capability that many of these countries need to develop is the institutional and political capability to develop industrial parks and other zones where high-productivity agriculture and industry can be set up” (2012c: 120).

Hypotheses

The main hypothesis of this strand of heterodox literature is that POLCAP is the central condition for success or failure of economic development, and we might go as far as to say it is seen as a *necessary* condition, although likely not sufficient on its own. The value of CORR is clearly not seen as central, it may decrease eventually but as a result of economic development, not as a cause. High STACOH and BUSORG could support growth-enhancing governance, however there could be other configurations of high

POLCAP and additional conditions which lead to positive development outcomes. A state with high POLCAP, high STACOH, high BUSORG and low CORR would closely resemble the developmental state ideal type. Low CORR is however not regarded as necessary for positive development outcomes in a state with high POLCAP. The POLCAP argument is less prescriptive and more dynamic and case-oriented than most arguments discussed above. While Kang (2002) also emphasises that state and business can engage in collusive relations which benefit both sides while resulting in positive development outcomes, his theory concentrates on the structural characteristics of the state (STACOH) and business (BUSORG). The concept of POLCAP does not assume that such a constellation will necessarily result in a political settlement which enables effective economic policy but looks more closely at the actual organisation of political power and the interests of political actors. For example, there could be a political constellation even in a non-coherent state which enables positive development outcomes. The developmental neopatrimonialism discussed above (Kelsall 2012, 2013) is an example of such a configuration.

Operationalisation and calibration

This condition is particularly difficult to operationalise, and the literature is vague on how to measure POLCAP. This is natural given its differentiated view which aims to capture different types of rents, political processes and interests, and given that it is the most recent concept represented here. Process-tracing in more detailed case studies would be the preferred method, which can however not be done at the desirable length for each case. (This will be remedied by the within-case study of Egypt 2004-2010 in chapter V, which is a good example of the significance of POLCAP).

Nevertheless, the case chapters will follow a structured approach. Assessing POLCAP requires an examination of the two constituent elements: rent management strategy, particularly with respect to industrial policy, and the organisation of power. If both align, we would expect positive effects on economic development. In order to assess the rent management strategy,⁴² it will be helpful to first determine which types of rents are

⁴² It should be noted that when using the term rent management *strategy*, I do not mean to imply that every state necessarily has a comprehensive development strategy with the explicit goal to manage rents, akin to the “determined developmental elite” of the ideal-typical developmental state (Leftwich 1995: 405-407), nor do I mean to imply that the authoritarian rulers featuring in all cases studied here should be regarded as benevolent autocrats who are hindered from working towards the common good by political

predominantly created by state intervention, for example learning rents, and which policies the state has put in place to ensure that they lead to positive rent outcomes (following the example in Khan 2009). Second, with respect to the organisation of power, we will need to determine the interests of the ruling elite as well as the economic interests of the powerful elites and social groups on whose support they depend – as Khan (2012a: 669) argues, “no amount of enforcement capability is going to result in effective enforcement unless powerful organisations in society find that the enforcement of the rules in question is ultimately in their own interest.” For example, Khan and Blankenburg (2009) show that in Brazil, despite similar industrialisation strategies as in South Korea and a relatively autonomous state controlled by military rulers, an alliance of industrialists with powerful landed elites prevented a successful transition from import substitution at the end of the 1980s. In Pakistan and Bangladesh in the 1960s, the transition from import substitution to export-oriented growth failed because industrialists allied with powerful intermediate classes and resisted a re-allocation of subsidies.

The type of regime and the strategy of legitimation pursued by the rulers are central to this condition, as opposed to STACOH, which concentrates on the state (admittedly there is an overlap between both conditions despite their distinct features). *Regime* as used here refers to “an ensemble of patterns that determines the methods of access to the principal public offices; the characteristics of the actors admitted to or excluded from such access; the strategies that actors may use to gain access; and the rules that are followed in the making of publicly binding decisions” (Schmitter and Karl 1991: 76). The analysis will need to go beyond the dichotomy of democratic and authoritarian

constraints. Economic policies which create rents usually have an explicit, positive economic objective, but of course these policies could form part of a comprehensive development strategy which is formally laid down in a development plan or be a rather *ad hoc* and short-sighted reaction to acute economic problems, or follow a hidden agenda driven by political considerations of power maintenance. However, even malevolent authoritarian rulers, as long as the regime is not just transient, will have an interest in economic development following from their role as “stationary bandit” (Olson 1993). Of course, this interest is contingent on other factors, particularly political survival, and may not result in economic policies which are optimal to achieve economic development, let alone their effective implementation. This is exactly the advantage of the focus on political capability – the state could be constrained in implementing effective economic policies by the ambiguous interests of an authoritarian ruler even though the state is coherent in the sense of the STACOH condition, depending on the organisation of political power supporting such rule, for example clientelist ties to landed elites or industrialists benefiting from state subsidies. If the ruler’s ambiguous political interests preclude positive economic outcomes of their economic policies, this means that the state’s rent management strategy does not align with the organisation of power in society. This approach thus brings the interests of ruling elites back into the debate (cf. Whitfield and Buur 2014; chapter VI.2).

regimes which has long been discussed by political scientists with respect to their effects on economic growth (cf. Przeworski and Limongi 1993). In this context, the strategies of regime legitimation will be particularly interesting. Broadly speaking, this means that in a given authoritarian regime (all cases discussed below are cases of authoritarian regimes), only if growth-enhancing economic policies are in line with political interests of the rulers and their clients and/or support base – depending on regime characteristics – are they likely to succeed. If, for example, a regime relies on the support of domestic industrialists who depend on protectionist policies, ruling elites will likely not have the political capability to withdraw learning rents, liberalise trade and enforce productivity standards, which will make a transition to export-led growth difficult.

In particular, the prevalence of *clientelism* can play a major role. The obligations of ruling elites toward their clients may limit POLCAP, depending on the interests of the clients. In this context, of central importance is the conceptualisation of the state when it is not a clearly rational-legal Weberian state. It is to be expected that several cases will exhibit characteristics of neopatrimonialism, combining elements of legal-rational and traditional authority (in the monarchies, traditional authority plays a more important role than in the republics).

In summary, the value of “1” signifies that the organisation of power is compatible with effective rent management as described above, meaning that state leaders and their support base have a political incentive to implement policies which aim at economic transformation. A value of “0” means that the organisation of power and effective rent management are incompatible, for example because politically powerful groups resist a rearrangement of rent opportunities, as in the examples above. There are a range of possible empirical phenomena of POLCAP which fall between these two values. I will concentrate on two scenarios. The first is that the organisation of power and rent management are compatible but limited to particular policy areas or sectors. For example, they could only support growth-enhancing policies, but not transformative policies in the sense of the industrial policies which promote productivity gains and technological upgrading. This would be coded as “0.67”. A second scenario would be where the organisation of power and effective rent management are mostly incompatible, but there are some areas where growth-enhancing or transformative

policies are politically feasible. This could be, for example, due to a fracturing of economic policy-making where it is in the political interests of some policy-makers to manage rents effectively but not in others'. Such a scenario would be coded "0.33".

Table 16: Four-value fuzzy set scale for POLCAP

1	The organisation of power is compatible with effective rent management, for example because the implementation of growth-enhancing and transformative policies is in the political interest of the state leaders and in line with their strategy of legitimation
0.67	The organisation of power is partly compatible with effective rent management, for example to implement growth-enhancing but not transformative policies or to implement transformative policies in limited sectors
0.33	The organisation of power is mostly incompatible with effective rent management but compatible with the implementation of some growth-enhancing or transformative policies
0	The organisation of power is incompatible with effective rent management, for example because the implementation of growth-enhancing and transformative policies is not in the political interest of the state leaders and not in line with their strategy of legitimation

Changes to POLCAP can be expected particularly as a result of changes in socio-political factors, such as the type of regime and type of government, strategies of legitimation, the makeup of the ruling elites and their interests, changes in patron-client relations such as a shift in the client base of the ruling elite and clients' interests, as well as the influence and interests of major social groups. Political liberalisation or deliberalisation has the potential to change these factors, for example by including or excluding certain groups or enabling interests to be channelled, and economic liberalisation or deliberalisation can change the interests of major groups or business in certain sectors, for example by opening up new business opportunities through free trade agreements which prompt demands for policy changes. There is a risk of tautology which will need to be taken into account – for example, policy changes can cause changes in POLCAP and consequently SBR, which may in turn lead to further policy changes – so close attention needs to be paid to the timing of such changes.

IV.2.5 Addressing omitted variable bias

Given the analytic reduction of many of the theories discussed in chapter II and the focus on a number of central hypotheses which can be represented by the chosen conditions, omitted variable bias is of course a methodological concern, as raised in chapter III.1.3. In order to address this, I will discuss why a number of prominent variables were not chosen as conditions. In most cases, there are ways in which they are included in the conditions above, and in the interest of parsimony, their omission seems justified. Some of these omissions were already discussed above, for example the exclusion of variables identified by the determinants of economic growth literature in chapters III.1.3 and IV.1, the incorporation of rent-seeking in CORR in chapter IV.2.1 and of business concentration and corporatism in the BUSORG condition in chapter IV.2.3.

The exhaustive developmental state literature deserves special mention as much of it is not represented explicitly, including the concept of embedded autonomy, in favour of Kang's STACOH. While Kang's theory builds on the developmental state literature, it is less restrictive and more suited to uncovering the *differences* between collusive SBR this study is interested in. It is doubtful whether the concept of the developmental state is transferable as it represents such a specific and historically scarce combination of factors, numbering at least six to eight defining features (Leftwich 1995). This would have made it difficult to calibrate the condition on a linear or logistic scale, and it would have been likely that all cases examined here would have been coded zero or close to zero without much benefit to the analysis.

We already know that the developmental state configuration of SBR is conducive to economic development, but as developmental states “cannot be had to order” (Leftwich 2008: 3), it is preferable to adopt a condition which is more relevant empirically and does not conflate too many dimensions. The recent literature suggests that there are state characteristics which are conducive to development without fulfilling all criteria for developmental states. In its early form, the developmental state literature emphasised the need for states to be able to implement economic policy autonomously from societal pressures. The more cautious conceptualisation of “embedded autonomy” relaxes the autonomy precondition and adds the importance of institutionalised links between state

and society. Still, as shown by David Kang (2002), even the case of Korea did not neatly fit the ideal type of the developmental state with embedded autonomy but always incorporated corruption and “money politics”. Hence, embedded autonomy, even though it is such a central concept in the earlier literature, was not adopted here in favour of Kang’s broader notion of state coherence. Embedded autonomy can still be modelled by the configuration of low CORR, high STACOH, high BUSORG and high POLCAP, so it is not necessary to choose one single condition to represent it. More interesting is the question which other configurations may possibly lead to successful development outcomes, given that the development records of the selected cases are not all the same. Adrian Leftwich’s (2008) suggestion of “effective states” is in this vein and can be represented by a combination of high STACOH and high POLCAP.

Neopatrimonialism was also not chosen as one of the conditions. The classical neopatrimonialism literature takes a negative view of its developmental effects, and Oliver Schlumberger (2008) gives good reasons why patrimonial capitalism was the result of economic reform in many neopatrimonial states and can be detrimental to economic development. The intervening variable in these arguments, however, is corruption and clientelism – economic development is posited to have been negatively affected due to the prevalence of one or more of corruption, rent-seeking, and clientelism over productive investment, and the implementation of economic reform policies was distorted by corruption. Hence, the hypothesis can be tested, at least partially, by representing it as a combination of high CORR and low POLCAP (which recognises the potentially detrimental effect of clientelism). On the other hand, theories which view neopatrimonialism less categorically negative, in particular Thandika Mkandawire’s (2001) and Tim Kelsall’s (2012, 2013) arguments on developmental neopatrimonialism, can be represented as high CORR with high POLCAP.

Whether a state is a rentier state also does not feature as a condition on its own. All selected cases are semi-rentiers, so while rentier state theory is relevant, it applies only partly as rent income is supplemented by significant tax income. The ambiguous effects of rent income are, however, still considered for the measurement of STACOH as discussed in chapter IV.2.2. Also, similar to the neopatrimonialism literature mentioned above, a significant intervening variable in the argument that rentier states have small

chances of successful economic development is corruption and rent-seeking. This aspect of the theory can be tested using the CORR condition.

I recognise that despite these efforts, on the one hand, the selected conditions do not represent all facets of the theoretical literature, and on the other, that some configurations may represent more than one theoretical argument, lacking distinction. Modelling the entire complexity of the theoretical literature on SBR would result in a high number of conditions which would lead to a very high number of logical remainders and very small coverage of the solution term. The chosen conditions represent a compromise between theoretical complexity and parsimony. This means that the resulting solution term will need to be carefully interpreted in light of the underlying theoretical literature, and it will be necessary to examine whether it might need further specification through within-case analysis.

Also, it is not claimed that all conditions are independent from each other. Some of the theories discussed in chapter II, for example, regard certain configurations of state and business characteristics – such as embedded autonomy or “mutual hostages” – as negatively correlated with corruption. While this would need to be addressed in a quantitative model, it is not a problem for QCA due to the different understanding of causal complexity discussed in chapter III.1.

IV.2.6 Economic outcomes

Indicators

There is a wide range of potential measurements of economic outcomes. We will focus on indicators related to the two concepts at the heart of this thesis, economic growth in a narrow sense and economic development in a wider sense. For economic growth, *growth of GDP per capita* (GDPCAP) will be used. Growth of GDP (gross domestic product) is now a more common indicator than growth of GNI (gross national income), and as a measure of production, it fits better with the emphasis on productive capacities which is part of the definition of economic development adopted in chapter I. It also recognises the income of foreigners earned in-country which could have been due to

successful attraction of FDI and which forms an important element in technology transfer and upgrading. In looking at growth per capita, population growth is accounted for.

While GDPCAP is used as indicator for a narrow concept of economic development as static economic performance, the study explicitly seeks to differentiate performance from economic development in a wider sense. Growth plays its part, but as discussed in chapter I, economic development is also about sectoral transformation which entails the development of manufacturing and productive capacity. There is no one commonly accepted indicator to measure this concept. I will use the *proportion of manufactures exports to total merchandise exports* (MANEXP).⁴³ This is taken to indicate the importance of manufacturing and particularly whether manufactured goods can compete on world markets. Manufactures exports entail higher levels of productivity and are more conducive to further growth than other types of exports (Hausmann et al. 2007), hence this indicator is particularly suitable. Data is available across all country periods, which is not the case for other indicators which could have been used for this purpose (for example, high-technology exports in percent of manufactured exports; see Crespo and Wörz 2005).

Finally, we will also take into account criticisms of purely economic understandings of development and include an even broader measurement of development, the *Human Development Index* (HDI). The HDI measures “average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living” (UNDP 2017). While this includes a measure of growth, it also considers wider implications for human well-being, including life expectancy and schooling. The HDI does not measure equality.⁴⁴ HDI data is available for all countries but only for the years between 1990 and 2010, so any period before 1990 cannot be taken into account. If 1990 falls within a given country period, the average for the remaining years will be calculated and included in the analysis. This means that the

⁴³ Manufactures exports include “commodities in SITC sections 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), and 8 (miscellaneous manufactured goods), excluding division 68 (non-ferrous metals)” (World Bank 2018a).

⁴⁴ I also considered poverty rates or the Gini coefficient in order to capture inequality and effects on poorer strata of the population rather than country aggregates. However, there are two main reasons why this was not pursued. First, measurement of poverty rates is contested and the data is often not seen as credible, and because poverty rates are static, they may not be the best measure of the real welfare situation (see chapter V.1). Second, there is insufficient data available to consistently measure the Gini coefficient or poverty rates across all country cases.

results will not be as comprehensive as for the other indicators, but as human development is not the focus of this study, this seems acceptable. I decided to include the HDI regardless to see whether it can provide a further interesting differentiation of the outcome.

Calibration

In order to obtain valid QCA results, I will follow best practice and derive the anchor points from conceptual criteria rather than from within the data. Particularly the 0.5 threshold is important – when should we speak of high growth versus low growth? Positive growth rates alone are not an indicator of economic development; we need to distinguish trivial, low growth rates from meaningful growth. I am particularly interested in whether developing countries are *converging* (catching up) or not (cf. Khan and Blankenburg 2009 and chapter II.1.2).⁴⁵ Hence, I will compare rates of growth to the OECD average, adopting an approach similar to Esfahani et al. (2009). This also ensures that global economic factors which could influence outcome values are taken into account, for example the global financial crisis of 2008.⁴⁶

The average (mean) GDP per capita growth for OECD countries will be calculated for each country period⁴⁷ using the OECD aggregate data from WDI, as well as the

⁴⁵ While economic theory would of course expect developing countries to converge in the long run, empirically there have been major differences with some countries converging quickly and others not. The division into country periods allows a closer look at periods of convergence and divergence than a macro-level assessment of convergence over a longer period would.

⁴⁶ I considered whether to use the MENA average or the average of all cases as a baseline against which to judge whether growth was high or low. This would however have posed the methodological problem that the case data itself would have been included in the baseline average and thus influenced the thresholds. In addition, it would have judged growth against potentially similarly successful or unsuccessful countries rather than the theoretically derived notion of the “catching up” of late-late developers. For example, if all MENA countries had very low growth rates compared to OECD countries but one case had slightly higher rates, this case would have been scored as a high-growth case, even though it was not in fact catching up.

Another method of calibration would have involved the setting of thresholds based on what would be regarded as acceptable growth rates from a developmental point of view, for example any rate above 3 percent. This would however have been an arbitrary number and not have had the advantage of accounting for global economic trends. With the chosen method, a case where growth was relatively high during a period of global downturn will be scored higher than where growth was high during a period of a global economic boom.

⁴⁷ Economic outcomes are not measured with a time lag as compared to the country periods but as averages during the respective period. A time lag for economic variables is often included in the specification of regression models. There are three main reasons why this approach is not adopted here. First, as discussed in chapter III.1, the understanding of causality in QCA is different from regression analysis. As the aim is to identify set relations between conditions and outcome, the corresponding sets should be from the same time period. Second, the unit of observation is longer than a single year; a

differences to that country period's average GDP per capita growth. We will then calculate two different variants of the GDPCAP outcome. The first (GDPCAP1) is stricter in its assumption of what constitutes meaningful growth: the "0.5" anchor is set at 2 percentage points above the OECD average, the "1" anchor at 5 points above and the "0" anchor at 1 point below. The second, GDPCAP2, relaxes these assumptions but still requires growth rates to be substantially higher than the OECD average: "0.5" is represented by 1 percentage point above, "1" by 3 points above and "0" by 1 point below (see appendix for the raw data, chapter IV.4.1 for the calibrated scores). Both two and one percent above can be seen as non-trivial indicators of convergence, but this differentiation allows the QCA to separate analytically between the higher and lower margins which may lead to different solution terms.

For MANEXP, taking a similar OECD baseline as the "0.5" threshold does not make much sense as OECD countries are already industrialised, so it can hardly be expected that the countries studied here would score higher. The OECD comparison can however be useful as a guide to what can be considered a normal value for an industrialised economy. The most recent available data for all OECD countries (2016) shows that the average proportion of manufactures exports was just over 75 percent (75.01%). We will thus use 75 percent as the "1" anchor. The "0.5" anchor will be defined as 50 percent, the "0" anchor as 25 percent. I recognise that this is somewhat arbitrary, but there is no commonly accepted threshold for how high these values would need to be to constitute a successful case, and it seems reasonable to regard a country where manufactures exports represent the majority of all merchandise exports as successful.

The HDI is measured on a scale of 0 to 1 (UNDP 2017). The thresholds suggested by UNDP are 0.80 as minimum value for "very high human development", 0.70 for "high human development" and 0.55 for "medium human development". Any score below 0.55 is classed as "low human development". Given that all examined cases are generally seen as middle-income countries, the threshold between medium and high human development, 0.70, seems the most interesting and will be taken as the "0.5"

typical growth regression includes annual data points and opts for a one-year time lag. Here, however, the cases span longer periods of at least six years (see the country chapters below). Third, the conditions are hypothesised to affect economic outcomes in different ways and via different intervening variables; some effects may be delayed (for example, via the implementation of a new tax system), some can be almost immediate (for example, via the politically motivated interference in the sale of an SOE). I recognise that the effect can have a lag but taking one year or a number of years as a fixed lag would not yield any more valid results than its omission.

anchor. This allows us to investigate whether any cases rose from medium to high human development and which set of conditions overlap with the respective scores. 0.80 is taken as the “1” anchor and 0.55 as the “0” anchor, as we are more interested in variation between these scores rather than above or below.

Any values in between the qualitative anchors will be calibrated using Ragin’s “direct” method based on logistic transformation which is built into the fs/QCA software (Ragin 2008: 89-94; Schneider and Wagemann 2012: 35-38; Ragin and Davey 2016).

IV.3 Discussion and coding of country cases

IV.3.1 Morocco

Three country periods or cases have been identified for Morocco. The first was characterised by externally mandated economic reform and structural adjustment, the dominance of the Fassi bourgeoisie and the emergence of a new group of export-oriented investors (1984-1991), the second by a fragmentation of economic policy-making, privatisation and a strengthening of business organisation (1992-1999), and the third by increased royal control over economic policy-making, a diversification of clients and co-optation of organised business as Mohammed VI reinforced his rule (2000-2010).

IV.3.1.1 Morocco 1984-1991

State coherence

During this period, the Moroccan state was highly centralised with King Hassan II at its head. The monarchical state in Morocco is usually termed the *makhzen*, meaning “warehouse” (in which the royal tax revenues were stored) and referring to the king and his entourage. Morocco was officially a constitutional monarchy with an Assembly of Representatives as legislature (bicameralism had been abolished with the 1970 constitutional reform and was only re-introduced in 1996). In practice, however,

parliament was controlled by the king. The elected government, headed by a prime minister, “merely executed rather than deliberated over policies devised by the king and his close advisors” (Cammett 2007: 83). The multi-party system was not a threat to the *makhzen*, but the fractured party landscape rather prevented any one party being able to challenge the king’s power. Two of the parties were even founded by the government to this end, the Rassemblement National des Indépendants (RNI), founded in 1978, and the Union Constitutionnelle (UC), founded in 1983, and have been termed “administration parties” (ibid). In addition, elections were regularly manipulated. The king was seen as reigning above the political arena of the parties, possessing additional traditional religious authority as *amir al-mu’minin* (commander of the faithful).

This means that the number of state elites was very limited and concentrated in the person of the king, with no constraints to decision-making through societal representation. Despite a rational-legal state apparatus, in typical neopatrimonial fashion, the king relied on patron-client relations to legitimise his rule. The king’s advisors and entourage formed the inner circle and extended patronage to loyal officials and private business (Cammett 2007: 86). The most important group of clients was the so-called Fassi (from Fès) bourgeoisie, a “well-connected protectionist elite, organized in multisectoral groups or holding companies”, whose “importance in the anticolonial struggle (...) enabled them to penetrate the independent state and shape economic policy” (ibid: 80).

From independence in 1956 until 1983, Morocco had followed a “qualified state-led development” model (Pfeifer 1999: 444-448). As in many other developing countries at the time, the Moroccan economy was built on large public enterprises. Still, the private sector in Morocco pre-dates the structural adjustment programme of the 1980s. Compared to the MENA republics, “(p)roperty, traditional status and clientele connections to the monarchy were more important than formal office or technocratic skills, in part because the private sector was more developed and the lack of land reform kept the rural notability fully intact” (Hinnebusch 2015: 16).

The Fassi economic elite had always had a close connection with the state, gaining protection from tribes in return for tax payments (Cammett 2007: 85). They benefitted from the import-substitution industrialisation (ISI) policies after independence and formed a Moroccan “industrial bourgeoisie” (ibid: 88). Particularly the textile industry

was protected by high tariffs and grew substantially (ibid: 93). As the Moroccan financial sector was relatively well developed, they had access to finance. The banking sector consisted of an oligopoly of two public-sector banks and five private banks, “the seven sisters” (Henry 1996: 142-158). Despite formal private ownership of five banks, the royal family controlled most finance capital through their own holdings and shares, and “(a)mong the seven sisters, *Wafabank* was the only one tied to a tangible external group that was not in turn directly governed by the palace” (ibid: 157). *Wafabank* was owned by the Kettani Group, one of the largest private family holdings.

The Moroccanisation laws passed in the early 1970s had enabled the Fassi elites like the Kettani family to acquire stakes in foreign companies active in Morocco. They led to the concentration of capital and the formation of the so-called *groupes*, business conglomerates spanning several sectors (Cammatt 2007: 94-96). Many of the Fassi elites rose to ministerial posts, and patronage allowed them to benefit from ISI by accessing government contracts, import licenses and cheap credit (Cammatt 2007: 86). Another prominent example is Mohamed Karim Lamrani, who was prime minister between 1983 and 1986 (he also held this position 1971-1972 and 1992-1994) and also headed the state-owned *Office Cherifien des Phosphates* (OCP). His own business interests comprised one of the “seven sisters” (*Crédit du Maroc*), with shares held by Moulay Ali Kettani as well (Henry 1996: 153-155), and about 30 companies in manufacturing, transport, tourism and other sectors (Abdelkader 1993: 327). While the Fassi bourgeoisie thus benefitted from state patronage, Cammatt emphasises that “it would be misleading to argue that the state created the industrial bourgeoisie, as in Tunisia, because the Fassi elites leveraged their importance in the nationalist movement to penetrate the state and influence economic policy” (2007: 89).

The state derived substantial rent income from phosphates, tourism, foreign aid and (indirectly) migrant transfers. The OCP was a world leader in phosphate fertilisers. However, this was not on the scale of the oil-rich rentier states, and on the one hand, the price of phosphate went down in the 1980s, on the other, the second oil shock of 1979 had negative effects as Morocco was a net importer. The state was dependent on taxes, both direct and indirect (Catusse 2009: 186, 213).⁴⁸ It was therefore a semi-rentier and did not possess the fiscal autonomy usually ascribed to rentier states, as discussed in

⁴⁸ Direct taxes amounted to 19.93 percent of state revenue and indirect taxes to 44.00 percent (average 1984-1991; World Bank 2018a).

chapter IV.2.2. However, the royal family owned the largest “private” conglomerate in Morocco, the *Omnium Nord Africain* (ONA), which spanned a number of sectors, including mining, manufacturing and real estate (Cammett 2007: 86).

As Morocco was “virtually bankrupt” (Henry 1996: 29) by 1982, it had to subscribe to IMF-mandated structural adjustment policies in 1983. This restricted the state’s control over the economy in some respects, but structural adjustment was, at least in the early years, implemented in a way which did not severely limit its autonomy vis-à-vis societal groups. Economic liberalisation was not accompanied by political liberalisation until the early 1990s. King Hassan II continued to keep a tight grip on political activism, and the brutal persecution of political dissidents during his rule became known as the “Years of Lead” (Fadoua 2014).

With respect to the economic policies demanded by the SAP, the state can be seen as having lost some autonomy over economic policymaking; they “tended to erode the *makhzan*’s traditional patronage resources” (Henry and Springborg 2001: 172) and “reduced the extent to which the regime can use preferential access to loans, licenses, permits and public markets to reward its clients in the private sector” (Denoeux and Maghraoui 1998: 104f.). In order to meet the demands from the IMF, Morocco was required to cut public spending and investment, liberalise trade policies, the currency and abolish price controls for food and energy (El-Said and Harrigan 2014: 108-113). While the state was able to control the timing and implementation of policies to some extent – and delayed privatisation of public enterprises until the mid-1990s – it was bound to liberalise out of economic necessity. This did have political consequences with respect to the formation of new groups of private investors (see below).

In summary, on the one hand, the state was controlled by a small number of actors, ultimately one – the king –, who had full control over the state apparatus without other real centres of power and had access to significant financial resources, and there was no organised societal group which could interfere with economic policy-making. However, on the other hand, the state was not able to formulate preferences entirely independent of social influences due to the reliance on the Fassi bourgeoisie, the main client group and support base to the *makhzen*. This relative importance of a single group fractured the state even more than in typical neopatrimonial states where the ruler arbitrates between different clients. Hence, STACOH is coded as “0.67” during this period.

Business organisation

The private sector was dominated by the above-mentioned “Fassi” (which could also be from one of the other urban centres, especially Casablanca) bourgeoisie and their *groupes*, “cluster(s) of companies linked by financial and personal relations as well as their relationships to the same decision-making center” (Cammett 2007: 95). The majority of private capital was in the hands of a small number of holding companies. It is unclear exactly how many were operational, somewhere between 58 (Saâdi 1989, cited in Henry 1996: 151) and less than ten (Henry 1996: 151).

Economic liberalisation in the 1980s and the close proximity of export markets in Europe provided new opportunities for private investment and enabled a new group of investors to enter the private sector. Non-tariff barriers such as import licenses were removed for many products. The new 1983 investment code enabled foreign investment in Morocco, including the repatriation of profits, and prompted partnerships between domestic and foreign businesses (Cammett 2004: 256). Particularly in the textile sector, there were now opportunities for profit from export-oriented production. The required capital investment was relatively small and labour was abundant. Melani Cammett (2004: 256) describes how even “professionals such as doctors, pharmacists, lawyers, and bank employees – anyone who had a small amount of capital and could obtain credit – established garment factories”.

Compared to the Fassi elite, who were reliant on ISI policies and state protection, these export-oriented manufacturers were not as dependent on political connections to the *makhzen*. They focused on garment assembly, which did not require as much capital as textile manufacturing, so access to cheap credit was not as crucial. It was more important to build networks of buyers abroad, for which state patronage was not necessary (Cammett 2007: 101, fn. 40). This new group of businesspeople managed to make quick profits, which often remained undeclared and untaxed (ibid: 102).

As a result, the private sector was split between “fat cats” and “self-made men” (Cammett 2007), with the former largely concentrating on the local market and seeking to delay economic liberalisation, and the latter seeking to benefit from the economic reforms and new trade opportunities. The “fat cats” had become rich owing to the ISI policies, while “(t)he new generation of export-oriented manufacturers that had emerged in the 1980s viewed this as a disastrous chapter in national development that cemented

the influence of an archaic, rent-seeking elite (ibid: 99). The “self-made men” were not politicised yet but open conflict was to break out in the 1990s (see below).

During this period, business associations existed but were quietist. The umbrella organisation, *Confédération Générale des Entreprises du Maroc* (CGEM), and the *Association Marocaine de l’Industrie du Textile* (AMIT) were critical of the economic liberalisation policies by the end of the 1980s, but did not actively resist. They were not used as a vehicle for interest representation and only few businesses participated in meetings. The new, export-oriented producers had not yet organised (Cammett 2007: 149-154).

In summary, the private sector was not organised in business associations which were independent and had the capacity to organise collective action. However, the *groupes* – even though they often resembled more a loose network of holdings and companies rather than a unified corporate entity (Henry 1996: 151-158) – can be regarded as conglomerates which certainly had interests across different sectors, dominated the private sector and were headed by politically well-connected “fat cats”, similar to the Korean *chaebol*. Hence, BUSORG is coded as “1”.

Political capability

During this period, the state continued to create rents, particularly learning and monopoly rents, through cheap credit, subsidies and tariff protection for domestic industrialists. These were not effectively managed in the sense that the state required productivity gains or increased exports in return, but rather provided as patronage to its Fassi clients. Economic reform and structural adjustment policies decreased these rents but did not eliminate them. While economic policy changed as externally mandated and necessitated by the debt crisis, the policies were not implemented as prescribed, owing to political considerations.

While new investors managed to establish successful export businesses, the economy was still dominated by the king’s own conglomerate ONA and the large *groupes* of the Fassi elites. Furthermore, while state expenditure had to be cut and public investment and wages were reduced (El-Said and Harrigan 2014: 109), the state had not yet privatised the large number of state-owned enterprises and liberalised the public sector monopolies it had built during the phosphate boom of the 1970s (Murphy 2001: 21),

and no concerted efforts were made to increase their productivity. (On privatisation, see below – it was officially started in 1989 but no firms were privatised until 1993.)

In summary, the persistence of the established pattern of regime legitimation through clientelism prevented effective rent management. Externally-mandated adjustment policies were implemented insofar necessary, but there were no coordinated industrial policies put in place which could have led to a transition to higher-value production and increased productivity. There was no political incentive to enforce performance standards in return for the rents reaped by domestic industrialists and SOEs. POLCAP is hence coded as “0” during this period.

Table 17: Coding for MOR 1984-1991

	CORR⁴⁹	STACOH	BUSORG	POLCAP
MOR 1984-1991	0.621	0.67	1	0

IV.3.1.2 Morocco 1992-1999

State coherence

This period starts with a change in STACOH as the state became more fractured in its economic policy-making. This was due to political liberalisation and privatisation. Hassan II now sought to co-opt rather than repress political opposition and promised governmental change (*alternance*). The period between 1992 and 1999 “was characterized by consensual interactions between the monarchy and opposition leaders from the Istiqlal and the left-wing parties” (Zerhouni 2004: 64f.). The king consulted opposition parties for a constitutional revision in 1992 which gave parliament more powers, and he lost the right to dissolve parliament in a state of emergency. In 1994, a number of political prisoners were released. In another constitutional revision in 1996, the powers of the prime minister were increased. Municipal and parliamentary elections took place in 1997. *Alternance* was finally achieved in a deal with the opposition when

⁴⁹ For the raw ICRG corruption values, see appendix.

Abderahman Youssoufi, the leader of the largest opposition party, the *Union Socialiste des Forces Populaires* (USFP), was appointed prime minister in 1998.

While this political opening should not be seen as democratisation – power was ultimately still in the hands of the king, and the feared architect of state repression, interior minister Driss Basri, remained in his position – it is significant, especially given that Youssoufi was a former political prisoner himself and leader of a radical socialist, anti-monarchy party.⁵⁰ The new government was however given more policy influence, in particular “full responsibility for economic policies, so that the royal cabinet relaxed its supervision of the ministries” (Henry and Springborg 2001: 175). In 1999, Youssoufi proposed a law which prohibited government officials from private business activity during tenure of public office, but it was not effectively enforced (Cammett 2007: 86, fn. 13).

This period was also characterised by the earnest start of privatisation. It had been formally started by law in 1989, with 75 firms and 37 hotels earmarked to be sold. Morocco’s divestiture programme represented the largest of any MENA state. A large proportion of firms were from the energy and financial sectors, while several state-dominated sectors were excluded, such as transport, communication and mining. Financial liberalisation was seen as an important vehicle for privatisation, with public companies to be sold on the Casablanca stock exchange. The pace was, however, slow, and the first firm was sold in early 1993. By 1996, 25 firms and 17 hotels had been sold for a total value of USD 1.3 billion (Khosrowshahi 1997: 243f.).

Privatisation in the financial sector was particularly slow and the state retained partial control over several large companies in the financial sector, such as SOFAC Credit, and recapitalised ONA (ibid: 245f). ONA was still Morocco’s largest holding company and was run by Fu’ad Filali, the king’s son-in-law and prime minister’s son, and 13 percent were owned by King Hasan II himself (ibid: 250, fn. 28). Henry argues that “financial reform was postponed until the ONA, controlled by the *makhzan*, had in turn acquired a major stake in several Moroccan banks” (Henry 1996: 142).

As in many other developing countries, privatisation in Morocco was seen to benefit mainly business elites and channel profits to a small number of investors (Catusse 2009: 193). The government was not as transparent about the divestiture process as observers

⁵⁰ For a discussion of the external reasons for the political opening, see Monjib (2011).

had hoped, and often firms were sold to buyers with previous management or shareholder involvement, despite the aim of the 1989 law to counteract the concentration of wealth and prevent monopolies: “Government rhetoric about fighting against the concentration of wealth in the hands of a few as a goal of the privatization program appears to be a smokescreen to hide the fact that the status-quo is being maintained” (Khosrowshahi 1997: 251).

In addition, the state was fractured in its commitment to privatisation. The government created a kind of privatisation ministry to oversee the process, the *Comité Interministériel des Entreprises Publiques*, to counterbalance the finance ministry which was in control of public holdings. The new ministry was “perceived as a threat to certain interests within the state, i.e. the maze of high-level government officials who sat on state enterprise boards or ran them as government appointed managers” (Khosrowshahi 1997: 247). The privatisation ministry allied with those private sector factions which supported privatisation against state and public-sector elites seeking to delay divestiture. The new, export-oriented manufacturers had become much more organised by the mid-1990s (see below).

In order to reassert control over the private sector, the Moroccan *makhzen* employed repressive tactics. Between December 1995 and January 1996, minister of the interior Driss Basri launched a fierce anti-corruption campaign, the *Campagne d’Assainissement* (purification campaign) (cf. Sater 2002). The police conducted raids and confiscated illegal imports, hundreds of businesspeople were put in jail, and an aura of fear among investors prevailed. In June 1996, CGEM and the government came to an understanding, entailing administrative reforms and a six-month grade period.

In summary, economic policy-making during this period was contested and ambiguous. The clientelist obligations identified in the previous period continued and led to a slow and patchy process of privatisation and a continuation of state control over the banking sector, while the state was under pressure from the new factions of the private sector who were now better organised (see below) and demanded faster, more transparent reforms. At the same time, the political opening and increased autonomy of government ministries reinforced this fracturing of policy-making. The *makhzen* did however manage to benefit from privatisation and preserve the pivotal role of ONA, and it stayed on top of a more vocal private sector as evidenced by the “purification campaign”,

which served to “stabilise the existing political order” (Denoeux 1998: 101). Hence, STACOH is coded as “0.33” during this period.

Business organisation

During this period, the “self-made men”, who wanted to pursue new export opportunities, became increasingly politicised over the issue of trade liberalisation and used business associations to represent their interests. As Melani Cammett (2007: 149) outlines,

“Events in the 1990s, notably an economic bust and the signing of a bilateral trade agreement with the European Union, highlighted mutual interests among exporters and compelled them to organize within the existing producers association for the textile and apparel sectors. A shared perception that a bloc of large-scale protectionist businesspeople stymied broader access to economic opportunities, however, provided the real spark for an aggressive mobilization campaign by emerging export manufacturers.”

In 1991, AMIT was restructured to better include young apparel producers, and the name expanded appropriately to *Association Marocaine des Industries du Textile et de l'Habillement*. It formed new committees to follow current policy concerns. For a few years, “exporters and domestically oriented producers maintained a delicate balance within AMITH” (ibid: 154). Membership grew during the early 1990s, and by the mid-1990s AMITH represented 84 percent of all textile and clothing production and 97 percent of exports (ibid: 152). For the previous 20 years, its leadership had represented mainly the interests of large firms and the personal interests of their owners. Now that the membership was diversified, a wider range of interests were represented. The head of the apparel subcommittee, Badr Berrada, became a central figure in pushing for liberalisation and defending exporters’ interests (ibid: 158). Exporters regularly clashed with textile manufacturers in the association but gained the upper hand towards the end of the decade.

During the “purification campaign”, AMITH defended its members against the allegations and worked towards securing the release of those arrested, many of whom were from the apparel sector (ibid: 156f.). The CGEM, which prior to 1995 “was closely associated with the regime and its directors were regarded as the ‘men of the state’” (Sater 2002: 16), also became more active and tried to intervene on behalf of affected businesspeople. This coincided with an internal re-organisation which led to

increased membership and a professionalisation of corporate interests by the CGEM. Pivotal was its new president Abderrahim Lahjouji, who did not have a typical Fassi background (ibid: 17f.). The purification campaign was ended with a “gentlemen’s agreement”, the official title of which in itself signified a modern, business-oriented outlook as it was in English rather than French (ibid: 22). While the consequences of the agreement can be seen as successful co-optation of CGEM – CGEM promised to fight corruption among its members and pay contributions to a fund compensating the state for tax losses in return for a general amnesty – it became nevertheless more independent from the state and “able to distinguish its economic rationality sufficiently from that of the political centre in order to claim a neutral role as economic experts” (Sater 2002: 25).

AMITH was much more vocal, particularly around the negotiation of an association agreement with the EU in 1996, which it saw as a huge export opportunity. It lobbied for the implementation of total trade liberalisation as “Badr Berrada was sceptical that the agreement would be fully implemented without pressure from local exporters” (Cammett 2007: 159). It faced resistance from textile producers who wanted to delay an end to protectionism, and as a result the ministry of finance did not reduce the tariffs as quickly as prescribed by the association agreement (ibid: 163f.). In order to influence the government, interest groups of exporters employed a wide range of channels for lobbying, directed at parliament, for example, because they lacked personal ties to high-level bureaucrats. They also used the press and television to make their voices heard (ibid: 181f.).

In summary, parts of the private sector were well-organised during this period. While the dominance of the *groupes* remained and they still benefitted from personal connections to the *makhzen*, for example during privatisation, the new exporters now used professionalised business associations to represent their interests regarding trade liberalisation. The state was able to assert its control over the private sector during the “purification campaign”, but the result shows that it found it necessary to co-opt CGEM and could not prevent associations like the AMITH from becoming more independent and vocal. The role of the business associations taken alone, this would point to a “0.67”

for BUSORG, however given that the private sector was still dominated by the conglomerates of the Fassi elites, the score will remain “1” as in the previous period.⁵¹

Political capability

Privatisation resulted in the transfer of property rights and hence creation and transfer of rents, particularly to the royal family and Fassi elites. Trade liberalisation, on the other hand, decreased the rents which had been created through protectionist policies, and domestic industrialists tried to delay its implementation, while export-oriented producers sought to accelerate it.

The state’s rent management strategy was ambiguous. On the one hand, the *makhzen* did not lift all protectionist policies and hence left opportunities for reaping rents, and it managed privatisation so that the banking oligopoly remained in place and its client elites were able to benefit from the sale of public-sector firms. This means that due to the way power was organised, effective rent management was not implemented. On the other hand, due to the increased fracturing of economic policy-making and the pressure from newly-organised exporters, learning rents dissipated when tariffs were reduced, creating incentives to upgrade and produce for an export market.

The “purification campaign” shows a similar ambiguity. The state cracked down on corrupt practices, mainly within the *Admissions Temporaires* system. In order to incentivise exports, producers had been allowed to import raw materials duty-free if the manufactured goods were exported within six months. However, many manufacturers sold them locally instead for a larger profit (Cammett 2007: 155). CGEM and AMITH defended their members as the practice had been tolerated by authorities before. On the one hand, this shows that the state did try to enforce some aspects of its rent management strategy, on the other, the outcome – amnesty and essentially

⁵¹ The coding of this condition shows that it cannot account for the nuanced character of business organisation. While the importance of the cross-sectoral *groupes* and their influence over economic policy-making ultimately led to a coding of “1” in both periods, the increased independence and capacity to organise collective action of business associations representing exporters now also warrant a coding above the 0.5 threshold. From the point of view that the condition was conceptualised as an indicator for the overall strength of private sector actors towards the state by Kang (2002), this is justified, but it clearly leaves the different interests of the two groups of actors and the different nature of their source of strength (power of capital/business concentration versus organised associations) unaccounted for. As I will argue in chapter V, the interests of both state and business actors can however be relevant for the outcome and should be considered.

a continuation of corrupt practices for the payment of compensation – showed that the state did not follow through for political considerations.

In summary, the organisation of power was mostly incompatible with effective rent management, but the creation of incentives for upgrading and export was compatible with the interests of some decision-makers as well as the organised private sector. This means that POLCAP is coded as “0.33” for this period.

Table 18: Coding for MOR 1992-1999

	CORR	STACOH	BUSORG	POLCAP
MOR 1992-1999	0.501	0.33	1	0.33

IV.3.1.3 Morocco 2000-2010

State coherence

When King Hassan II passed away in July 1999, his son Mohammed VI faced the challenge of maintaining regime legitimacy and ensuring that his father’s clients would support his rule. In typical neopatrimonial fashion, he “rotated and circulated various incumbent politicians in and out of office, in an attempt to weaken potential alternative power bases” (Bank 2004: 166). He dismissed interior minister Driss Basri, one of Hassan II’s closest advisors, and replaced him with confidantes shortly after his accession, without even consulting prime minister Abderrahmane Youssoufi beforehand (Zemni and Bogaert 2006: 107, fn. 9). This was significant as the interior ministry was one of the most important pillars of the *makhzen* and Driss Basri was seen as the architect of political repression and the “Years of Lead”.

Many of the ministers and other officials who were newly appointed were not career politicians but had a technocratic and bureaucratic background, which was regarded as a sign of Mohammed VI’s commitment to economic development. Among all newly appointed officials, the Fassi elite was no longer in the majority, but most were from Rabat and Casablanca, had a higher degree from France and were significantly younger than the “old guard” in place since Hassan II’s reign (Zerhouni 2004: 72f.). In 2002, the king appointed Driss Jettou to the post of prime minister, who did not have a political

opposition background like Abderrahmane Youssoufi but had been a public-sector manager (Bank 2004: 167). As a result of the 2002 parliamentary elections, 22 parties were represented, and “the fragmentary character of the opposition parties allow[ed] the king easy control over different groups” (ibid).

To Moroccans and Western allies, Mohammed VI sought to portray himself as a reformer and moderniser. He introduced a new family code in 2003/2004, which gave more rights to women and was positively received outside and inside Morocco. He also committed to breaking with Morocco’s past history of human rights abuses by appointing the *Instance Équité et Réconciliation* in 2004, which was tasked with investigating the abuses committed between 1956 and 1999. Mohammed VI also made concessions to the Islamist opposition, such as the lifting of Sheikh Abdesslam Yassine’s – the leader of Islamist organisation *al-‘Adl wa al-Ihsan* – house arrest in May 2000, which seems to have been ordered directly by the king (Zemni and Bogaert 2006: 107, fn. 9).

Importantly, while the reforms were regarded as steps towards democratisation by some observers, they did not substantially change the authoritarian character of the regime but should rather be interpreted as new strategies for “managing political contestation” (Heydemann 2007: 10) to ensure its survival. Despite the opening, the state still employed repressive measures as needed. For example, there was a renewed wave of political arrests and repression of the Islamist opposition following the 2003 Casablanca terror attacks. The mandate of the *Instance Équité et Réconciliation* was limited, with a focus on the compensation of victims rather than the punishment of perpetrators, and it ignored any human rights abuses after 1999 (HRW 2005). These continued during Mohammed VI’s reign and journalists who criticised the monarchy faced prison sentences, publications were censored and some newspapers were even shut down (Liddell and Monjib 2009).

The king started to create policy-making processes separate from the government by relying on royal committees for certain policy areas. Among the new committees introduced by Mohammed VI were committees for tourism and investment (Zerhouni 2004: 69). According to Saloua Zerhouni (2004: 63), this “has a dual function: on the one hand, it is an important tool for controlling the elite by seeming to give them a voice in decisionmaking as well as regulating their integration into the political

system; on the other hand, it is a way of affirming the preeminence and the efficiency of the monarchical institution.” Similarly, André Bank argues that it was “an attempt by the king to institutionalise his rather informal powers and to create something of a parallel government structure”, creating “a hybrid system (...) in which Muhammad can by-pass the formal procedures that have developed in Moroccan politics over the last decades” (2004: 167). In addition, the state managed to co-opt business associations during the 2000s; the CGEM was formally consulted during economic policy-making but in turn gave up its confrontational stance (see below).

In 2008, the king’s advisor and friend as well as former deputy interior minister, Fouad Ali el-Himma, founded a new party called *Parti de l'Authenticité et de la Modernité* (PAM). It was widely seen as the party of the palace, “essentially led by the king’s friends, allies, clients and would-be-clients” (Boubekeur 2009). It won the 2009 municipal elections and attracted many members of other parties to join, thus “crowding out other parties” (ibid). The PAM specifically targeted rural regions and had the support of rural notables. Its main adversary was regarded as the Islamist *Parti de la Justice et du Développement* (PJD), which it sought to isolate with the use of manipulation and help from the intelligence services (Liddell and Monjib 2009).

In summary, the new king managed to consolidate his power through a number of mechanisms, ranging from neopatrimonial to electoral and parliamentary politics. The old elites in the state apparatus were supplemented by a younger, educated, technocratic and loyal elite. Economic policy-making could be directly steered by the king through royal committees, bypassing the government. Business associations were increasingly co-opted (see below). At the same time, despite a controlled political opening, societal forces were kept apolitical and, if necessary, repressed. The formation of a new “palace party” also contributed to a widening of the base of support beyond the traditional Fassi elites. Therefore, the state was more coherent than in the previous period, with some fracturing due to the need to seek support from clients, government and the parliament in policy-making, but with sufficient decisional autonomy. STACOH is thus coded “0.67”.

Business organisation

The *makhzen* retained its pivotal position in the private sector through ownership of ONA and thus control over large parts of the banking and other sectors (ONA was replaced by the *Société Nationale d'Investissement* (SNI), formerly one of its shareholders, in 2010). Even though the Fassi elites now had more competition from export-oriented businesses, the *groupes* continued to play an important role and remained linked to the king's own holdings. In 2004, the *Banque Commerciale du Maroc*, which had been part of ONA, merged with *Wafabank*, owned by the Kettani Group. The new bank was named *Attijariwafa Bank* and became Morocco's largest bank with ONA holding 31.13 percent of the shares. This meant that the “palace (...) and the Kettani family business interests were now formally linked through the banking sector as well” (Boussaid 2010: 6).

Business associations continued to play a role in economic policy-making, now “as an institutionalized and ‘normal’ partner”, not just in negotiation with the state, but also in tripartite negotiations with trade unions and the state (Catusse 2009: 209). This resulted, for example, in the passing of a new labour code in 2003. Similarly, the *plan emergence* which was established in 2005 and aimed at increasing competitiveness, particularly in the textile and apparel sectors, involved private sector representation. In 2009, it was followed by a more comprehensive *Pacte National pour l'Emergence Industrielle* which involved nine ministries, the CGEM and the *Groupement Professionnel des Banques du Maroc* (GoM 2013; Cammett 2007: 216f.; Cherkaoui 2012: 120f.).

These developments could be regarded as the establishment of state-led corporatist structures. In 2000, CGEM president Abderrahim Lahjouji was replaced by Hassan Chami, who had been minister of public works in the 1970s and was a friend of prime minister Driss Jettou (Boussaid 2010: 11). Given this background, he was not expected to be politically confrontational. In 2005, however, he publicly criticised the “quality of governance in Morocco”, which was “widely interpreted as an indirect criticism of the leadership of the king on the issue, as disapproval of the growing influence of ‘the king's businessmen’ in Morocco's economic life, and as an effort to assert the autonomy of the CGEM relative to those interests” (Denoeux 2007: 147). He was afterwards no longer invited to royal ceremonies and one of his companies was audited. In 2006, Moulay Hafid El-Alamy won the CGEM presidential elections unopposed. He was seen

as the favourite of the king and promised that from now on the CGEM was not going to interfere in politics. Significantly, he had received financial backing from *Attijariwafa Bank* (Boussaid 2010: 11, fn. 6).

CGEM members close to the state and the big business elites dominated its commissions during the following years, and it did not openly criticise the government. It was made an *association d'utilité publique* which opened up new public income streams and tax exemptions. Funding from large businesses also increased during this time (Boussaid 2010: 11f., Denoeux 2007: 147f.). In 2009, El-Alamy was replaced by Mohamed Horani, who had been enabled by ONA to run for the post. He represented the modern IT sector and thus fit the new modernising image the king aspired to. As a result, Boussaid argues that “it seems that the Makhzen has regained the initiative by not only co-opting but actually capturing an association and hence ensure a more timid stance from the private sector” (2010: 12).

Due to the increased role of the king’s own business interests, the diminished importance of the Fassi elites relative to new investors from other urban centres and technocrat officials as well as the successful co-optation of organised business, BUSORG is coded as “0.33” during this period.

Political capability

Economic liberalisation continued during this period, and King Mohammed VI sought to legitimise his rule through economic policies focused on overcoming Morocco’s development impediments. 2004 saw the conclusion of a free trade agreement with the USA. A 2005 National Initiative for Human Development introduced social infrastructure funding and support for small businesses, and the 2008 *Plan Maroc Vert* laid out Morocco’s agricultural strategy for 2008-2020, with the goal to establish public-private partnerships. Both initiatives were supported by the World Bank (Hanieh 2015: 126f.). This means that the state made a more concerted effort than before to implement industrial policy.

Mohammed VI was now less politically constrained than his father by the need to recognise the dependence of the Fassi elites on rents provided by the state, and his own strategy of legitimation stressed his image as a reformer and moderniser. The 2000s saw the rise of a new “group of young, assertive and dynamic business people with close ties

to the Palace” (Denoeux 2007: 138) as well as technocrats in leading positions. This means that the coalition which supported the king was increasingly in favour of growth-oriented economic policy, while older, reform-averse elites were losing importance.

The king also benefited from private sector growth through his own “private” holdings and shares in private companies and banks. The Moroccan state during this time is an especially striking example of the overlap between the public and the private domain in a neopatrimonial state, which means that both the political and the business interests of the neopatrimonial ruler are of central importance for the compatibility between the organisation of power and effective rent management. According to Forbes (Serafin 2009), in 2009 the Moroccan king was the seventh-richest royal in the world with a fortune of 2.5 billion USD. Perhaps counterintuitively, in this case the political interest in power maintenance and the business interest in the *makhzen*’s own “private” sector holdings aligned in favour of growth-enhancing policies. Previously, the public sector had been more important for gaining material legitimacy, but this was now more difficult due to privatisation and liberalisation, and the elites who had benefitted from protectionist policies were becoming marginalised. Hence, policies for promoting private investment were no longer in opposition but in conjunction with strategies for regime legitimation as well as the personal interests of the ruler. The ruler was not tied to the public sector anymore but had managed to carve his own share from the private sector. It is important to remember that the concept of political capability does not mean that rulers cannot be corrupt and amass personal wealth, but asks whether the organisation of power is compatible with growth-oriented rent management and whether rent reallocation could be prevented by politically dominant groups.

This is not to say that rents were always effectively managed and performance standards enforced. In 2001, a competition law was passed which formed a “Competitiveness Council” to enforce anti-trust legislation. This council was however hampered by a lack of mandate, and it was only given independence and access to government data after the 2011 protests (Karam 2011). The royal businesses enjoyed advantages over their competitors as they faced less scrutiny and had easier access to capital through the largest bank, *Attijariwafa Bank*. They were also alleged to have benefitted from purchasing real estate below the market price (Denoeux 2007: 137-139).

In summary, political capability was high with respect to growth-oriented policies, but

limited with respect to transformative policies, in particular with regard to policies which would enforce performance standards from the *makhzen*'s own firms. POLCAP is therefore coded "0.67".

Table 19: Coding for MOR 2000-2010

	CORR	STACOH	BUSORG	POLCAP
MOR 2000-2010	0.511	0.67	0.33	0.67

IV.3.2 Jordan

The case of Jordan has been divided into three country periods. During 1984-1989, King Hussein ruled over a coherent state and succeeded in carefully balancing different pillars of the regime with the help of rent allocation. At the end of this period, an economic crisis necessitated economic reform and austerity measures which sparked a political crisis, which the king met by controlled political liberalisation. This initiated a second period (1990-1999) characterised by a more fractured state and the deterioration of traditional strategies of legitimation due to fiscal constraints, with a more political role for the private sector. After King Hussein's death, the third period (2000-2010) saw the consolidation of King Abdullah II's rule through neopatrimonial politics as well as the inclusion of business elites into the policy-making process through formal and informal means.

IV.3.2.1 Jordan 1984-1989

State coherence

Jordan, like Morocco, is an example of a linchpin or non-dynastic monarchy (Herb 1999) where power is concentrated on the king, who rules in neopatrimonial fashion, rather than the royal family as in the Gulf monarchies. In contrast to Morocco, Jordan had only a short and often volatile history as a state, created by outside forces – the British –, of small size, and constantly under threat by a number of factors such as the proximity to Israel which sparked several wars, the pressure from Palestinian refugees

and an internal Palestinian-Jordanian divide as well as numerous attempted coups, assassinations and Bedouin uprisings. This necessitated a careful political balancing act, both towards external and internal forces. King Hussein bin Talal had become King of Jordan in 1952 and reigned until his death in 1999. His state was built on “a broad and varied regime coalition” (Lucas 2005: 21). The first pillar was the East Bank tribes, many of them Bedouin, who were recruited into central positions within the state. The second were minorities, particularly Christians, Circassians and Chechens, the third the state bureaucracy and the fourth the military. Finally, the fifth pillar was made up of a private sector which consisted chiefly of Palestinians who became refugees in 1948 or elites who arrived from the West Bank during Jordanian rule 1948-1967.

Jordan had been a constitutional monarchy since 1952, but the constitution granted the king a wide range of executive powers such as the rights to appoint and dismiss the government, appoint the upper house as well as call elections and dissolve the lower house. The king could veto laws but be superseded by a two-thirds majority of parliament. Judges were appointed directly by the king (Lucas 2005: 22f.). In practice, particularly until 1989, the king’s powers extended much further. After an attempted coup in 1957, King Hussein had declared martial law and banned all political parties. Parliamentary elections were still held until 1967 but suspended after the Arab-Israeli War, and the king ruled by decree. The office of the prime minister was seldom held longer than a few months, with frequent rotations. Zaid al-Rifai, one of several prime ministers from the al-Rifai family, served an unusually long term from 1985 until 1989 (after previous terms in the 1970s). Economic policy-making was overseen by the king’s brother, Crown Prince Hassan bin Talal, and implemented by technocrats, many of whom educated in the USA (Wils 2004: 142). While competencies were formally distributed across several ministries, “in reality it was only a small group of individuals drawn from the very top of each ministry that, in cooperation with the prime minister, Prince Hassan, and various cabinet members, set policy” (Carroll 2003: 43).

In dealing with societal demands, the state was highly repressive on the one hand, using the army and security services to quell dissent. In particular, Palestinian nationalism was suppressed (in 1970 and 1971, the Jordanian army had attacked and expelled PLO forces). On the other hand, the king employed neopatrimonial politics to ensure support, by allocating rents – for example, through royal favours (*makrama*) – and co-opting

opponents and societal groups (Brynen 1992: 72-83; Knowles 2011: 96). Jordan was a semi-rentier state which benefitted from a huge influx of foreign aid from oil-rich Gulf states as well as Western allies, particularly the United Kingdom and the USA, and migrant remittances transferred through public banks. Jordan had always had substantial income from foreign aid since its foundation, which it managed to attract thanks to its important geostrategic position. With rising oil prices and the knock-on effect on the entire region (“petrolism”, cf. Korany 1986), rent income increased substantially in the 1970s and 1980s and was estimated at 26.3 percent of state expenditure in 1985, even though it had already begun to decrease (Brynen 1992: 73).⁵² The state also derived revenue from the export of phosphates and potash. The availability of rent income sustained a rentier economy and enabled increased government spending, consumption and imports, which ran counter to the prior ISI strategy (Wils 2004: 144). The East Bank population in particular enjoyed state patronage as it formed the core regime support; three quarters worked in the public sector (Brynen 1992: 82). Foreign aid did not just contribute to budget stability, military expenditure and enabled rent allocation for political means, but directly funded “parallel institutions” which provided basic services to the population, such as USAID’s *Water, Resources, and Environment Office*. The *United Nations Relief and Works Agency for Palestine Refugees* (UNRWA) was intended to support Palestinian refugees but also contributed to East Bank infrastructure projects (Peters and Moore 2009: 267-274).

Following the outbreak of the first *intifada* in 1987, King Hussein began to disengage from the West Bank, and in 1988 legal and administrative links between Jordan and the West Bank were dissolved. This resulted in an economic downturn which put increasing pressure on budgets and exacerbated an already existing debt crisis while foreign aid and migrant remittances were decreasing. In 1989, Jordan accepted a stand-by credit from the IMF and had to implement economic reforms in return (Knowles 2011: 95f.; Peters and Moore 2009: 270-274; Brynen 1992: 83-93).

Despite a mounting budget crisis during the 1980s, the GoJ had put off reducing expenditure as “to do so would have been to withdraw the economic rewards that sustained Jordanian neo-patrimonialism” (Brynen 1992: 86). In April 1989, however, as mandated by the IMF, Jordan cut government spending and decreased subsidies, leading

⁵² Direct and indirect taxes amounted to 23.7 percent in 1987 (Brynen 1992: 73).

to a rise in consumer prices. Shortly after, riots erupted in several towns, and the intervention of the security forces caused several deaths. While the protesters did not directly attack the monarchy, they demanded the removal of Prime Minister Zaid al-Rifai, political reform and the reinstatement of the subsidies (Lucas 2005: 27).

As the protesters were from core bases of regime support in the south in particular, Hussein tried to regain legitimacy rather than increase repressive measures. He “responded to the 1989 riots with a controlled political liberalization, part of an effort to broaden the base of his regime’s support in the face of the weakening of its main pillar” (Herb 1999: 227). There were three complementary strategies (Lucas 2005: 27). The prime minister, al-Rifai, was dismissed and succeeded by a cousin of the king, General Zaid ibn Shaker. In an effort to rebuild a broad coalition, the king started discussions on a *National Charter* in May 1989 which were completed in 1991 (see below). Third, the king instigated a political opening, with parliamentary elections held in November 1989. Subsequently martial law was lifted, and parties were reintroduced in 1992.

In summary, the large share of rent income allowed the king to uphold regime legitimacy, control policy-making and satisfy societal demands without granting participation. Until 1989, clientelist networks and the different pillars of regime support were carefully balanced and no one group was powerful enough to challenge the dominance of the state. Hence, the state retained decisional autonomy, and state coherence was not negatively affected by segmented clientelism despite the strong rentier character of the state during this period. Even with the emerging budget crisis, the constitutional character of the monarchy initially enabled the king to put blame for economic hardships on policy failures of the prime minister and his government, as shown during the 1989 protests. Consequently, STACOH was “1” during this period, although the political opening and unavoidable economic reforms would soon weaken coherence (see chapter IV.3.2.2).

Business organisation

State and private sector were closely connected, which was reinforced by the allocation of rents. The state intervened in the market through price controls, licences, subsidies, trade barriers and similar measures, and businesspeople were co-opted by appointing them to SOE boards and preferential treatment (Knowles 2011: 96f.). With the increased

influx of rents, traditional business elites accumulated more wealth, but their importance declined as new businesspeople emerged, including returning migrants from the Gulf. This led to competition for rents and favours (Wils 2004: 143f.).

The main business associations were the Amman Chamber of Commerce (ACC), the oldest Jordanian chamber of commerce – founded in 1923 –, the umbrella body, the Federation of Jordanian Chambers of Commerce (FJCC), and the Amman Chamber of Industry (ACI) (Knowles 2011: 96f.; Jordan Chamber of Commerce 2018). In 1985, a new association, the Jordanian Businessmen Association (JBA), was created by big businessmen. It was a private association initially aimed at improving relations with Egyptian business and had high barriers to membership. This ensured that it “could portray itself as a private club for the business elite” (Moore 2004: 152). It included businessmen who had worked in government and became an important rival to the ACC. Knowles argues that “(i)ts establishment can be seen as a defensive measure by the rentier elite against the potential divisiveness of both the economic recession and the new export-oriented economic policy” (Knowles 2011: 97). There was often conflict between the associations. The ACC, which had once been “Transjordan’s most powerful organization” (Carroll 2003: 26) and representation of the traditional merchant elite, also lost members to the ACI, which was seen as more professional and less bureaucratic.

The business associations were, however, less important than personal connections and informal ties to state decision-makers (Wils 2004: 144f.). Brynen summarises the situation as follows: “collective political or economic action was associated with few incentives and significant disincentives (...) economic interests could generally best be pursued informally, through personal access and quiet lobbying of the King, members of the political elite, well-placed co-tribalists or extended family members, and patron-client linkages” (1992: 83). In cases where businesspeople criticised the state’s dominance in the economy, they could lose patronage such as import licenses (Carroll 2003: 38).

In summary, the private sector was dispersed and apolitical. Businesspeople sought close relations with the state in order to benefit from the available rents. While they were organised in associations, these did not have a role in policy-making and did not speak with one voice. BUSORG is thus coded “0” during this period.

Political capability

Even though the Jordanian state was coherent, state leaders had no political interest in effectively managing rents – not with regard to economic development, anyway, as they were managed entirely in order to uphold the legitimacy of the regime. The large proportion of state income from rents fuelled the public sector and made growth-enhancing economic policy unnecessary. The events towards the end of this period show that the king resisted changing politically motivated patterns of rent allocation while state income declined, until it became impossible for fiscal reasons, indicating the low political capability to implement transformative policies and reduce dependence on rent. Oliver Wils writes that the “government under Prime Minister Zayd al-Rifa‘i was mandated with the task of reforming Jordan’s economy, but proved incapable and perhaps unwilling to do so” (2004: 145).

This means that POLCAP was clearly “0” during this period.

Table 20: Coding for JOR 1984-1989

	CORR	STACOH	BUSORG	POLCAP
JOR 1984-1989	0.501	1	0	0

IV.3.2.2 Jordan 1990-1998

State coherence

As the GoJ failed to secure sufficient funding in foreign aid from the Gulf states and other backers during the course of the year 1989, further agreements with the IMF were necessary and led to a full-fledged SAP. This “left the government very little room for manoeuvre, severely limiting its ability to use economic inducements to buy off social pressures or manipulate the outcome of parliamentary elections as it had so often in the past” (Brynen 1992: 92). Political liberalisation was thus the price paid by the king to be able to continue the SAP and sustain his rule financially.

During the political opening of 1989/1990, “Hussein did not turn his back on his traditional supporters” (Herb 1999: 227). The parliamentary elections of November 1989 were the first since 1967. The representation of loyal supporters in the East Bank

was strengthened through amendments to the electoral law, while special provisions for Palestinian representation were scrapped. The geographical boundaries of constituencies resulted in an overrepresentation of rural areas and Bedouins, which made it easier for the king's clients to win seats, and marginalised Palestinians. Minority groups – Christians, Circassians and Chechens – were also overrepresented compared to their share of the population. The state did not use its prerogative to ban candidates, and while parties were still illegal until 1992, many candidates allied along political interests to form lists. This contributed to the success of the Muslim Brotherhood and almost enabled opposition groups to reach a majority (Lucas 2005: 27-30; Brynen 1992: 93f.).

The *National Charter* was prepared between 1989 and 1991. It was drafted by a royal committee which included members from different political factions, including Islamists, nationalists and leftists, but the majority of members were loyal to the regime. The charter was ratified after the end of the Gulf War in June 1991 in a unanimous decision of over 2,000 delegates. The main message of the charter was a confirmation of the Hashemite monarchy and veto power of the king over the government on the one hand, and the introduction of a multi-party system and space for political pluralism on the other. It also confirmed the disengagement from the West Bank whilst recognising the status of those of Palestinian origin as Jordanian citizens (Lucas 2008: 286-290).

Political parties were permitted in 1992 and martial law was lifted. A new, more liberal press law came into effect in 1993. Apart from political liberalisation, economic reform and structural adjustment was the main political theme throughout this period. Jordan agreed to austerity measures such as the phasing out of subsidies, financial reform, a reform of the tax system, trade liberalisation and privatisation. The first SAP agreed in 1989 imposed a relatively harsh conditionality on loans, while the follow-up SAP in 1992 was more lenient, which Wils (2004: 145-147) and Knowles (2011: 98-101) attribute to the progress of peace talks with Israel. Despite the pressure to implement reforms, the state sought to retain control over the patronage channels in the public sector and limit competition. From 1989 onwards, several sectors were opened to private sector investment. Privatisation of SOEs, however, only started towards the end of this period. Parts of the Jordan Cement Factory Company were sold in 1998 and 40 percent of the Jordan Telecommunications Company in 1999. The process involved many overlaps between political and administrative competencies, providing

opportunity for rent-seeking (Wils 2004: 149-153). Even where companies were privatised, the GoJ retained sufficient shares to veto decisions and particularly to avoid large-scale job-losses (Peters and Moore 2009: 277).

Tax reform was meant to reduce import duties and introduce a value-added tax (Wils 2004: 147-149). Members of the business elite and public-sector elites resisted the reform as it threatened to remove the rents granted by import licenses while raising the tax burden. After the first wave of import duties were lowered and consumption tax on selected goods levied, businesses and the ACI tried to influence the GoJ to reverse the policies. They remained in place but this showed that the private sector was more vocal in defending its interests. The introduction of a comprehensive sales tax was delayed by lobbying efforts from ACC and ACI, although their opinions and approaches differed, with ACC acting less effectively and more particularistic, while ACI organised collectively. It was still introduced, but the business elite benefitted from a reduction of maximum income tax rates and corporate tax in 1995. The same year, a new investment code was introduced which gave tax breaks for investment in certain sectors, which the business elite was able to take advantage of – showing that their interests were considered even though they were not able to participate in policy-making.

Despite the overall strategy of political liberalisation, the state retained the ability to revert to more repressive measures when deemed necessary, and it adopted more illiberal measures towards the end of the decade to deal with a growing Islamist opposition which benefitted from discontent over the peace process and economic reforms. In 1996, the reduction of subsidies following IMF demands triggered further riots which were curbed by the army. The state, however, also tried to uphold material legitimacy by replacing subsidies with welfare spending through the *National Assistance Fund*. It also managed to retain subsidies on some goods such as bread and petrol and sold relatively cheap merchandise in civil and military stores (Knowles 2011: 104f.)

In summary, this period represented a break with the past as the king consciously liberalised politically in order to appease societal groups as replacement for the strategies of material legitimation which were made more difficult by budgetary constraints and the necessity of structural adjustment. The externally mandated SAP reduced state autonomy over economic policy-making given the high dependency of the

Jordanian state on external aid, but the king managed to strike a “new liberal bargain” (Greenwood 2003), especially with the East Bank elites and business community. Political liberalisation allowed for the co-optation of clients into the political system and the distribution of patronage, particularly through electoral politics and direct appointment to the upper house, the Senate. Meanwhile, economic liberalisation ensured access to support from IFIs and financial stability while enabling parts of the private sector to benefit from new opportunities. The king remained the ultimate neopatrimonial arbiter, and if stability was threatened, withdrew liberties as needed.⁵³ At the same time, privatisation was delayed, job losses were minimised and welfare payments introduced in order to retain material legitimacy. This strategy was politically successful. Lucas writes that “since 1991 major challenges have not threatened the Jordanian state’s sovereignty” (2008: 291). It should be noted that compared to the other country cases, particularly Morocco, the established business elite was not as dependent on protectionist policies because the ISI phase had been cut short by petrolism, so there was no large group of industrialists opposed to liberalisation (Carroll 2003: 271). Hence, the state remained coherent overall, with some fracturing of policy-making to make allowances for external influence, parliamentary politics and segmented clientelism. STACOH is coded “0.67”.

Business organisation

During this period, thanks to a more open political environment businesspeople “felt more secure voicing their complaints” (Carroll 2003: 33) which had accumulated during the rentier era. The GoJ carried out the mandated economic reforms but continued to extend patronage to business elite clients where possible. Greenwood (2003: 251f.) argues that the reintroduction of electoral politics provided new opportunities for businesspeople to lobby the government and gain access to resources, with the additional advantage that “the Palace can now avoid being blamed directly if a certain social group fails to gain representation in Parliament”. The private sector was however seldom able to exert real influence on decision-making, as evidenced during the

⁵³ I disagree with Rex Brynen’s assessment that political liberalisation amounted to the start of a “democratic transition” (1992: 93). The developments until now certainly show that the authoritarian regime is still intact and liberalisation rather represented successful “authoritarian upgrading” (Heydemann 2007).

introduction of the sales tax. The ACC lost further in importance when Haider Murad was elected as its president in 1994, who was Palestinian, not part of the merchant elite and lacked political influence. This was due to the egalitarian voting system in the ACC. The ACI was more exclusive, had higher capacity and better member services. Its president Khaldoun Abu Hassan was given more media attention during the 1990s (Moore 2004: 150f.).

During and after the Gulf War of 1990/1991, thousands of Jordanians returned to Jordan, bringing money they had earned abroad. While many invested in small businesses, this primarily led to a construction boom as they built new homes.⁵⁴ Carroll (2003: 59f.) argues however that the potential for productive investment was not fulfilled as new businesses struggled to compete with existing businesspeople who had political connections.

While trade with Iraq suffered due to the Gulf War and subsequent sanctions, the peace process and conclusion of a peace treaty with Israel in 1994 led to a closer alignment with Israel and the West and opened new opportunities for trade and FDI (Carroll 2003: 57-68). These did not materialise immediately, and by the end of the decade many restrictions were still in place over trade with Israel and the West Bank and the payoffs for tourism and investment were smaller than hoped, which frustrated Jordanian businesses and contributed to their increasing criticism of the state.

A scandal soured relations between business and the state in 1998 (Carroll 2003: 61f.). The growth rates for the previous two years were revised down substantially, and businesspeople accused the government of having manipulated them on purpose and lost confidence in the abilities of the state. As a consequence, they started demanding a more active role (which they were given under Abdullah II, see below).

In summary, during this period there were more freedoms for businesspeople to express political opinions, and they had more avenues of accessing decision-makers. The ACI in particular had a political role in negotiating with the state and voiced business demands, but could not push them through, as the sales tax reform showed. Individual rent-seeking through clientelist ties still prevailed over collective action. The private sector

⁵⁴ The Gulf War is an exogenous variable which influences economic outcomes in Jordan disproportionately more than the other cases. This is however not a problem for the validity of the analysis below. While growth rates slumped initially and then increased sharply in 1992 with the influx of returning migrants and their savings, this effect is dissipated due to the length of the country period (1990-1998). In fact, Jordan only scores 0.05 for both GDPCAP1 and GDPCAP2 during this period.

did not have any influence on policy-making and many grievances towards the state remained, particularly towards the end of the decade, when the growth rate scandal came to light. Thus, BUSORG is coded as “0.33”.

Political capability

This period represented a break with the patterns of rent allocation of the previous period. The king successfully adjusted the sources of legitimacy of the regime, while ensuring budgetary stability through his foreign policy and compliance (for the most part) with the IFIs’ demands. This however meant that many of the rents created by the state had to be withdrawn for fiscal reasons and due to external pressure. At the same time, the state tried to uphold rent allocation for political purposes as far as possible. New ways for the transfer of rent were created by the reinvigoration of parliamentary politics and welfare programmes, and the king used the electoral law to ensure that important clients and social groups were treated preferentially.

Hence, the new organisation of power required the state to manage rents differently than before, but they were still managed for political purposes rather than economic development. There was now a common interest on the part of the state and the private sector to use the new opportunities granted by trade liberalisation and other measures for economic development, but the political interest in power maintenance overrode any attempts to manage rents effectively for developmental aims. This means that growth-promoting policies were implemented, but only if they did not clash with political interests such as the need to uphold material legitimacy toward rural areas and extend patronage to important clients. Grievances of private businesspeople were heard by the state but dealt with in an individualistic way according to their political importance; despite the establishment of an investment promotion agency, the *Jordan Investment Board*, the state did not implement a targeted industrial policy to enable them to take advantage of new export opportunities. Therefore, POLCAP was “0.33” during this period.

Table 21: Coding for JOR 1990-1998

	CORR	STACOH	BUSORG	POLCAP
JOR 1990-1998	0.311	0.67	0.33	0.33

IV.3.2.3 Jordan 1999-2010

State coherence

Abdullah II acceded to the throne in February 1999 after the death of King Hussein. As he was relatively inexperienced and not expected to succeed his father – the crown prince had been the king’s brother, Hassan – he needed to build a new support base. On the one hand, he retained some of his father’s loyal clients, such as the above-mentioned former prime minister Zaid al-Rifai. As speaker of the Senate, he remained part of the political elite. On the other hand, other influential political figures were replaced soon after Abdullah’s accession. A prominent case was Samih Battikhi, head of the *General Intelligence Department*, who was deemed too influential and dismissed in October 2000. He was subsequently sentenced to prison for fraud and embezzlement (Bank 2004: 162).

In addition to these informal, typically neopatrimonial politics of elite maintenance and rotation, Abdullah II established new, formal institutions, which were manned with loyal clients. Bank and Schlumberger (2004: 39) call this phenomenon “formalized informality”. The prime example is the *Economic Consultative Council* (ECC), created as an advisory body in December 1999 after consultation with more than 150 public and private sector representatives (ibid: 40-43). The ECC primarily included successful business elites and was directly chaired by the king. Its members were of a similar age to the king, mostly foreign-educated and export-oriented, and supported a neoliberal economic reform agenda. Other members represented established business and tribal elites. Economic policy-making was actively shaped by the ECC. The addition of this new body came at the expense of existing institutions such as the Senate. André Bank argues that “the ECC developed into something of a ‘parallel government’ controlled by Abdallah himself, thereby creating a counterbalance to the conventional institutions” (2004: 163). Members of the political elite who opposed the economic reform agenda

were soon removed, such as Abdelraouf al-Rawabdeh, who was prime minister from March 1999 until June 2000. He was replaced by Ali Abu Ragheb, a reform-oriented businessman (Schlumberger 2005: 143f.; Bank and Schlumberger 2004: 45).

Scott Greenwood concludes that Abdullah II adopted “a slightly revised version of the ‘new liberal bargain’ created by the late King Husayn” (2003: 263). The management of political elites represented a careful balancing act. On the one hand, Abdullah II included more business elites in his core elite who helped to push through economic reform, on the other he still relied on traditional support bases of the monarchy such as tribal elites from the south. Particularly with respect to internal security threats, the latter were of high importance (Bank and Schlumberger 2004: 45). Despite a relatively liberal political environment compared to many other authoritarian states, phases of liberalisation alternated with deliberalisation. Repression continued to be an important element for maintaining stability, and freedom of assembly and the press were curtailed after the start of the second *intifada* in 2000 (ibid: 53). Abdullah II also joined the “war on terror” after 9/11 and sided with the USA in the 2003 war with Iraq, although he also publicly criticised the invasion, trying not to anger public opinion. Jordan was now firmly allied with the West and reaped the benefits in terms of foreign aid.

As in the previous period, parliament was allowed to debate issues and voice opposition, but ultimately served to extend royal patronage. The parliament was weak as an institution and based on personalities rather than parties, with members elected to provide *wasta* and services to their constituents rather than implement a party manifesto (Carroll 2003: 271; Loewe et al. 2008: 269f.). The king ultimately held power as a neopatrimonial ruler, and while he included the ECC and political elites from the government and parliament in policy-making, he could also assert his power when necessary. He dissolved parliament twice during this period, once in 2001 and again in 2009, and ruled by decree (Bank 2010; Hamid and Freer 2011: 4). A revision of the electoral law in 2001 introduced more seats in the lower house, which benefitted tribal clients. Elections were postponed twice and were only held in 2003, likely because the king thought opposition parties would benefit from negative public opinion on foreign policy. In addition, the government introduced a campaign called “Jordan First” (*al-Urdun Awwal*) to re-focus on domestic issues (Greenwood 2003: 263-267). In parallel, the GoJ announced a “Socio-Economic Transformation Plan” aimed at job creation and

poverty reduction. The public spending made available as part of the plan – with support from the USA – primarily targeted rural areas, the regime’s main base of support.

In 2009, the king suspended parliament because it had been slow in supporting economic liberalisation (Bank 2010: 4-6). The new government led by Samir al-Rifai – Zaid al-Rifai’s son – implemented reforms during the suspension of parliament. The 2010 elections were held under an amended electoral law which benefitted established East Bank and tribal elites even more and facilitated political interference by creating “virtual” constituencies. The elections were boycotted by the Islamist opposition, and the resulting parliament was dominated by groups loyal to the regime.

While Abdullah II created a new body to shape economic policy, the state bureaucracy remained largely untouched by administrative reform. It was not meritocratic but an instrument to extend patronage to important clients and social groups (Schlumberger 2005: 146). In 1999, the GoJ planned to reform its budgeting procedures in consultation with Germany’s development agency GTZ and create a performance-based system. The lead consultant found that by 2009, “very little has been done toward the operational implementation of a performance-based budgeting in Jordan (...) Subsequent behaviour suggests that the political leadership never intended to loosen its grip on budget decision making” (Jreisat 2017: 6). Loewe et al. (2008: 268f.) identify a pervasiveness of *wasta* over merit in public sector recruitment as well as chronic overstaffing.

Privatisation was accelerated under Abdullah II, and large SOEs such as the *Arab Potash Company* and the *Jordan Phosphate Mines Company* were earmarked in 2001 (Schlumberger 2005: 148). The former was subsequently privatised in 2003, the latter in 2006. The banking sector was already relatively dispersed with a large number of active private banks, and access to credit not as tightly dominated by public banks as in Morocco or Egypt. However, politically well-connected business elites, current and former politicians were prevalent in the managing bodies of private banks, illustrating the increasing inter-connections between the business and political elite (Schlumberger 2005: 151f.).

In conclusion, the state was partly fractured by segmented clientelism and the political necessity to meet demands from different social groups. However, the king’s dual strategy of building a new coalition for pushing through economic reform, which

guaranteed fiscal stability, and upholding patronage for the traditional support base of the Hashemite monarchy, which guaranteed political stability and security, succeeded in keeping the state coherent overall. While the formal bureaucracy suffered from low capacity, the king established alternative channels for policy-making and state-business interaction. Societal forces, in particular the new business elites, did not penetrate decision-making and make the process ineffective, but they were included out of political calculation in a conscious effort to add a new pillar of support. Furthermore, the king retained the power to deliberalise and override parliamentary opposition if needed. Hence, STACOH is coded as “0.67”.⁵⁵

Business organisation

The accession of Abdullah II coincided with the emergence of a new generation of foreign-educated, outwardly oriented businesspeople, which facilitated collaboration between state and private sector. Business was encouraged “to negotiate directly with the king and his representatives, rather than through the parliament” (Carroll 2003: 273). This was formalised through the ECC. Carroll notes that as both state and business “are pursuing a common goal (though they differ over the details of how that goal is to be achieved)”, this makes it “difficult to discern when the state is mobilizing business or attempting to use business to meet its own needs and when business is using its new strength to influence the state” (2003: 275). She concludes that the state needed business because it did not succeed in managing the economic crisis alone, and that the pro-business reforms implemented showed that their demands had been met. Still, while business was granted a more important role within the coalition which supports the regime, the state was still ultimately in control.

Business associations became more professionalised, and Carroll argues that international donors, particularly USAID and the EU, contributed to the effectiveness of private sector representation in Jordan by funding capacity-building programmes (2003: 268-270). Associations played a role in encouraging business to engage with the state in order to solve Jordan’s economic crisis. However, as Loewe et al. (2008: 267) show, the

⁵⁵ It should be mentioned that at the very end of this period, there were signs that the strategy of regime legitimisation employed by King Abdullah II alienated large parts of society who had suffered from economic liberalisation, and that this had the potential to reduce state coherence. In 2010, there were regular protests against high costs of living and unemployment, and the Arab Spring reached Jordan in January 2011 (for a comprehensive discussion see Josua 2014).

bulk of businesses predominantly used *wasta* to interact with the state and navigate bureaucratic hurdles. They did not feel that business associations represented the private sector as a whole, but primarily served the interests of wealthy elites. In terms of political influence, the associations were not part of the inner circle around the king. Individual businesspeople had become part of the core elite, particularly through the ECC, but not due to successful collective action, rather on the merit of their personal role as loyal clients (see Bank and Schlumberger 2004: 44-49 for a systematic overview of politically relevant elites).

In summary, while business interests were better represented in King Abdullah II's regime than during the previous periods and there were avenues for business elites to participate in policy-making, these were organised top-down and mainly through patron-client relations. BUSORG is therefore coded as "0.33".

Political capability

Abdullah II has actively changed the organisation of power in Jordan by including members of the business elite with like-minded policy priorities in economic policy-making. Bank and Schlumberger (2004: 42) write that "what has begun in Jordan is a vast project of transformation for development, with the majority of the members of the most influential economic decisionmaking body having newly acceded to positions of direct political influence." The addition of this new elite resulted in increased compatibility between the state's rent management strategy and the organisation of power. Growth-oriented and transformative policies were generally in the interests of both state leaders and business elites, and there were no powerful veto groups in the private sector which blocked changes in rent creation and rent withdrawal. There were, however, conflicting political incentives for state leaders due to the varied bases of regime support and the continued importance of established regime clients which did not allow for effective rent management across all policy areas, and patron-client relations influenced the process of economic reform and thereby limited political capability as elites sought to capture rents. The state did not, for example, enforce performance criteria in return for supporting businesses (Carroll 2003: 280).

Despite the absence of a comprehensive industrial policy, a number of targeted policies were implemented thanks to the common interests of political and economic elites. The

rents created were, however, not always effectively managed. In 1998, a *Qualifying Industrial Zone* (QIZ) agreement had been struck with the USA, initiated by Jordanian businessman Omar Salah (Carroll 2003: 69-72). It provided for the tariff-free export of products from Jordan to the USA under certain conditions regarding the origin of inputs, particularly the inclusion of a minimum of inputs from Israel. In 2000, a free-trade agreement between Jordan and the USA followed, and Jordan joined the WTO. Pete Moore (2005) criticises that the transformative opportunities created by these agreements were smaller than claimed by the GoJ, and that they mainly provided incentives for established business elites to make profits: “Gaining permission to open a QIZ requires permission from several levels of the Jordanian government, as well as permission from Tel Aviv and Washington. Not surprisingly, business elites close to the monarchy and government officials have opened the first zones and have been the most successful.” A number of other free zones were created in the 2000s and provided tax and tariff breaks to attract private investment. The *Aqaba Special Economic Zone*, established in 2001 with the support of USAID, was a particularly ambitious project, located inside Aqaba and thus unusually containing developed urban areas (ASEZA 2018). It provides free access to the U.S. market under certain conditions, tax incentives and simplified procedures. Schlumberger (2005: 141f.) shows that both new business elites and established political elites benefitted from the project. Peters and Moore (2009: 278) argue that it enabled regime supporters from the East Bank merchant elite to partner with Gulf capital and reap large profits.

While foreign aid was still hugely important for fiscal stability, the role of taxes increased as compared to the rentier economy of the 1980s. In 2010, direct taxes made up 10.06 percent of state revenue and indirect taxes 33.42 percent (World Bank 2018a). Oliver Schlumberger affirms that “Jordan’s reforms indeed deserve to be labeled ‘structural’ since virtually all aspects or rather: sectors of the national economy have been targeted and fundamentally reshaped”, and that “especially since 1999, Jordan has been more determined in achieving a transition from the rentier economy than maybe any other Arab state” (2005: 136).

In conclusion, the organisation of power was partly compatible with effective rent management which enabled limited growth-enhancing and transformative industrial policies. POLCAP is coded “0.67”.

Table 22: Coding for JOR 1999-2010

	CORR	STACOH	BUSORG	POLCAP
JOR 1999-2010	0.501	0.67	0.33	0.67

IV.3.3 Tunisia

Tunisia has been divided into three country periods. The first already ends at the end of 1987, when President Habib Bourguiba was declared unfit for office on medical grounds and Prime Minister Zine El Abidine Ben Ali rose to the presidency in a bloodless *coup d'état*. This period is too short and volatile to be included in the analysis as its own case, especially given Bourguiba's illness and alleged erratic behaviour during the last years of his rule.

The second period starts in 1988, Ben Ali's first year as president, and ends in 1995. It was characterised by a programme of economic reform and structural adjustment as well as a coordinated industrial policy implemented by a coherent state which kept societal forces apolitical, co-opted or repressed. The third period from 1996 until 2010 was marked by state-led management of the consequences of economic liberalisation which increasingly built on clientelist relationships with a rising group of business elites, particularly Ben Ali's own extended family.

IV.3.3.1 Tunisia 1988-1995

State coherence

Zine El Abidine Ben Ali had just assumed office in November 1987. The first years of his presidency were marked by the need to consolidate his power, in a challenging situation with an economic crisis on the one hand and the growing threat of the Islamist *Mouvement de la Tendance Islamique* (MTI) led by Rached Ghannouchi (which became *Ennahdha* in 1989) on the other. Tunisia was a bureaucratic-authoritarian state dominated by the *Parti Socialiste Destourien*, which had been instrumental in procuring independence from France in 1956 (then called *Neo Destour*). Ben Ali first sought to

reassure potential opponents; he renamed the party to *Rassemblement Constitutionnel Démocratique* (RCD), limited the maximum presidential term to 15 years and negotiated a “national pact” with MTI and other political forces. Ben Ali’s RCD won the 1989 general elections by a landslide, with himself receiving 100 percent of the votes for president – unsurprising, given that he was the only candidate. Having thus gained popular confirmation, he employed similarly repressive tactics as Bourguiba before him and oppressed the Islamist as well as secular opposition (Erdle 2002: 50f.).

Ben Ali was a typical representative of a state elite in a bureaucratic-authoritarian or “bully praetorian” regime, whose “rule rests almost exclusively on the institutional power of the military/security/party apparatus” (Henry and Springborg 2001: 134) and who did not represent a distinct social group but had a military and intelligence background. While the core institutions of the regime remained intact in principle – a centralised state, a dominant party and a powerful presidency – there was, however, a change in the exercise of power compared to Bourguiba’s rule; Ben Ali complemented the formal power structures with informal ties to the core elite, and formal institutions like the government and party lost in importance. He succeeded in rotating and replacing the core political elites with his own clients. Decisions were taken in a small circle of state and party elites as well as confidantes without formal office, but from his extended family. State repression extended further than before and societal forces were only given very limited freedoms. Organised interests, in particular business associations and trade unions, were integrated into a state-led corporatist structure (Erdle 2002: 52-54).

In addition to recruiting new, loyal members to the core political elite, Ben Ali included unpolitical technocrats in the policy-making process in order to benefit from their technical expertise in implementing economic reform policies. Tunisia was a semi-rentier state; while it was a net oil and gas exporter until the early 2000s and had additional income from phosphate mining, foreign aid and (indirectly) migrant remittances, it was dependent on direct and indirect taxes, albeit not to the same extent as Morocco.⁵⁶ At the height of an economic and debt crisis, Tunisia had signed up to a World Bank loan in 1986 which led to trade liberalisation and subsequently a structural adjustment programme. In consequence, tariffs were lowered and import restrictions

⁵⁶ Direct taxes amounted to 21.97 percent of state revenue and indirect taxes to 13.78 percent (average 1988-1995; World Bank 2018a).

removed, although protection initially remained in place for certain sectors, such as the textile sector, particularly through quotas (Cammett 2007: 35f.). Tunisia became a member of GATT in 1990 and the WTO in 1995, committing to further trade liberalisation. As Tunisia's closest and biggest market was the European Union, there was a clear incentive to get easier access for Tunisia's exporters, and in 1995, Tunisia became the first country to sign an Association Agreement with the EU which established a free trade area (it entered into force in 1998, but provisions were partially implemented before).

A new investment code introduced in 1993 reduced restrictions to investment, and in 1995, the GoT announced an adjustment and upgrading programme, the *Programme de Mise à Niveau* (PMN), funded by the EU and IMF (for a detailed discussion, see Cassarino 1999; Erdle 2011: 31-35; Murphy 2006: 525-532). Within the PMN, decision-making was "highly centralised" (Erdle 2011: 32), and applications from firms were assessed by the ministry of industry through its *Bureau de mise à niveau*. The state aimed to enable businesses to benefit from the new opportunities while shielding them from the worst impact of trade liberalisation through provision of cheap credit and subsidies. Cassarino describes the state as having assumed a "pedagogical role" (Cassarino 1999: 64).

This means that in the case of Tunisia, state control over economic policy-making was not limited by the externally-mandated SAP as Ben Ali adopted its goals as his own and explicitly sought to build legitimacy through pursuit of developmental objectives, while at the same time shielding the uncompetitive parts of the economy and the population dependent on public sector jobs from the negative effects of economic reform.

In summary, the state was able to implement economic policies independent from societal influence thanks to the co-optation of organised business and labour on the one hand as well as the repression of opposition on the other. While Ben Ali relied on support from loyal clients, clientelism did not fragment decision-making; it was carefully balanced with the existing formal bases of support in the state, party and security services and no one group of clients was able to dominate economic policy-making. Moreover, the inclusion of technocratic elites provided the necessary technical expertise – as Emma Murphy emphasises, "Tunisia undoubtedly has a technically competent and internally coherent change management team" (2006: 535). Erdle also

points to the “very cohesive ruling elites whose leading representatives have achieved a substantial agreement on core policy issues”, and argues that “when implementing their policies, they can fall back on both a broadly meritocratic and professional civil service that is able to ‘deliver’, and a broadly inclusive and cohesive ruling party that is able to ‘follow up’” (2011: 1).

This means that STACOH was “1” during this period.

Business organisation

As remarked earlier, the private sector in Tunisia had been significantly less important than in the monarchies such as Morocco. Traditional landed elites had already lost influence and property to the French colonial administration. Because they were seen as collaborators, their importance diminished even further during the post-independence state-building process, and many were imprisoned and had their property confiscated. The merchant class was also kept small by colonial rule. The post-independence *Neo-Destour* was mainly composed of a professional middle class, with some links to the petit bourgeoisie (Cammett 2007: 62-65). Therefore, there were few large businesses after independence. The state-led ISI development strategy adopted in the 1960s, despite its socialist image, did however support the development of a domestic private sector under state protection, producing for a local market. Many of the new private companies were set up by managers who had previously worked in the public sector (Cammett 2007: 65-72).

This was typical of many developing countries at the time, but in 1970 the ISI strategy was abandoned in favour of a policy of economic opening (*infitah*) and export promotion. Significant tariffs and other protectionist measures remained in place, but the state encouraged private investment and provided fiscal incentives for exporters. Capital accumulation during this period enabled the establishment of a number of large businesses, however they mostly focused on individual sectors; there was no history of conglomerates similar to the Moroccan *groupes* and cross-sectoral holding companies were effectively prohibited until 1988. Only after several years of economic liberalisation did business empires spanning multiple sectors emerge in the 1990s (Cammett 2007: 72-79, 137f.).

In addition, despite economic reform, the private sector did not accumulate substantial power through capital; the financial sector was dominated by four public sector banks (partly privately-owned, but at less than 50 percent). Even with a high proportion of non-performing loans, the state ensured that the public banks remained in business, while barriers to entry such as capital requirements discouraged the establishment of private banks (Henry 1996: 160-211).

In consequence, during the first period of Ben Ali's rule, the private sector was composed of mainly small and medium enterprises, with a parallel structure, where some produced for the (small) domestic market under state protection and others for export with the help of the state. The longstanding dominance of the state both in protecting and nurturing the private sector, the lack of power through capital and cross-sectoral conglomerates meant that business was dispersed. Even individual lobbying of policymakers was rare, and businesspeople were on the whole apolitical. While it was common to move from the public sector to private business, hardly any businesspeople participated in party politics or assumed political office (Cammatt 2007: 110-112; Bellin 2002: 57-60).

The private sector was organised in business associations; however, these were not independent from the state but rather integrated into a state-led corporatist system.⁵⁷ The main business association, the *Union Tunisienne de l'industrie, du commerce et de l'artisanat* (UTICA), represented traditional industries such as textile. Businesspeople complained that was apathic and did not serve its members (Bellin 2002: 62f.). Hédi Djilani, who presided over the association from 1988 until 2011, was related to Ben Ali through his daughters' marriage and a member of the RCD central committee. In comparison with UTICA, the *Institut Arabe des Chefs d'Entreprises* (IACE), which was a newer business association founded in 1984, was more autonomous, particularly because it charged high membership fees and was not dependent on public funding. However, the state was ready to enforce red lines when necessary. In 1993, IACE chairman Mansour Moalla, publicly criticised the government's for being too obedient to IFIs and committed to structural adjustment. The government retaliated by

⁵⁷ The same principle applied to labour unions; Ben Ali sought to co-opt them during the process of economic reform rather than suppress resistance: "Ben Ali's regime actually courted them with regular wage increases and targeted social support programmes throughout the period of adjustment. The working classes were empowered but less militant, seeking to defend workers' interests by cooperation rather than confrontation" (Murphy 2006: 524).

withdrawing state support from the bank he managed, and he had to resign from his post as well as the presidency of the IACE (Bellin 2002: 68f.; Cassarino 2004: 226).

Therefore, the private sector was growing but dispersed, with business associations given a political role but not any real power to influence policy-making. Melani Cammett (2007: 145f.) summarises as follows:

“the dispersion of capital as well as the state’s relatively equal treatment of factions of the industrial class with different trade orientations undercut the impulse to organize collectively in response to trade reform. A pattern of state-sponsored industrialization, which grew out of the postindependence state-building project, ensured that industrialists did not develop the organizational skills or desire to represent their own interests.”

Hence, BUSORG is coded as “0.33”.

Political capability

Despite economic liberalisation during much of Ben Ali’s rule, the state still upheld rents through protection of domestic industries and subsidies. There were, however, clear efforts to manage these rents in order to encourage companies to become more competitive and export to a European market. The undisputed authority of the state and the technocratic elites over economic policy-making and the successful management of societal and business interests through co-optation enabled the state to implement a rent management strategy without a threat to the organisation of power. The relatively early introduction of trade liberalisation and the parallel emphasis on production for the domestic market as well as export markets meant that the Tunisian private sector was not dominated by those business elites who benefitted from protection, but that there was a sizeable group of businesses which were export-oriented. Therefore, the state did not face much opposition to further trade liberalisation in the 1990s, and the political leadership was able to introduce policies to encourage companies to upgrade and become competitive. On the one hand, state protection was phased out by liberalising trade, and on the other, the state offered financial incentives to export. For example, the New Investment Incentives Code introduced in 1993 granted generous tax exemptions to profits from export (Cassarino 2004: 226f.), and the PMN provided access to training and resources. Cassarino argues that the PMN “has established a hierarchical system that has gradually set up the government and its leadership as paternalistic ‘educators’” (2004: 232).

It is fitting with this paternalistic attitude that despite the clear strategy to create a competitive private sector, Ben Ali did not risk a significant reduction of the importance of the public sector and austerity measures. As in other bureaucratic-authoritarian republics, economic liberalisation and the increased reliance on neopatrimonial patterns of rule had led to a transition from populism to post-populism (Hinnebusch 1985). The legacy of the populist “social contract” between authoritarian state and society, however, meant that one of the pillars of regime legitimacy was still the provision of jobs, subsidies and public services. Emma Murphy speaks of a “general feel-good factor that has accompanied economic reform for large sections of the population, and which has provided the engine of legitimacy that has driven the liberalization process” (1997: 121). Steffen Erdle argues that “(a)bsolute priority is given to maintaining social peace and public order, even at the cost of reduced economic growth and higher opportunity costs” (2011: 43). Also, due to the need to uphold state protection for those parts of the private sector which were not competitive, the state still created rents through tariffs, quotas and other measures, and the associated customs and other administrative procedures caused negative rent outcomes (Cassarino 2004: 230).

In terms of privatisation, while the number of official SOEs did drop, the state still retained a sizeable portion of many former SOEs. Despite the structural adjustment agenda, the public sector was still of a substantial size, amounting to 40 percent of total added value in 1996 (Murphy 2006: 523). The definition adopted in 1989 specified that an SOE was a company where state ownership was 50 percent or higher. Even after privatisation, however, many “private” firms still had partial state ownership, and this enabled the state to interfere in management and veto certain decisions, such as a merger or liquidation (Cassarino 2004: 229f.). Law 95-34 passed in 1995 enabled a commission under the ministry of industry to support private companies in danger of bankruptcy and reduced the rights of creditors (Cassarino 1999: 67f.). This allowed the state to soften the social impact of economic reform by preventing large-scale job losses.

In summary, the organisation of power was generally compatible with effective rent management due to the absence of powerful clients who could have interfered in policy-making and the success of co-optation and repression. The state implemented transformative industrial policies through the PMN. However, in order to uphold the

legitimacy of the regime, Ben Ali had to limit the social impact of economic liberalisation which prevented successful rent management in the large public sector and those parts of the private sector which were not ready to export. This means that POLCAP is scored “0.67” during this period.

Table 23: Coding for TUN 1988-1995

	CORR	STACOH	BUSORG	POLCAP
TUN 1988-1995	0.501	1	0.33	0.67

IV.3.3.2 Tunisia 1996-2010

State coherence

During this period, an increasing number of business elites was integrated into Ben Ali’s clientelist network. As a result of the expansion of private sector opportunities through trade liberalisation and state support during the previous period, capital accumulation accelerated and led to the formation of cross-sectoral conglomerates. In the context of the PMN, the state now actively encouraged capital concentration and the formation of conglomerates, contrary to the end of 1980s (Cassarino 2004: 232f.). Many of these were managed by individuals close to the Ben Ali family, and their importance rose at the expense of state and party elites. In particular, Ben Ali’s second wife Leïla Trabelsi and her Trabelsi relations became the centre of public attention, especially towards the end of the 2000s. Among them were Imed Trabelsi, Leïla’s nephew and major player in the construction sector, her brother and airline magnate Belhassen Trabelsi as well as Sakher El Materi, Ben Ali’s son-in-law, the owner of *Princesse El Materi Holding*, one of the largest conglomerates in Tunisia. The extended family also included Ben Ali’s first wife’s Naïma Kefi’s relations who owned large businesses. The 2010/2011 WikiLeaks publication of cables from the U.S. embassy detailed the wealth amassed by the Ben Ali and Trabelsi families as well as allegations of fraud and embezzlement and was seen by some observers as a factor in the outbreak of the Arab Spring shortly

thereafter.⁵⁸ After his fall, Ben Ali himself, Leïla Ben Ali and Sakher El Materi were sentenced to long prison terms for crimes such as theft and the illegal acquisition of real estate.

The inclusion of wealthy businesspeople in Ben Ali's clientelist network showed in the public acknowledgment of their importance. He introduced a National Enterprise Day in 1996 to honour Tunisian entrepreneurs. Cassarino argues that they were thus publicly "ennobled" and raised above normal citizens (1999: 71). However, they had to respect political red lines, and some prominent businesspeople were first accused of crimes such as tax evasion and then forgiven to reign them in (ibid; Erdle 2002: 58). Hence, "their public criticisms have never gone beyond the limits tolerated by the government", and "the transition to economic liberalization is not the result of action or pressure by the entrepreneurs" (Cassarino 1999: 73).

In addition, despite the increased wealth and public acknowledgement of big business elites, they were not promoted to central decision-making positions. Some entered parliament, such as Sakher El Materi in 2009, but core ministerial positions remained largely outside their scope (contrary to Egypt during this time, see below). Emma Murphy (2006: 535) attests that "a number of leading families (including those of the President and his wife) have become clearly visible 'crony capitalists'. There is no evidence that this behaviour has actually penetrated the PMN itself." Rather, the advent of business elites remained state-led and served Ben Ali's interests. Cassarino (2004: 236) argues that "the government and the presidential leadership have been aware of how the inclusion of some prominent figures of Tunisian entrepreneurship into the political realm could contribute to securing the political survival of the regime as well as to resilient state control of the economy and society." On the part of the business elites, there seems to have been more interest in self-enrichment rather than political agency. Hannes Baumann (2017: 472) contends that "(t)he Ben Ali and Trabelsi clans had already started to enrich themselves in the 1990s but became more predatory from 1996 onwards."

⁵⁸ See, for example, the *Foreign policy* article by Dickinson (2011). The U.S. embassy cables were published by Aftenposten (2011), among others. If one accepts that the public outcry over the corruption of new business elites played a major role in the removal of the Ben Ali regime, one could of course argue that regime stability only appeared to be high, but subsequent events showed that it was not. I accept this argument, but this does not mean that state coherence was low as well. As outlined in chapter IV.2.2, STACOH is not the same as regime stability and focuses on whether leaders have full control over the state apparatus and policy-making process.

The progress of economic liberalisation and privatisation did not diminish the coherence of the state, which managed to steer the reform process centrally, with the help of a technocratic elite, and without opposition from co-opted societal forces. Dissent from societal groups, including workers, was repressed and public protests were quelled by the security forces, such as in Gafsa in 2008. As Cassarino notes, “the government has been successful in legitimizing its own pattern of development management, for there has been a sort of interdependence of actors’ roles (...) which has been imposed by the presidential leadership and the regime since the mid-1990s without any kind of public contest or dissent” (2004: 233).

In summary, on the one hand, the overlap between the public policy interests and private business interests in the person of the ruler and his family can be seen as a fracturing of the state. This goes back to the lack of distinction between the public and the private domain in neopatrimonial states. The office and the person of the ruler cannot be separated, and now his private business interests were so substantial that they had the potential to interfere with state policy. This is not the same as political capability, which remained high (see below), but the coherence of the state was impacted by the influence of Ben Ali’s family’s and his clients’ interests. On the other hand, however, Ben Ali managed to carefully balance the informal co-optation of new business elites with the formal roles of traditional institutions such as the party as well as technocratic elites in government. Economic policy-making did not fracture during this period in the sense that it was penetrated by societal forces. Business elites had to adhere to red lines and even Ben Ali’s family members did not directly influence policy-making but focused on self-enrichment. Therefore, STACOH is coded “0.67”.

Business organisation

Business associations had been successfully integrated into a system of state corporatism in the previous period, and there was no significant change in this respect. The rise of business elites did not lead to a higher degree of organisation, but they remained individuals seeking to acquire wealth through informal political connections. Cassarino argues that “(t)he structural reform program has allowed certain entrepreneurs to come to the fore, but in doing so has strengthened their connection with the state,

through the distribution of financial resources, ‘titles of nobility’ and media visibility” (1999: 71).

The trend of capital concentration and conglomeration meant, however, that there was now a small number of businesspeople who owned significant parts of the economy. According to a 2014 World Bank report, 662 firms belonged to the extended Ben Ali family and were confiscated after the 2011 protests. In total, they represented 5 percent of private sector output and 16 percent of private sector profits. In those sectors which were especially affected by remaining entry barriers, such as construction, transport and telecommunications, they even represented 55 percent of net profits despite numbering only 0.9 percent of all firms (Rijkers et al. 2014: 3-6).

This shows that the business holdings of the Ben Ali and Trabelsi families alone had reached a size where they could not be ignored from a “power through capital” perspective, not even counting the holdings of other business elites. However, it is important to note that much of this capital did not really represent a distinct entity from the state, given that the extended Ben Ali family and Ben Ali himself owned such a large part of it. Ben Ali’s and his wife’s personal wealth has been estimated at USD 17 billion (Byrne 2012).

The Tunisian economy was thus not dominated by large conglomerates which were distinct from the state and could have challenged it, but the conglomerates were to a large part owned by the ruler and his relations. There were of course other business elites outside Ben Ali’s family at the head of conglomerates, but given their short history, their economic significance was not on the same scale as in the case of the traditional Fassi elites in Morocco until 1999. Hence, BUSORG is coded “0.33” like in the previous period.

Political capability

Ben Ali continued to draw on the expertise of technocrats such as Mohamed Ghannouchi, who served as prime minister from 1999 until 2011. Industrial policy was still made centrally. The state actively tried to increase the number of firms benefitting from upgrading programmes. The PMN, which businesses could initially apply for voluntarily, was reorganised in 1997, with applications submitted by a state agency on behalf of private businesses (Cassarino 1999: 66). The programme implementation

“picked up speed” towards the end of the 2000s, with an emphasis on the manufacturing sector, where 2925 applications had been approved by May 2009 (Erdle 2011: 33).

The organisation of power had changed as a result of the integration of new business elites as important clients and the expansion of the ruler’s and his family’s own business interests. The strategy of regime legitimisation had narrowed in parallel with economic liberalisation, with material legitimisation through the public sector having lost in importance. The new business elites had an interest in export-oriented, growth-enhancing policies and upgrading programmes (rents for learning), and the political consideration of power maintenance was thus compatible with the rent management strategy. Ben Ali’s and his family’s business interests suggest a parallel to the role of the Moroccan king with regard to the overlap between public and private domains in a neopatrimonial state. The ruler had substantial “private” business interests which also benefitted from growth-enhancing policies aimed at the private sector.

There were however barriers to rent management with respect to the enforcement of standards and rent reallocation such as the removal of state protection in some areas. It would not have been in Ben Ali’s interest to manage all rents effectively which he and his family were able to reap in the private sector. This is reflected in the character of economic reform, which still allowed for restrictions to competition benefitting their business interests. Erdle (2011: 2) shows that “the legal-institutional framework is still full of politically motivated loop-holes, such as special clauses and waivers for politically important pressure groups and clients”. Barriers of entry remained which enabled Ben Ali and his cronies to dominate a number of sectors, for example because the investment code required government authorisation for the establishment of new businesses and FDI was still subject to restrictions (Rijkers et al. 2014: 2). There was still a dual economy with restricted and protected “onshore” industry as well as “offshore” industry open to FDI (World Bank 2014).

In summary, the organisation of power was largely compatible with effective rent management and the implementation of transformative industrial policy continued in many areas, but some rents were still protected without an effective enforcement of performance standards, meaning that learning rents could easily become monopoly rents. Thus, despite changes to the organisation of power, POLCAP is still coded “0.67” overall.

Table 24: Coding for TUN 1996-2010

	CORR	STACOH	BUSORG	POLCAP
TUN 1996-2010	0.651	0.67	0.33	0.67

IV.3.4 Egypt⁵⁹

Three country periods have been identified for Egypt. The first, from 1984 until 1990, was characterised by a reliance on material legitimation driven by rent income as well as the emergence of a group of *crony capitalists* who benefited from state patronage. The economic crisis at the end of this period necessitated a structural adjustment programme in 1991, which started the second period, lasting until 2003. It saw an incoherent implementation of economic reform due to intra-elite conflict and the desire of the state to shield *crony capitalists* from competition and continue material legitimation through the public sector. With the inauguration of a new government of businessmen and technocrats in 2004, a third phase began. It was characterised by direct influence of business elites over economic policy-making and the introduction of growth-oriented policies.

IV.3.4.1 Egypt 1984-1990

State coherence

President Hosni Mubarak had risen to power in 1981 after the assassination of his predecessor, Anwar el-Sadat. Mubarak had a military background and served as vice-president under Sadat. He inherited a typical neopatrimonial state, in many ways the neopatrimonial ideal type (cf. Pawelka 1985). Mubarak arbitrated between different clients and social groups, but the ultimate decision-making power remained with himself. The main pillars of the state were the military and security forces on the one hand and the ruling National Democratic Party (NDP) on the other. Ministers were often

⁵⁹ This chapter draws on previously published work (Matzke 2011, 2013), the author's unpublished M.A. dissertation (Matzke 2008) and an unpublished paper (Matzke 2005).

military officers. The military also had its own economic interests. It owned large amounts of land, often on the coast, which could be sold for tourism development, and it also owned its own companies for construction, manufacturing and in other sectors, some as joint ventures with public and private enterprises (Henry and Springborg 2001: 150-152).

In contrast to Sadat, Mubarak opened up the political system, particularly through electoral politics, which enabled him to co-opt parts of the opposition and made dissent visible and easier to manage, while isolating radical opposition. At the same time, particularly the Islamist opposition was brutally repressed, similar to the last years of Sadat's rule (who had been assassinated by an Islamist extremist). The first parliamentary elections under Mubarak in 1984 showed the mixture of repression and political liberalisation. While the elections were not free or fair, oppositional parties were allowed to campaign openly in the media. The *New Wafd Party*, a liberal middle-class party which had been prohibited under Sadat, won 58 seats – the NDP won 390 –, resulting, at least superficially, in a two-party system (Pawelka 1985: 84-90).

The Egyptian economy had been shaped by the statist ISI strategy under Gamal Abdel Nasser and a period of economic opening (*infitah*) under Sadat. Raymond Hinnebusch argues that “Mubarak inherited a hybrid system which combined the contradictory legacies of Nasser and Sadat” (1993: 159f.). Nasser had established a populist regime which rested on a kind of social contract, including a bloated state apparatus with guaranteed jobs for university graduates, food and energy subsidies, state corporatist structures linking professional groups to the state, and a single-party system. Regime legitimacy under Sadat had a narrower base and relied more on a rising middle class rather than workers and peasants. Economic liberalisation enabled the establishment of a new group of private investors who benefited from state patronage, so-called *crony capitalists* (Hinnebusch 1985; Henry and Springborg 2001: 152-155).

The state bureaucracy continued to be influenced by the Nasserist legacy and covered every aspect of political and economic life, and while centralised, extended into remote regions and villages. It was notoriously overstuffed and inefficient, employing 2.1 million people, not counting the military, public and education sectors, at the beginning of the 1980s (Pawelka 1985: 54). Fiscal stability was essential to maintaining this gigantic patronage instrument. Like the other countries examined here, Egypt was

a semi-rentier state. It derived a large part of its income from energy exports, foreign aid, the Suez Canal, workers' remittances and tourism; the pyramids and other unique sights can in fact be seen as a source of rent (Richter and Steiner 2008). Foreign aid amounted to about 6.2 billion USD annually after 1973, of which half came from Middle Eastern oil-rich countries and the other half from the West, particularly the USA, which had been made possible by Sadat's foreign policy towards the West and Israel (Pawelka 1985: 328-333). Direct taxes amounted to 31.53 percent of state revenue and indirect taxes to 11.95 percent (average 1984-1990; World Bank 2018a). This means that while the state could use rent income to allocate resources according to criteria of political power maintenance, for example to fund the state apparatus and public sector, it also depended on tax income.

The fall in oil prices during the 1980s reduced state income drastically as a result of smaller profits from oil export, a decrease in tax revenue from multinational oil firms and in foreign aid from the gulf states. It also approximately halved transfers from migrant workers in the gulf. The GoE tried to alleviate the resulting economic and budget crisis by increasing the money in circulation and taking out new loans. Egypt entered into a stand-by agreement with the IMF in 1987. It introduced some reforms such as a limited reduction of subsidies and lowering of tariffs, but the agreement was subsequently suspended because Egypt did not comply with the mandated reforms (Kienle 2001: 145f.; Pawelka 1993: 132).

The state managed to retain decisional autonomy as it "muddled through", borrowing the term Richter and Steiner (2008) use to describe tourism development during this period. By essentially printing money and increased borrowing, it aimed to uphold a strategy of regime legitimization which required the ability to allocate rents to state and public-sector employees on the one hand and *crony capitalists* on the other. By 1990, however, the economic situation had become untenable and Egypt was forced to negotiate with the World Bank and the IMF. Fortunately, as Egypt joined the coalition against Saddam Hussein in the 1990/1991 Gulf War, it received substantial debt relief of 25 billion USD. Agreements with the World Bank and IMF were subsequently concluded in 1991, which mandated a comprehensive structural adjustment programme. As the state was partly fractured due to budgetary constraints, an inefficient bureaucracy and the pervasiveness of patron-client relations as well as the need to co-opt political

opposition, but retained overall autonomy over economic policy-making, STACOH is coded “0.67”.

Business organisation

The *crony capitalists* who managed to grow their businesses under Sadat and Mubarak were dependent on the state and linked to political elites through individualised patron-client relations. The public sector was still dominant, so they did not possess significant power through capital. Private sector interest representation in Egypt had evolved as a “hybrid” between corporatist and pluralist elements, in particular state-controlled chambers and voluntary associations (Bianchi 1989). The *Federation of Egyptian Industry* (FEI) and the chambers of commerce were integrated into corporatist structures. They could be consulted but did not have any influence over policy-making. The president of the FEI and one third of board members were appointed by the minister of industry, who could also veto decisions. 20 of the 25 chambers were run by NDP members (El Tarouty 2015: 50).

During this period, the private sector did attempt to establish “‘privatising’ inroads within the political and bureaucratic apparatus of the state” (Ayubi 1995: 409). The business associations were allowed more freedom, although they were also controlled by the state through the ministry of social affairs (El Tarouty 2015: 50). The oldest business association is the *Egyptian Businessmen’s Association* (EBA), ratified in 1979. A number of new associations formed in the 1980s, such as the *Alexandria Business Association*. The state granted business associations some political freedom in exchange for a “moderation of certain economic demands” and loyalty to the NDP (Ayubi 1995: 409). A 1986 decree created a joint council between the EBA and the government, but meetings only took place a few times annually (Kassem 2002: 71). While this represented a change from the stronger state-led character of corporatism during earlier decades, it did not mean that associations were independent from the state and able to organise collective action. The increased freedom of association rather has to be seen in the context of a general strategy of controlled political liberalisation under post-populist conditions as discussed above regarding electoral politics. Ayubi asserts that “in the expansionary phase, the state used to take political rights away in exchange for granting socio-economic ones; in the ‘contractory’ phase the state concedes political rights for

groups and individuals in return for being relieved from some of its financial and welfarist commitments” (1995: 410).

Therefore, while business was becoming better organised and enjoyed limited freedoms, it was dominated by the state and not able to effectively represent collective interests. BUSORG is coded “0.33”.

Political capability

The state did not have the political capability to manage rents effectively during this period. The legitimization of the regime relied on the continued allocation of rents through the state apparatus and public sector as well as the patronage of *crony capitalists*, who were dependent on cheap credit and state protection. The postponement of structural adjustment shows that Mubarak was trying to preserve the existing pattern of rent creation for as long as possible and resist economic transformation.

While the private sector did grow faster than the public sector during this period, the latter still dominated the economy. Iliya Harik (1998: 20) writes that “(r)ather than withdraw, the government continued to weigh heavily on the economy and the productive process in general. The private sector remained barred from large areas of industrial activities.” Industry contributed less to GDP in 1988 than it had in 1960 (ibid: 21). The inefficient public sector as well as the military business interests relied on state protection, which was granted without enforcement of performance standards. In 1986 and 1987, 78 of 116 SOEs were making losses (Harik 1998: 43). The state did not have an incentive to enforce performance standards as it would have endangered rent allocation for material legitimization. In addition, the inefficient bureaucracy lacked capacity to implement a coordinated industrial policy, even if it had been in the ruling elite’s interest. Therefore, POLCAP was “0”.

Table 25: Coding for EGY 1984-1990

	CORR	STACOH	BUSORG	POLCAP
<i>EGY 1984-1990</i>	<i>0.731</i>	<i>0.67</i>	<i>0.33</i>	<i>0</i>

IV.3.4.2 Egypt 1991-2003

State coherence

Raymond Hinnebusch (1993: 160) writes that “(t)hroughout the 1980s Mubarak seemed content to balance the legacies of Nasser and Sadat and reform initiatives remained caught between the contrary interests generated by them. (...) In the 1990s, however, it appears Sadat’s unfinished de-Nasserisation of Egypt will be finished and his unfinished *infatih* carried to its logical end.” This was quite an optimistic prognosis, and the progress of economic reform and structural adjustment did not proceed as smoothly during the 1990s. It was characterised by intra-elite struggles and a patchy and inconsistent implementation of many reform projects.

The period starts in 1991 as this represents the beginning of the formal SAP with consequences for state coherence, despite the earlier introduction of a new investment law in 1989 (following Albrecht et al. 1998: 143, fn. 14).⁶⁰ Egypt received loans worth over 900 million USD, but the more important benefit was a subsequent three-stage plan for the relief of 10 billion USD debt by the *Paris Club* of creditors, with 3 billion USD being struck off immediately (ibid: 141). While this gave the GoE breathing space in terms of the fiscal crisis, the mandated reforms caused a fracturing of decision-making. As expected by the literature on structural adjustment, distributive conflicts broke out over the sequencing and depth of the reform process (cf. Haggard and Kaufman 1992).

Albrecht et al. (1998: 142-149; cf. Weiss and Wurzel 1998) identify three phases of structural adjustment during this time, the initial reform drive 1991-1993, stagnation 1994/1995, and accelerated reforms from 1996 onwards. The main elements of the first phase were fiscal austerity and macro-economic stabilisation. Subsidies on food and energy were reduced, but not completely removed. A value-added tax was introduced in 1991. The multiple exchange rate system was reformed and in 1992 replaced by a floating rate, albeit with continued interest rate intervention which kept the pound overvalued. Tariffs were gradually reduced, although they remained relatively high. The

⁶⁰ It should also be noted that the agrarian sector was the first to be liberalised, starting at the end of the 1980s under Yusuf Waly, member of a traditional landholding family who was then minister of agriculture (cf. Bush 1999; 2002).

Cairo and Alexandria stock exchanges were reinvigorated and intended for the privatisation of SOEs.

From the beginning, there was conflict between state elites, even among cabinet members. Privatisation is where the most conflict occurred. The minister of industry and minister of planning were against privatisation (Weiss and Wurzel 1998: 42f.). A total of 314 SOEs were earmarked for privatisation by Law 203/1991. Privatisation was, however, implemented very slowly, and only 24 firms were privatised by 1995. The firms were organised in holdings, and some managers sought to delay the process in collusion with state officials in order to safeguard their position or even to “run down healthy companies in order to make them unattractive for buyers” (Wurzel 2004: 117). Wurzel (2004: 107) cites the example of the *Metallurgical Industries Holding Company*, where “a network composed of administrators from a number of ministries and high-ranking SOE managers, among others, for years successfully prevented a reorganization”. In other cases, particularly when companies were profit-making, public-sector managers colluded with *crony capitalists* to sell them under value. During this conflict, many SOE managers were dismissed by Public Sector Minister Atif Ebeid (ibid: 119). Public banks were not privatised until the next period, and the “Big Four” public banks, the *Banque du Caire*, *Banque Misr*, *Bank of Alexandria* and the *National Bank of Egypt*, continued to dominate the banking sector, along with the shares they held in other, private and joint-venture banks (Schlumberger 2005: 114-122). Military-owned companies were also not affected by privatisation.

From 1996 onwards, there was less resistance from the state bureaucracy and public-sector managers as the reform-oriented faction of the political elite gained the upper hand. President Mubarak installed a new cabinet in 1996 which accelerated reforms and, in some cases, took over direct control over the privatisation of SOEs, having fired their managers (Albrecht et al. 1998: 147).

As a result, the GoE had implemented a number of adjustment policies by the end of this period but resisted a comprehensive reduction of subsidies and privatisation. Significant regulation of the private sector remained, with high barriers to the creation of new businesses and inefficient bureaucratic processes (Roll 2010b: 116f.). The external mandate limited state coherence, but the state managed to alleviate the pressure from IFIs by methods such as the distortion of case studies and issuing public

announcements of impending privatisations, particularly before new rounds of negotiations, which were thereafter postponed (Wurzel 2000: 240ff.). Henry and Springborg (2001: 140) contend that “if the prize pupil’s extra points for political good behaviour were not added into its marks, its grades for structural adjustment, economic growth, and integration into the global economy would not be high ones.” Towards the end of the 1990s, Egypt began to suffer from macro-economic instability and a budget crisis yet again, which Henry and Springborg (2001: 145) attribute to the “consequences of Egypt’s stalled liberalization”. This increased the pressures for increased reform which facilitated the advent of a new guard of neoliberal elites (see below).

Economic liberalisation was accompanied by political deliberalisation for most of this period (Kienle 2001). Protests and strikes against lay-offs in the public sector were suppressed by violent means and state influence over labour unions. The freedom of the press was curtailed and in 1997, about 40 periodicals were banned (ibid: 153-157). Particularly the Muslim Brotherhood and other Islamist groups were being repressed during the mid-1990s, but also professional syndicates (Henry and Springborg 2001: 146). The 1995 parliamentary elections were heavily manipulated and hardly any seats went to opposition parties, likewise the 1997 local government elections.

In summary, the state managed to suppress societal forces and limit external influence to an extent. However, it did not have sufficient decisional autonomy over economic policy-making due to intra-elite struggles over economic reform policies, externally-mandated structural adjustment which endangered its legitimacy, and an unresolved budget crisis, together with the inherited inefficiency of the state bureaucracy. Hence, STACOH is coded “0.33” during this period.

Business organisation

The continued state control over the banking system enabled a small number of business elites to grow their fortunes during this time. They were granted preferential treatment and managed to finance monopolies and oligopolies through cheap credit, with loans often not being paid back. Schlumberger (2005: 117) reports the proportion of non-performing loans at the end of the decade as high as 20 to 25 percent. One of the most prominent businessmen benefitting from this system was Ahmed Ezz, who amassed

great wealth building a steel monopoly and rose to the NDP General Secretariat in 2002 (Roll 2010b: 173-193; see chapter V.2.1).

Despite the increasing capital concentration in the hands of *crony capitalists*, the state was still in control of finance capital and able to assert its power over business. An oft-cited indicator is when President Mubarak allegedly threatened in 1998 that he would “put them back on their bicycles” if they expatriated their fortunes (Henry and Springborg 2001: 155; Roll 2010a: 368). The problem of non-performing loans was covered extensively by the Egyptian media, particularly from 2001 onwards, and the state publicly disavowed and cracked down on some offenders. For example, the chair of the economic committee in parliament and ex-chairman of the *Misr Exterior Bank*, which was partly publicly owned, Abdullah Tayel, was replaced. Businessman and independent member of parliament Rami Lakah was sentenced to five years in prison for having paid bribes to gain loans worth L.E. 1.7 billion from the *Banque du Caire*. This shows that while big business was able to benefit financially, they could not prevent state leaders from sacrificing non-essential clients in order to gain legitimacy in the eyes of the public (Schlumberger 2005: 118-122; El-Din 2007).

Many business elites joined the ruling NDP and ran for parliament. The number of lower house members from business backgrounds amounted to 31 in 1995 and 77 in 2000 (El-Din 2007). The main benefits for businesspeople were immunity from prosecution and personal contacts. While political engagement enabled them to gain access to state elites, they did not have any decision-making power (Zaki 1999: 113-152; Blaydes 2011: 48-63). Their financial autonomy increased, but “(t)he political landscape continued to be dominated by the regime, with businessmen serving as clients of the political elite” (Sfakianakis 2004: 82).

With political deliberalisation, freedom of association in general was severely restricted (Kienle 2001: 33). Business associations were consulted by the state, but “actual participation in the formulation of the law and policy does not exist except through the FEI. However, the efficiency of FEI lobbying on behalf of capital is rather questionable” (Kassem 2002: 71). The state tried to use business associations and chambers to push for job creation in the private sector, and many were dominated by business elites who “use business associations as personal power bases and instrumentalize them to expand their clientele networks” (Wurzel 2004: 110). Other

business elites preferred individual, informal relations to using associations. Kassem (2002: 73) interviewed the above-mentioned Rami Lakah in 1998: “I am not a member of any [business] association. (...) If there is a problem it is better to go directly to government, to one of the Ministers or the Prime Minister.”

In summary, *crony capitalists* benefited from their political ties and grew their businesses, but the public sector was still dominant and capitalists depended on the state. Business associations had limited freedoms and interacted with the state but did not effectively organise business. Hence, BUSORG is coded “0.33” like in the previous period.⁶¹

Political capability

The strategy of regime legitimation limited capability to effectively manage rents. On the one hand, despite the post-populist shift, the state still needed to uphold political order through material legitimation and reduce the risk of public protests and strikes, which explains the hesitant reduction of subsidies and slow privatisation of SOEs which would have resulted in large-scale job losses. On the other hand, *crony capitalists* were now one of the most important groups of clients, and most depended on state protection. Sfakianakis (2004: 79) estimates that during this period, the business elite consisted of about 32 businessmen, most of whom were active in import-substitution. Hence, their patrons did not have an incentive to support export-oriented reforms or enforce performance standards. *Crony capitalists* who benefited from state protection tried to delay the implementation of reforms, particularly tariff reductions which would have exposed them to competition, and deregulation which threatened monopolies (Wurzel 2004: 108, 111).

The intra-elite conflict over economic reform also limited political capability as the interests of state leaders were pitted against each other and did not support a coordinated approach to rent management. Privatisation and restructuring were not just resisted by SOE elites, but also by private businesspeople as well as Nasserists on the boards of holdings (Wurzel 2004: 120). In addition, cross-cutting networks between business

⁶¹ This assessment differs from Schneider’s (2004: 203) portrayal of state corporatism and individualised clientelism as extreme types. Egypt displayed traits of both, depending on the political standing of the business owner.

elites and public-sector managers limited political capability as they undermined policy implementation.

An indicator of these inconsistencies is that the state did not implement any coordinated industrial policy or upgrading incentives which could have helped companies adjust to international competition, to an even smaller extent than Morocco and Jordan in the 1990s. The implementation of growth-enhancing and transformative policies was not in the political interest of most state elites. In conclusion, the organisation of power was incompatible with effective rent management and POLCAP is coded “0”.

Table 26: Coding for EGY 1991-2003

	CORR	STACOH	BUSORG	POLCAP
<i>EGY 1991-2003</i>	<i>0.641</i>	<i>0.33</i>	<i>0.33</i>	<i>0</i>

IV.3.4.3 Egypt 2004-2010

This period has been selected for a within-case study as it emerges from the QCA as a particularly interesting case of high corruption with high growth. Therefore, the coding of the three conditions presented here will be expanded upon in chapter V.

State coherence

State coherence during 2004-2010 is characterised by the penetration of economic policy-making by a rising business elite. As a result of economic liberalisation during the earlier periods and particularly as a result of deeper financial reform in 2003, a small number of businesspeople were in a position to rise from being *crony capitalists* and clients of the ruling elite to the political core elite (Demmelhuber and Roll 2007; Roll 2010a; see chapter V.2.1). In particular, the inauguration of the government of Prime Minister Ahmed Nazif, a technocrat, in July 2014 gave direct control over economic policy-making to business elites, many of whom were monopolists or oligopolists in the private sector. They were associated with the son of the president, Gamal Mubarak, and shared a neo-liberal pro-business agenda.

The political ascent of the “Gamal group” (Demmelhuber 2009) at the cost of the “old guard” can be interpreted as a fracturing of decision-making. The state now had multiple centres of power, with members of the old guard still retaining an important role from a security perspective, such as Vice-President General Omar Suleiman, who was also head of the *Egyptian General Intelligence Directorate*. The main pillars of the regime were therefore the business elites on the one hand and the security sector, including the military, on the other. The ruling party lost its role in channelling societal interests and its obvious delegitimation in the parliamentary elections of 2010, where widespread manipulation was even recorded and shown on social media, was tolerated for the benefit of individual elite candidates (El-Ghobashy 2010).

This coalition was ambivalent in its interests and policy decisions: on the one hand, it strove to drive economic growth through domestic and foreign private sector investment. On the other, it colluded for its own benefit and sought to protect rents. Their positions as ministers with important portfolios such as foreign trade and industry, tourism, transport or construction provided the business elites with significant political power of their own and enabled them to transform their business interests into public policy and even intervene into day-to-day administrative procedures for their own gain or that of their business partners.

As policy-making was penetrated by private business but the state was sufficiently coherent to maintain political order, STACOH is coded “0.33”. Despite earlier financial reforms which paved the way for the change in SBR, I decided to start this period in 2004 with the inauguration of the Nazif cabinet as this was the event which definitely placed business elites at the centre of economic policy-making in key cabinet positions.

Business organisation

Economic liberalisation and privatisation in combination with preferential access to credit from public banks during the 1990s had enabled business elites to accumulate capital and grow their businesses. This permitted them to take advantage of deeper financial liberalisation starting in 2003, with banks being consolidated and privatised. Big business was now also able to raise capital on the stock market, outside of state control. The importance of the private sector as a whole compared to the public sector increased, contributing about 90 percent of manufacturing output growth in 2006/2007

(EIU 2008: 28). Many of the new opportunities for capital accumulation, however, were only open to businesses which had already grown thanks to state patronage in earlier decades. The private sector was now dominated by monopolists whose conglomerates dwarfed other private businesses. According to Stephan Roll, “by the end of 2008, the 16 most important enterprises at the Egyptian Exchange (EGX), which were controlled by members of the entrepreneurial elite, had a market capitalization of LE146bn (\$26.4bn) or 31 per cent of total market capitalization of the Egyptian stock market” (2010a: 359). He estimates that by then, “at least 20 entrepreneurs or business families controlled net assets worth more than \$100m each through their business conglomerates” (ibid: 363).

In contrast, the rest of the private sector was still dispersed and, if organised at all, integrated into corporatist structures. Enterprises with 15 or fewer employees accounted for 90 percent of employment in the private sector, and they were not members of business associations (EIU 2008: 26). This did not change substantially during this period. Despite a small number of new, active associations such as the *Egyptian Junior Business Association*, only few were truly independent. The EBA, FEI and the *American Chamber of Commerce* were dominated by loyal clients to the ruling elite (Henry and Springborg 2010: 205). Moreover, since associations were not involved in decision-making and could not provide selective benefits to members, there was no incentive to use them (cf. Doner and Schneider 2000). Thus, many capitalists still preferred to deal with the state individually. In the words of an Egyptian business journalist, “one strong businessman is stronger than a whole association.”⁶²

In summary, BUSORG is coded “1” because of high business concentration with dominant conglomerates and considerable power through capital, which in Kang’s (2002) conceptualisation is functionally equivalent to successful collective action through business associations in its effect on state-business balance of power.

Political capability

I will argue in chapter V that political capability during this period was relatively high as the changes in SBR resulted in the emergence of a “growth coalition”. It should be emphasised that despite the undeniably positive effects of growth-oriented reforms (see

⁶² Personal communication with the editor-in-chief of an Egyptian business newspaper (confidential), Cairo, 11 December 2010.

chapter V.2.2), they were not the result of collaborative, transparent SBR. On the contrary, access to the decision-making process was limited to a closed circle of businessmen, especially in government and party offices. The same individuals who were responsible for creating an investor-friendly business climate did not refrain from using their state offices to collude with businessmen outside of the state for their personal gain.

Even though these relations differed from the collaborative, non-corrupt growth coalition envisioned by Bräutigam et al. (2002), they were driven by the same *political* constellation: “a set of beliefs that a growth-friendly policy package will be of political benefit to leaders, that it will build rather than diminish their economic and social power base” (ibid: 540). This has to be seen in the context of changing strategies of regime legitimation. The earlier transition from populism to post-populism had led to a narrowing of the regime’s basis of legitimacy, and during this phase it became even more elitist. Workers and peasants were the main losers of liberalisation and privatisation. The liberalisation of prices and the land tenure system had imposed high costs on tenants (Bush 1999), while the privatisation of SOEs had resulted in a weakening of the state’s ability to distribute patronage (Pratt 1998). Therefore, elites were an even more important target of legitimation strategies. While some members of the old guard, particularly NDP and military elites, were still influential, they had become increasingly marginalised during the course of economic liberalisation. By 2004, all relevant ministers were pro-business, the ruling party was largely pro-business and the son and potential heir of the neopatrimonial leader was pro-business, creating a powerful coalition with a common pro-business agenda. Thomas Demmelhuber (2009: 122) argues that “(a)n economic opening sets the frame in this ‘win-win-situation’ for both the ruling elite and broad segments of the business elite, since an improvement in macroeconomic indicators acts as the new source of legitimacy (albeit among a very small and selective group of the populace).”

Growth-oriented policies were therefore compatible with the organisation of power. This illustrates the analytical difference between STACOH and POLCAP; the state was incoherent because of a penetration of economic policy-making by business elites, but it had high *political* capability because the interests of the group which penetrated policy-

making supported pro-growth rent management. In other words, for POLCAP, actors’ interests matter, while STACOH focuses on structure.

Yet, while being pro-growth and “more” developmental than before, the kind of development these policies facilitated was mainly economic growth without increases in productivity or wider benefits for economic and human development. Economic policies were designed and implemented by a *narrow* growth coalition, which translated into a narrow group of beneficiaries – mainly loyal big businessmen. This means that there was low political capability to enforce rent management for transformative industrial policy, particularly in those sectors dominated by business elites. Hence, POLCAP is coded “0.67”.

Table 27: Coding for EGY 2004-2010

	CORR	STACOH	BUSORG	POLCAP
<i>EGY 2004-2010</i>	<i>0.761</i>	<i>0.33</i>	<i>1</i>	<i>0.67</i>

Having coded all conditions for each country period, I will now proceed with the Qualitative Comparative Analysis.

IV.4 Qualitative Comparative Analysis

This chapter will analyse set relations between the conditions and outcomes using the techniques described in chapter III.1, following best practice as recommended by Schneider and Wagemann (2012). In a first step, we will collate the qualitatively coded conditions from the previous chapters and the calibrated corruption and outcomes data in a data table. We will then conduct an analysis for necessary conditions, which should always precede an analysis for sufficient conditions. Each potential necessary condition has to be analysed separately.

Then, a truth table will be created using the fs/QCA software (Ragin and Davey 2016). In contrast to the data table, the truth table rows do not necessarily show individual cases but ideal types or corners of the parameter space. The algorithm used for the analysis is the same as for csQCA, but first a decision has to be made whether a row can be considered sufficient for the outcome. The decision is based on the consistency scores which will be listed in the truth table. In other words, a crisp-set row can be seen as an ideal type and the consistency value indicates how close the cases or real types come to this ideal type.

After the outcome values have been assigned, we will conduct the analysis for sufficient conditions. Separate analyses will be done for each of the four different outcomes as well as their negation in order to account for potential asymmetric causality. The full solution terms and associated consistency and coverage scores will be shown and discussed. Throughout the analysis, we will also check for robustness of the results by looking more closely at cases where values are close to the 0.5 anchor, borderline consistency scores or logically contradictory cases and recalibrate for repeat analysis if warranted.

IV.4.1 Data matrix and analysis of necessary conditions

Collation of all condition values and outcomes yields the matrix below. The qualitatively coded values were copied from the country chapters, the corruption and economic outcomes scores calculated from the raw data shown in the appendix.

Table 28: Data matrix showing fuzzy values for all cases

Case	CORR*	STA COH	BUS ORG	POL CAP	GDP CAP1*	GDP CAP2*	MAN EXP*	HDI*
MOR 1984-1991	0.621	0.67	1	0	0.27	0.5	0.41	0.01
MOR 1992-1999	0.501	0.33	1	0.33	0.06	0.07	0.67	0.02
MOR 2000-2010	0.511	0.67	0.33	0.67	0.59	0.88	0.87	0.07
JOR 1984-1989	0.501	1	0	0	0	0	0.33	n/a
JOR 1990-1998	0.311	0.67	0.33	0.33	0.05	0.05	0.49	0.34
JOR 1999-2010	0.501	0.67	0.33	0.67	0.36	0.66	0.92	0.69
TUN 1988-1995	0.501	1	0.33	0.67	0.08	0.1	0.93	0.1
TUN 1996-2010	0.651	0.67	0.33	0.67	0.55	0.86	0.96	0.36
EGY 1984-1990	0.731	0.67	0.33	0	0.05	0.05	0.07	0.04
EGY 1991-2003	0.641	0.33	0.33	0	0.16	0.27	0.16	0.1
EGY 2004-2010	0.761	0.33	1	0.67	0.71	0.94	0.09	0.27

* The displayed values are the result of the calibration procedure described in chapter IV.2.6. For raw data, see appendix.

Every condition as well as their negation was tested for necessity, for each outcome separately. The results are shown in table 29. Consistency values above the recommended threshold of 0.90 (which is higher for necessary than for sufficient conditions) are marked in bold. Tests for the negation of the outcomes were not done as it would not be of much theoretical interest to find necessary conditions for a lack of economic development.

Table 29: Results of test for necessary conditions

Condition	Consistency values for relation of necessity with:			
	GDPCAP1	GDPCAP2	MANEXP	HDI
CORR	0.972569	0.790868	0.684068	0.891003
~CORR	0.731597	0.569635	0.653220	0.883503
STACOH	0.868056	0.769406	0.816949	0.990004
~STACOH	0.781250	0.554795	0.447458	0.750003
BUSORG	0.822917	0.678082	0.516949	0.800003
~BUSORG	0.638889	0.563927	0.632203	0.840003
POLCAP	0.819444	0.659817	0.581356	0.910003
~POLCAP	0.690972	0.538813	0.600000	0.805003

The most interesting test is for \sim CORR, given that parts of the orthodox corruption literature explicitly or implicitly assume that the absence of corruption is a necessary condition for growth and/or development. Not only do the results not confirm this, but they even identify CORR as a necessary condition for GDPCAP1, with a coverage of 0.449527, which means it is not trivial. A look at the case level shows why; there are only three cases where GDPCAP1 is higher than 0.5 (MOR 2000-2010, TUN 1996-2010, EGY 2004-2010) and they are all above the 0.5 threshold for CORR. In fact, there is only one case in the entire dataset which is below the 0.5 threshold for CORR (JOR 1990-1998) (which is not included in the test for necessary conditions, as only cases with positive outcomes are). One could argue that the lack of non-corrupt cases is due to the setting of the 0.5 anchor at 3, which corresponds to the exact score of some cases. As a fixed value of 0.001 was added across all scores (see chapter IV.2.1), these cases were considered above the threshold. To test whether this made a difference, I conducted the test for necessary conditions again but this time deducting 0.001 from all scores rather than adding, for an alternative CORR value (CORRALT). This means that these borderline cases would be considered more non-corrupt than corrupt. Table 30 displays the results.

Table 30: Results of test for necessary conditions after recalibration of CORR

Condition	<i>Consistency values for relation of necessity with:</i>			
	GDPCAP1	GDPCAP2	MANEXP	HDI
<i>CORRALT</i>	0.971875	0.789041	0.682034	0.889003
<i>\simCORRALT</i>	0.733681	0.571918	0.655254	0.886503

The results show that the recalibration made hardly any difference, so the hypothesis that corruption is a necessary condition cannot be confirmed, while they suggest that the opposite is the case. I recognise that this result is potentially caused by the nature of the case selection (mostly corrupt cases) and do not intend to claim that corruption is a necessary condition for economic development. At the very least, however, it casts serious doubts on the claims of the orthodox corruption literature. They certainly do not hold true for this subsample of developing countries.

Two other conditions are identified as necessary, for a high HDI: STACOH and POLCAP. Coverage for these is 0.329451 and 0.453865, so they are not trivial necessary conditions. Going back to the case level shows that only one case was scored above the 0.5 threshold, JOR 1999-2010, which means that it is the only one to be classified as a case of high human development. It scored 0.67 for both STACOH and POLCAP and 0.69 for the HDI, which means that the relation of necessity is fulfilled ($Y \geq X$). As this is only one case and a relatively close result which could be subject to measurement error, this result should also be treated with caution. However, we will come back to it later when analysing sufficient conditions.

No other necessary conditions were identified based on the minimum consistency threshold of 0.90.

IV.4.2 Truth tables and analysis of sufficient conditions

Based on the matrix above, a separate truth table for each outcome was constructed, resulting in four truth tables. The rows are sorted by consistency score. I will discuss for each table how outcome values were assigned and discuss the results of the logical minimisation algorithm. In the interest of transparency, the results will be shown exactly as reported by the fs/QCA software.⁶³

IV.4.2.1 Analysis for GDPCAP1 and ~GDPCAP1

Table 31 shows the truth table for GDPCAP1. The consistency value for the first row (0.769231) is significantly higher than for the other rows and above the recommended minimum threshold of 0.75.⁶⁴ I have therefore regarded it as consistent with a statement

⁶³ Please note that the software shows all conditions and outcomes in lowercase letters, contrary to how they are written in the text. This should not be understood as negation, which is also sometimes indicated by lowercase. Negation is indicated by “~” as remarked in chapter III.1.

⁶⁴ As mentioned before, this recommended minimum should not be applied mechanically, and if appropriate we will apply a higher or slightly lower threshold. Schneider and Wagemann (2012: 127f., 185) recommend not to apply a constant consistency threshold but rather take the data and its context into account, following Ragin (2008: 144) who advises to “(i)dentify any gaps in the upper range of consistency that might be useful for establishing a threshold.”

of sufficiency and assigned 1 to the outcome. All other rows containing cases were coded 0 because of the low consistency scores. As this is a medium-n study with 11 cases, the frequency cut-off – the number of cases below which a row is not considered – is one, that is all rows which contain cases are included (Ragin and Davey 2017: 39).

Table 31: Truth table for GDPCAP1 (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	GDPCAP1	Consistency
1	0	1	1	1	1	0.769231
1	1	0	1	4	0	0.626667
1	0	1	0	1	0	0.611787
1	1	1	0	1	0	0.557111
1	0	0	0	1	0	0.550176
0	1	0	0	1	0	0.430699
1	1	0	0	2	0	0.424649
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

The truth table also shows nine logical remainders. These can be included in the minimisation process based on counterfactual analysis (Schneider and Wagemann 2012: 151-177, 197-219; Ragin and Davey 2017). If the counterfactuals are based on theoretical assumptions made by the researcher, this produces a so-called *intermediate solution*. The software can also generate a *parsimonious solution*, which makes assumptions automatically so that the most minimised solution term is given out. In the analysis below, we will prefer the *complex solution*, which does not make any assumptions about logical remainders and excludes them. This reduces the risk of untenable assumptions, particularly as the number of logical remainders is relatively large given there are only 11 cases. The *intermediate solution* will be discussed if appropriate and in comparison with the complex solution. We will disregard the

parsimonious solution. Given the relatively small number of cases, it is possible to look at each solution term in detail on a case level, which means that even complex solution terms can be interpreted more easily than in a large-n study.

The analysis yields the following complex solution:

```

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.769231

              raw      unique
              coverage  coverage  consistency
              -----  -----  -----
corr*~stacoh*busorg*polcap 0.614583  0.614583  0.769231

solution coverage: 0.614583
solution consistency: 0.769231

Cases with greater than 0.5 membership in term corr*~stacoh*busorg*polcap:
EGY 2004-2010 (0.67,0.71)

```

The intermediate solution is based on a number of “directional expectations” (Schneider and Wagemann 2012: 168f.) which follow from the theoretical literature discussed in chapter II. We would expect that the presence of POLCAP, BUSORG and STACOH is conducive to GDPCAP1, but the absence of CORR. The result is as follows:

```

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.769231

Assumptions:
polcap (present)
busorg (present)
stacoh (present)
~corr (absent)

              raw      unique
              coverage  coverage  consistency
              -----  -----  -----
polcap*busorg 0.642361  0.642361  0.698113

```

solution coverage: 0.642361
solution consistency: 0.698113

Cases with greater than 0.5 membership in term polcap*busorg:
EGY 2004-2010 (0.67,0.71)

The complex solution shows that a configuration of high corruption, low state coherence, high business organisation and high political capability can be regarded as sufficient for high GDP per capita growth (under the strong assumption of more than 2 percentage points above the OECD average). There are no contradictory cases, and the only case which has higher than 0.5 membership of this type is Egypt during 2004 to 2010. Consistency remains at 0.769231. Coverage is also relatively high at 0.642361, which is due to the fact that not many cases show a positive outcome for GDPCAP1.

The intermediate solution is more parsimonious and shows that high political capability in combination with high business organisation could be considered sufficient. From a theoretical point of view, there seem to be good reasons for this minimisation, given that orthodox theory would not regard high corruption as conducive to economic development, and Kang's (2002) theory would expect high state coherence in combination with high business organisation, but not low state coherence to be sufficient. However, it should be noted that the consistency value for this solution term is relatively low at 0.698113, which means it should be treated with caution. The complex solution could contain valuable information, as high corruption and low state coherence could be conducive to economic development in this particular configuration. The case of Egypt 2004-2010 has in fact the highest CORR score of all cases (0.761), which casts doubt on whether this has no significance.

To ensure the result is robust, I conducted the analysis a second time with the alternative calibration of corruption scores discussed above (CORRALT), which means that four cases fall below the 0.5 threshold. The complex solution was the same, with a marginally higher consistency score of 0.769900. The intermediate solution was identical.

EGY 2004-2010 is the only case with greater than 0.5 membership in the solution term and particularly interesting as it has the highest GDPCAP1 as well as the highest CORR

scores. This is why it was selected for further investigation in the within-case study in chapter V.

In a next step, the negation of GDPCAP1 is tested for sufficiency, resulting in the following truth table:

Table 32: Truth table for \sim GDPCAP1 (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	\simGDPCAP1	Consistency
1	1	0	0	2	1	1.000000
1	0	0	0	1	1	1.000000
0	1	0	0	1	1	1.000000
1	1	1	0	1	1	0.988802
1	0	1	0	1	1	0.987188
1	1	0	1	4	0	0.877980
1	0	1	1	1	0	0.834854
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

Consistency scores are generally very high. There is however a notable gap between the fifth row (0.987188) and the sixth (0.87798), suggesting a qualitative difference. Consequently, rows one through five were assigned an outcome value of 1, rows six and seven a value of 0. The remaining rows are logical remainders.⁶⁵

The complex solution shows two solution terms:

⁶⁵ To test robustness, I tried what would happen if all rows had been assigned a positive outcome value on the basis of the relatively high consistency scores. The result showed the same two solutions as above, with two additional solution terms which had a consistency just above 0.70 which would have been deemed too low in this context. This would have also meant that there were no negative instances of the outcome, which does not fit with the result obtained for the analysis of GDPCAP1 (in other words, EGY 2004-2010 would not have been considered).

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.987188

	raw coverage	unique coverage	consistency
	-----	-----	-----
corr*~polcap	0.605419	0.219704	0.991929
stacoh*~busorg*~polcap	0.491379	0.105665	1.000000

solution coverage: 0.711084
solution consistency: 0.993120

Cases with greater than 0.5 membership in term corr*~polcap:
EGY 1984-1990 (0.731,0.95), EGY 1991-2003 (0.641,0.84), MOR 1984-1991 (0.621,0.73), MOR
1992-1999 (0.501,0.94), JOR 1984-1989 (0.501,1)

Cases with greater than 0.5 membership in term stacoh*~busorg*~polcap:
JOR 1984-1989 (1,1), JOR 1990-1998 (0.67,0.95), EGY 1984-1990 (0.67,0.95)

The intermediate solution is based on the opposite assumptions as for GDPCAP1:

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.987188

Assumptions:
~polcap (absent)
~busorg (absent)
~stacoh (absent)
corr (present)

	raw coverage	unique coverage	consistency
	-----	-----	-----
~polcap*~busorg	0.533251	0.109236	1.000000
~polcap*corr	0.605419	0.181404	0.991929

solution coverage: 0.714655
solution consistency: 0.993154

Cases with greater than 0.5 membership in term $\sim\text{polcap}^*\sim\text{busorg}$:

JOR 1984-1989 (1,1), JOR 1990-1998 (0.67,0.95), EGY 1984-1990 (0.67,0.95), EGY 1991-2003 (0.67,0.84)

Cases with greater than 0.5 membership in term $\sim\text{polcap}^*\text{corr}$:

EGY 1984-1990 (0.731,0.95), EGY 1991-2003 (0.641,0.84), MOR 1984-1991 (0.621,0.73), MOR 1992-1999 (0.501,0.94), JOR 1984-1989 (0.501,1).

The complex solution suggests that either high corruption in combination with low political capability or high state coherence in combination with low business organisation and low political capability is sufficient for low GDP per capita growth. Consistency for both solution terms is very high. There are no true logically contradictory cases which have greater than 0.5 membership in either solution term (all cases are members of both the conditions and the outcome). Coverage is 0.605419 and 0.491379, respectively, and 0.711084 for both terms combined. The unique coverage – the share of the outcome which is covered uniquely by the solution – is higher for the first than the second. The intermediate solution also shows the $\text{CORR}^*\sim\text{POLCAP}$ term and minimises the second solution term further, dropping high state coherence and arriving at low political capability with low business organisation.

This is a very interesting result. The solution term shown in both results, $\text{CORR}^*\sim\text{POLCAP}$, suggests that corruption does have negative implications for growth if in combination with a lack of political capability. The second term in the complex solution, $\text{STACOH}^*\sim\text{BUSORG}^*\sim\text{POLCAP}$, describes a coherent state where business is co-opted and/or dispersed and the organisation of power does not allow for effective rent management. The intermediate solution $\sim\text{BUSORG}^*\sim\text{POLCAP}$ is a reduced version, which does not however add anything theoretically.

A closer look at the cases which have greater than 0.5 membership in the solution terms shows that a few cases have a membership of 0.501, which is the result of their borderline CORR score. To investigate the effect of the calibration, the analysis was again repeated using the CORRALT condition, which resulted in a modified truth table and the solution terms below. The intermediate solution is based on the same assumptions as before.

Table 33: Truth table for \sim GDPCAP1 using recalibrated corruption score

CORRALT	STACOH	BUSORG	POLCAP	Number of cases	\simGDPCAP1	Consistency
0	1	0	0	2	1	1.000000
1	1	0	0	1	1	1.000000
1	0	0	0	1	1	1.000000
0	0	1	0	1	1	1.000000
1	1	1	0	1	1	0.988789
0	1	0	1	2	1	0.962741
1	1	0	1	2	0	0.879108
1	0	1	1	1	0	0.834711
1	1	1	1	0		
1	0	1	0	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	0	1	1	0		
0	0	0	1	0		
0	0	0	0	0		

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.962741

	raw coverage	unique coverage	consistency
	-----	-----	-----
corralt* \sim busorg* \sim polcap	0.423276	0.038054	1.000000
\sim corralt*stacoh* \sim busorg	0.435345	0.096675	0.977600
corralt*stacoh* \sim polcap	0.537808	0.041626	0.990924
\sim corralt* \sim stacoh*busorg* \sim polcap	0.368596	0.021059	1.000000

solution coverage: 0.696182
solution consistency: 0.979044

Cases with greater than 0.5 membership in term corralt* \sim busorg* \sim polcap:
EGY 1984-1990 (0.67,0.95), EGY 1991-2003 (0.639,0.84)

Cases with greater than 0.5 membership in term \sim corralt*stacoh* \sim busorg:
JOR 1990-1998 (0.67,0.95), JOR 1984-1989 (0.501,1), JOR 1999-2010 (0.501,0.64), TUN 1988-1995 (0.501,0.92)

Cases with greater than 0.5 membership in term corralt*stacoh* \sim polcap:
EGY 1984-1990 (0.67,0.95), MOR 1984-1991 (0.619,0.73)

Cases with greater than 0.5 membership in term \sim corralt* \sim stacoh*busorg* \sim polcap:
MOR 1992-1999 (0.501,0.94)

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.962741

Assumptions:

~polcap (absent)
~busorg (absent)
~stacoh (absent)
corralt (present)

	raw coverage	unique coverage	consistency
	-----	-----	-----
~busorg*~corralt	0.439163	0.096675	0.977790
~polcap*~stacoh	0.444581	0.024877	0.989041
~polcap*corralt	0.603941	0.084729	0.991909

solution coverage: 0.728079
solution consistency: 0.979944

Cases with greater than 0.5 membership in term ~busorg*~corralt:
JOR 1990-1998 (0.67,0.95), JOR 1984-1989 (0.501,1), JOR 1999-2010 (0.501,0.64), TUN 1988-1995 (0.501,0.92)

Cases with greater than 0.5 membership in term ~polcap*~stacoh:
MOR 1992-1999 (0.67,0.94), EGY 1991-2003 (0.67,0.84)

Cases with greater than 0.5 membership in term ~polcap*corralt:
EGY 1984-1990 (0.729,0.95), EGY 1991-2003 (0.639,0.84), MOR 1984-1991 (0.619,0.73)

Due to the recalibration, the solution terms have changed and are more complex. The intermediate solution is easier to understand at first sight. The first term, ~BUSORG*~CORRALT, does not, however, yield much theoretical value. A look at the cases which have greater than 0.5 membership shows that three of them only have a membership of 0.501, obviously as a result of the recalibration. The second term, ~POLCAP*~STACOH, is also not very fruitful as it has an extremely low unique coverage score. In fact, one of the two cases with greater than 0.5 membership, EGY 1991-2003, is also covered by the third term.

This third term, ~POLCAP*CORRALT, is more interesting; it is the same result as in our first analysis using CORR, confirming that corruption without political capability can be seen as sufficient for low per capita growth. This is a useful finding, given that after the first analysis, one could have argued the result was skewed by the case selection of almost only corrupt cases. The analysis after recalibration shows that even

though a total of five cases are now regarded as rather non-corrupt, the result still stands. The first term of the complex solution, $CORRALT*\sim BUSORG*\sim POLCAP$, is also similar, but adds the combination with low business organisation. The two cases covered by this term, EGY 1984-1990 and EGY 1991-2003, are of course also covered by the $\sim POLCAP*CORRALT$ term of the intermediate solution, suggesting that the counterfactual assumptions led to $\sim BUSORG$ having been dropped. In fact, the third term of the complex solution, $CORRALT*STACOH*\sim POLCAP$, again has the same elements of high corruption and low political capability, in combination with high state coherence. The term also covered EGY 1984-1990, as well as MOR 1984-1991.

The second term of the complex solution, $\sim CORRALT*STACOH*\sim BUSORG$, is puzzling as one would not expect high state coherence in combination with low corruption and low business organisation to be unfavourable for growth. The result is very uncertain given that three of the four cases with greater than 0.5 membership in this term only have 0.501 membership, which is due to the calibrated $CORRALT$ score. The fourth term, $\sim CORRALT*\sim STACOH*BUSORG*\sim POLCAP$, only has one borderline case with greater than 0.5 membership (0.501) which also casts doubt on its relevance.

In conclusion, the ambiguity of the borderline $CORR/CORRALT$ puts many of the solution terms into question. The one result which has remained consistent across both analyses is the scenario of high corruption with low political capability, which was found to cover a large number of cases: EGY 1984-1990, EGY 1991-2003, MOR 1984-1991, MOR 1992-1999, JOR 1984-1989. The analysis using the original corruption scores also supports a claim of sufficiency for a second scenario which has high state coherence but low business organisation and low political capability, as in JOR 1984-1989, JOR 1990-1998 and EGY 1984-1990. Because it has a lower unique coverage – two of the latter cases are also covered by the former solution term – it seems less relevant empirically. We will however come back to it in the analysis of $\sim GDPCAP2$.

IV.4.2.2 Analysis for GDPCAP2 and ~GDPCAP2

Before conducting the truth table analysis, it should be pointed out that the calibration of the 0.5 threshold for GDPCAP2 as one percentage point above the OECD average per capita growth caused one case, MOR 1984-1991, to be scored exactly 0.5. In order to ensure robustness, the analysis was done twice, first under the assumption that the case is a member of the outcome (value 0.501), then that it is not (value 0.499). The resulting consistency scores and solutions were the same for both variants, confirming that there is no adverse effect. The truth table for GDPCAP2 is shown below.

The first two rows were considered sufficient for the outcome as there is a notable gap between the consistency of the second row (0.732525) and the third (0.669443). The consistency score for the second row is certainly at the low end of the acceptable range, but as noted above, it is more important to consider the data at hand rather than use a constant cut-off point. The first row corresponds to the same case as in the analysis for GDPCAP1, EGY 2004-2010. The second row includes four additional cases. It did not meet the stricter growth threshold of GDPCAP1 but is largely consistent with GDPCAP2. If the convergence assumption for GDPCAP2 had been relaxed slightly, this row would have received a higher consistency score. Hence, the row should be assigned a positive outcome value as it contains the three cases which were the second-most successful (MOR 2000-2010, JOR 1999-2010, TUN 1996-2010) and it would be problematic to exclude them on the grounds of a consistency score slightly lower than 0.75.

Table 34: Truth table for GDPCAP2 (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	GDPCAP2	Consistency
1	0	1	1	1	1	0.773577
1	1	0	1	4	1	0.732525
1	0	1	0	1	0	0.669443
1	1	1	0	1	0	0.660974
1	0	0	0	1	0	0.598592
0	1	0	0	1	0	0.472798
1	1	0	0	2	0	0.466156
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		

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0	1	1	0	0
0	1	0	1	0
0	0	1	1	0
0	0	1	0	0
0	0	0	1	0
0	0	0	0	0

This is the resulting complex solution:

```

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.732525

              raw      unique
              coverage coverage consistency
              -----
corr*stacoh*~busorg*polcap 0.413927 0.176484 0.732525
corr*~stacoh*busorg*polcap 0.406393 0.168950 0.773577

solution coverage: 0.582877
solution consistency: 0.734676

Cases with greater than 0.5 membership in term corr*stacoh*~busorg*polcap:
TUN 1996-2010 (0.651,0.86), MOR 2000-2010 (0.511,0.88), JOR 1999-2010 (0.501,0.66), TUN
1988-1995 (0.501,0.1)
Cases with greater than 0.5 membership in term corr*~stacoh*busorg*polcap:
EGY 2004-2010 (0.67,0.94)

```

The intermediate solution follows, using the same assumptions as before:

```

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.732525

Assumptions:
polcap (present)
busorg (present)
stacoh (present)
~corr (absent)

              raw      unique
              coverage coverage consistency
              -----
polcap*busorg 0.429126 0.077608 0.709434
polcap*stacoh 0.582059 0.230541 0.694823

```

solution coverage: 0.659667
solution consistency: 0.720698

Cases with greater than 0.5 membership in term polcap*busorg:
EGY 2004-2010 (0.67,0.94)

Cases with greater than 0.5 membership in term polcap*stacoh:
MOR 2000-2010 (0.67,0.88), JOR 1999-2010 (0.67,0.66), TUN 1988-1995 (0.67,0.1), TUN
1996-2010 (0.67,0.86)

Again, the aforementioned configuration of high corruption, low state coherence, high business organisation and high political capability is shown as sufficient, with the only case with greater than 0.5 membership being EGY 2004-2010. The combination of POLCAP*BUSORG also features again in the intermediate solution, but likewise with a relatively low consistency score which casts doubt on whether CORR*~STACOH can really be dropped from the complex solution term.

A second complex solution term emerges from the GDPCAP2 analysis which covers the four cases mentioned above, CORR*STACOH*~BUSORG*POLCAP. However, two of the four cases only have a membership of 0.501 in the configuration, one of them being a true logical contradiction – TUN 1988-1995, with a membership of only 0.1 in the outcome – and a third case only has 0.511 membership. This calls the empirical relevance of the term into question. The second intermediate solution offers a more satisfactory result with respect to the covered cases; by dropping CORR*~BUSORG from the solution term, MOR 2000-2010, JOR 1999-2010 and TUN 1996-2010 are still covered, and their membership in the term is now 0.67. The lower membership previously was obviously due to their CORR score (a logical AND combination means that the lowest score within the row determines the overall membership). However, consistency has dropped to 0.694823 which is relatively low.

Once more, I conducted a follow-up analysis using CORRALT:

Table 35: Truth table for GDPCAP2 using recalibrated corruption score

CORRALT	STACOH	BUSORG	POLCAP	Number of cases	GDPCAP2	Consistency
1	0	1	1	1	1	0.774250
1	1	0	1	2	1	0.733063
0	1	0	1	2	0	0.686753
0	0	1	0	1	0	0.668560
1	1	1	0	1	0	0.661435
1	0	0	0	1	0	0.599647
0	1	0	0	2	0	0.472186
1	1	0	0	1	0	0.466752
1	1	1	1	0		
1	0	1	0	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	0	1	1	0		
0	0	0	1	0		
0	0	0	0	0		

Consistency values were assigned according to the same rationale as above. Two cases have now moved from the second row.

```

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.733063

           raw      unique
           coverage coverage consistency
           -----
corralt*stacoh*~busorg*polcap 0.412557 0.175114 0.733063
corralt*~stacoh*busorg*polcap 0.406393 0.168950 0.774250

solution coverage: 0.581507
solution consistency: 0.735065

Cases with greater than 0.5 membership in term corralt*stacoh*~busorg*polcap:
TUN 1996-2010 (0.649,0.86), MOR 2000-2010 (0.509,0.88)
Cases with greater than 0.5 membership in term corralt*~stacoh*busorg*polcap:
EGY 2004-2010 (0.67,0.94)

```

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.733063

Assumptions:
polcap (present)
busorg (present)
stacoh (present)
~corralt (absent)

	raw coverage	unique coverage	consistency
	-----	-----	-----
polcap*busorg*corralt	0.429224	0.077626	0.715101
polcap*stacoh*corralt	0.503881	0.152283	0.706240

solution coverage: 0.581507
solution consistency: 0.735065

Cases with greater than 0.5 membership in term polcap*busorg*corralt:
EGY 2004-2010 (0.67,0.94)
Cases with greater than 0.5 membership in term polcap*stacoh*corralt:
TUN 1996-2010 (0.649,0.86), MOR 2000-2010 (0.509,0.88)

In the complex solution, the solution term CORRALT*~STACOH*BUSORG*POLCAP is still the same, with EGY 2004-2010 as the only member above 0.5. The other solution term, CORRALT*STACOH*~BUSORG*POLCAP is also shown again, however only two of the previous four cases with greater than 0.5 membership remain, TUN 1996-2010 and MOR 2000-2010. There are now no true logical contradictions and no cases with a membership of 0.501, although MOR 2000-2010 still has relatively low membership of 0.509.

The intermediate solution offers two solution terms which are more parsimonious, covering the same cases, POLCAP*BUSORG*CORRALT and POLCAP*STACOH*CORRALT. They drop ~STACOH and BUSORG, respectively, albeit without much theoretical benefit and at the expense of lower consistency scores.

In conclusion, two robust solution terms emerge from the GDPCAP2 analysis. One configuration, high corruption with low state coherence, high business organisation and high political capability covers Egypt between 2004 and 2010 as discussed above, the

other covers Tunisia between 1996 and 2010 as well as Morocco between 2000 and 2010. The latter are both cases with high corruption, high state coherence, low business organisation and high political capability. Jordan 1999-2010 also fits this configuration, albeit with lower corruption, which caused it to disappear from the solution term with the recalibrated score. There are a number of cases with intermediate corruption scores and the solution terms suggest that it would be prudent not to ascribe too much relevance to whether the corruption score is slightly above or below the threshold.

In a next step, we will look at the truth table for the negation of GDPCAP2 (table 36). Similar to \sim GDPCAP1, there is a distinct gap in consistency scores. The first two rows have a score of approximately 0.87, the third 0.82. I have therefore initially assigned 1 as the outcome value for the first two, 0 to the others. There are nine logical remainders.

Table 36: Truth table for \sim GDPCAP2 (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	\simGDPCAP2	Consistency
1	1	0	0	2	1	0.872286
0	1	0	0	1	1	0.870466
1	0	0	0	1	0/1	0.823944
1	0	1	0	1	0/1	0.785394
1	1	1	0	1	0/1	0.778555
1	1	0	1	4	0	0.570505
1	0	1	1	1	0	0.561061
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

The truth table algorithm yields the following results:

```

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.870466

           raw      unique
           coverage coverage consistency
           -----
stacoh*~busorg*~polcap 0.542296 0.542296 0.899749

solution coverage: 0.542296
solution consistency: 0.899749

Cases with greater than 0.5 membership in term stacoh*~busorg*~polcap:
JOR 1984-1989 (1,1), JOR 1990-1998 (0.67,0.95), EGY 1984-1990 (0.67,0.95)

```

The intermediate solution is identical. The result is very clear; the solution identifies one term with a high consistency and a very high unique coverage, meaning it is highly relevant empirically. High state coherence with low business organisation and low capability is deemed sufficient for low per capita growth, a result which was already suggested by the analysis for ~GDPCAP1. Corruption was dropped due to the logical minimisation process, meaning that it was not relevant whether it was high or low.

To check for robustness, I conducted the analysis again, this time choosing a lower consistency cut-off point of 0.778555, after which there is another pronounced gap in consistency scores. This means that three more rows are assigned 1 for the outcome.

These are the resulting complex and intermediate solutions:

```

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.778555

           raw      unique
           coverage coverage consistency
           -----
corr*~polcap           0.629154 0.216465 0.840396
stacoh*~busorg*~polcap 0.542296 0.129607 0.899749

solution coverage: 0.758761
solution consistency: 0.863949

```

Cases with greater than 0.5 membership in term $\text{corr}^*\sim\text{polcap}$:
EGY 1984-1990 (0.731,0.95), EGY 1991-2003 (0.641,0.73), MOR 1984-1991 (0.621,0.5), MOR 1992-1999 (0.501,0.93), JOR 1984-1989 (0.501,1)
Cases with greater than 0.5 membership in term $\text{stacoh}^*\sim\text{busorg}^*\sim\text{polcap}$:
JOR 1984-1989 (1,1), JOR 1990-1998 (0.67,0.95), EGY 1984-1990 (0.67,0.95)

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.778555

Assumptions:
 $\sim\text{polcap}$ (absent)
 $\sim\text{busorg}$ (absent)
 $\sim\text{stacoh}$ (absent)
 corr (present)

	raw coverage	unique coverage	consistency
	-----	-----	-----
$\sim\text{polcap}^*\sim\text{busorg}$	0.593656	0.133988	0.907621
$\sim\text{polcap}^*\text{corr}$	0.629154	0.169486	0.840396

solution coverage: 0.763142
solution consistency: 0.864624

Cases with greater than 0.5 membership in term $\sim\text{polcap}^*\sim\text{busorg}$:
JOR 1984-1989 (1,1), JOR 1990-1998 (0.67,0.95), EGY 1984-1990 (0.67,0.95), EGY 1991-2003 (0.67,0.73)

Cases with greater than 0.5 membership in term $\sim\text{polcap}^*\text{corr}$:
EGY 1984-1990 (0.731,0.95), EGY 1991-2003 (0.641,0.73), MOR 1984-1991 (0.621,0.5), MOR 1992-1999 (0.501,0.93), JOR 1984-1989 (0.501,1)

The complex solution shows the same term as before, $\text{STACOH}^*\sim\text{BUSORG}^*\sim\text{POLCAP}$, but adds a second solution term, $\text{CORR}^*\sim\text{POLCAP}$, which is identical to the one identified for $\sim\text{GDPCAP1}$. Consistency and coverage rates are high for both, with a higher unique coverage for $\text{CORR}^*\sim\text{POLCAP}$. The intermediate solution again shows $\text{CORR}^*\sim\text{POLCAP}$ but drops STACOH from the other solution term, arriving at $\sim\text{BUSORG}^*\sim\text{POLCAP}$, which was also identified for $\sim\text{GDPCAP1}$ earlier. Consistency remains very high.

In conclusion, the analysis of \sim GDPCAP2 strengthens the previous result that a combination of high corruption and low political capability can be regarded as sufficient for low per capita growth. It also shows that there is a second configuration which is sufficient for low growth, high state coherence with low business organisation and low political capability, or in the intermediate solution, just the latter two conditions. This same term was already identified as sufficient in the analysis of \sim GDPCAP1. Both solutions combined cover almost all cases which exhibited low growth, but $CORR*\sim$ POLCAP can “explain” most of them by itself: EGY 1984-1990, EGY 1991-2003, MOR 1984-1991, MOR 1992-1999 and JOR 1984-1989.

IV.4.2.3 Analysis for MANEXP and \sim MANEXP

We now turn to a measure which should distinguish between cases where we can speak of high economic performance and others which include the dimension of economic transformation and an increase in productive capacities. The truth table for MANEXP is shown below.

Table 37: Truth table for MANEXP (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	MANEXP	Consistency
1	1	0	1	4	1	1.000000
1	0	1	0	1	0	0.785394
0	1	0	0	1	0	0.767487
1	1	1	0	1	0	0.753359
1	0	1	1	1	0	0.747936
1	1	0	0	2	0	0.699553
1	0	0	0	1	0	0.673856
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

The consistency score for the first row is perfect, which is why it was assigned 1 for the outcome and the other rows were assigned 0. The consistency scores for the second to fifth row are not extremely low, but as the gap between the first and the second is so pronounced and the first row includes four cases, it seems prudent to be more conservative regarding consistency. There are nine logical remainders. The analysis yields the following results:

```

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 1.000000

              raw      unique
              coverage  coverage  consistency
              -----  -----  -----
corr*stacoh*~busorg*polcap  0.419491  0.419491  1.000000

solution coverage: 0.419491
solution consistency: 1.000000

Cases with greater than 0.5 membership in term corr*stacoh*~busorg*polcap:
TUN 1996-2010 (0.651,0.96), MOR 2000-2010 (0.511,0.87), JOR 1999-2010 (0.501,0.92), TUN
1988-1995 (0.501,0.93)

```

```

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 1.000000

Assumptions:
polcap (present)
busorg (present)
stacoh (present)
~corr (absent)

              raw      unique
              coverage  coverage  consistency
              -----  -----  -----
polcap*stacoh  0.581356  0.581356  0.934605

solution coverage: 0.581356
solution consistency: 0.934605

Cases with greater than 0.5 membership in term polcap*stacoh:
MOR 2000-2010 (0.67,0.87), JOR 1999-2010 (0.67,0.92), TUN 1988-1995 (0.67,0.93), TUN
1996-2010 (0.67,0.96)

```

The complex solution shows one term, CORR*STACOH*~BUSORG*POLCAP, which is further reduced to POLCAP*STACOH in the intermediate solution. The consistency of the intermediate solution is still very high, with an increased coverage and very high unique coverage of 0.581356. As the complex solution showed that two cases had a membership of 0.501, I repeated the analysis using CORRALT as before. This resulted in a different truth table and the solution terms below:

Table 38: Truth table for MANEXP using recalibrated corruption score

CORRALT	STACOH	BUSORG	POLCAP	Number of cases	MANEXP	Consistency
1	1	0	1	2	1	1.000000
0	1	0	1	2	1	1.000000
0	0	1	0	1	0	0.825593
0	1	0	0	2	0	0.766494
1	1	1	0	1	0	0.753644
1	0	1	1	1	0	0.747716
1	1	0	0	1	0	0.699808
1	0	0	0	1	0	0.674162
1	1	1	1	0		
1	0	1	0	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	0	1	1	0		
0	0	0	1	0		
0	0	0	0	0		

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 1.000000

	raw coverage	unique coverage	consistency
	-----	-----	-----
stacoh*~busorg*polcap	0.510169	0.510169	1.000000

solution coverage: 0.510169
solution consistency: 1.000000

Cases with greater than 0.5 membership in term stacoh*~busorg*polcap:
MOR 2000-2010 (0.67,0.87), JOR 1999-2010 (0.67,0.92), TUN 1988-1995 (0.67,0.93), TUN 1996-2010 (0.67,0.96)

--- INTERMEDIATE SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 1.000000

Assumptions:
polcap (present)
busorg (present)
stacoh (present)
~corralt (absent)

	raw coverage	unique coverage	consistency
	-----	-----	-----
polcap*stacoh	0.581356	0.581356	0.934605

solution coverage: 0.581356
solution consistency: 0.934605

Cases with greater than 0.5 membership in term polcap*stacoh:
MOR 2000-2010 (0.67,0.87), JOR 1999-2010 (0.67,0.92), TUN 1988-1995 (0.67,0.93), TUN
1996-2010 (0.67,0.96)

The complex solution suggests that STACOH*~BUSORG*POLCAP is a sufficient configuration, dropping the CORR score as a consequence of the recalibration. The intermediate solution is identical to the previous one. Given the high consistency and the repeated result despite recalibration, it seems safe to adopt the intermediate solution, POLCAP*STACOH.

The cases with higher than 0.5 membership in this configuration are MOR 2000-2010, JOR 1999-2010, TUN 1988-1995 and TUN 1996-2010. This is an interesting result taken together with the previous analysis for GDPCAP2, which identified POLCAP*STACOH in conjunction with high corruption and low business organisation as sufficient for growth, and covered three of the four same cases, the recent periods of Tunisia, Morocco and Jordan. This suggests that this second path to growth is also associated with a high proportion of manufactures exports, while EGY 2004-2010, which had higher growth, had a low proportion of manufactures exports. In other words, the higher state coherence and top-down inclusion of business elites in Tunisia, Morocco and Jordan seems to have been more successful in terms of economic transformation and an increase in productive capacities, even though their growth was not quite as high as in Egypt (and Jordan scored below the threshold for GDPCAP1,

while Tunisia and Morocco were scored above). Interestingly, POLCAP*STACOH was also (just) identified as a necessary condition for a high HDI earlier, confirming the significance of this configuration.

We now turn to the analysis for ~MANEXP, which yields the following truth table:

Table 39: Truth table for ~MANEXP (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	~MANEXP	Consistency
1	1	1	0	1	0	0.711366
1	0	1	0	1	0	0.708200
1	1	0	0	2	0	0.680715
1	0	1	1	1	0	0.678401
1	0	0	0	1	0	0.674296
0	1	0	0	1	0	0.624352
1	1	0	1	4	0	0.254950
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

Consistency scores are low, there is no notable gap between the first and subsequent rows, and the first two rows only have one case each. Hence, all rows are assigned an outcome value of 0, which means that the data is too inconclusive to conduct any meaningful analysis of sufficiency for ~MANEXP. Running the analysis again, but with CORRALT, resulted in a very similar pattern of low consistency scores. Hence, we cannot draw any conclusions regarding sufficient configurations for a low proportion of manufactures exports.

IV.4.2.4 Analysis for HDI and ~HDI

While not the focus of this study, we will conduct the same analyses for the HDI, although there are constraints in the data – as mentioned above, only JOR 1999-2010 has a score higher than 0.5. The truth table below shows that consistency is very low across all rows. Hence, they all need to be coded 0 for the outcome, which precludes an analysis of sufficiency.

Table 40: Truth table for HDI (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	HDI	Consistency
1	0	1	1	1	0	0.578444
1	1	0	1	4	0	0.542222
1	0	0	0	1	0	0.519806
0	1	0	0	1	0	0.505987
1	1	0	0	1	0	0.486887
1	0	1	0	1	0	0.474375
1	1	1	0	1	0	0.442609
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

To explore every possible avenue, the analysis was repeated using CORRALT in case this would make a difference. It did in fact increase consistency, although it is still very low. For sake of argument, I assigned 1 to the outcome of the first row (consistency 0.621895) and conducted the analysis, with the result below.

Table 41: Truth table for HDI using recalibrated corruption score

CORRALT	STACOH	BUSORG	POLCAP	Number of cases	HDI	Consistency
0	1	0	1	2	1	0.621895
1	0	1	1	1	0	0.578077
1	1	0	1	2	0	0.542799
1	0	0	0	1	0	0.519841
0	1	0	0	1	0	0.505596
0	0	1	0	1	0	0.49148
1	1	0	0	1	0	0.486497
1	1	1	0	1	0	0.442545
1	1	1	1	0		
1	0	1	0	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	0	1	1	0		
0	0	0	1	0		
0	0	0	0	0		

--- COMPLEX SOLUTION ---

frequency cutoff: 1.000000
consistency cutoff: 0.621895

	raw coverage	unique coverage	consistency
~corralt*stacoh*~busorg*polcap	0.676003	0.676003	0.621895

solution coverage: 0.676003
solution consistency: 0.621895

Cases with greater than 0.5 membership in term ~corralt*stacoh*~busorg*polcap: JOR 1999-2010 (0.501,0.69), TUN 1988-1995 (0.501,0.1)

The intermediate solution had an even lower consistency score of 0.587614 and is not shown for this reason. The complex solution identifies one solution term, with two cases having greater than 0.5 membership, JOR 1999-2010 and TUN 1988-1995. Of these, the latter is a true logical contradiction with a membership of 0.501 in X and 0.1 in Y. JOR 1999-2010 is also only just a member, with a membership of 0.501, due to the

recalibration of the corruption score. Coupled with the low consistency, it would be prudent to disregard this solution.

Given that the underlying reason for this unsatisfactory result is that JOR 1999-2010 is the only case with a HDI score higher than the 0.5 threshold (0.70), I tested what would happen if the qualitative anchors were relaxed so that 0.55 – the threshold for “medium human development” – is taken as the “0.5” anchor, 0.80 remains as the “1” anchor and 0.20 is introduced as “0” anchor (this is approximately the lowest score given to a country in the HDI). In this case, consistency scores were above 0.90 for every row. This is because almost every case has a raw HDI score above 0.55 (except MOR 1984-1991, MOR 1992-1999 and EGY 1984-1990; see appendix). As all rows would be regarded as a positive outcome, there are again no meaningful findings.

Finally, an analysis of sufficiency was conducted for ~HDI, with the resulting truth table below. All consistency scores are above 0.90. Despite a gap between rows six and seven, it would be difficult to justify assigning a negative outcome value to row 7 given that its consistency is almost 0.92. The one case of high HDI gets lost among the bulk of cases with ~HDI, which means that many paths are consistent with a statement of sufficiency and there are no meaningful results.

Table 42: Truth table for ~HDI (sorted by consistency score)

CORR	STACOH	BUSORG	POLCAP	Number of cases	~HDI	Consistency
1	1	1	0	1	1	0.994401
1	0	1	0	1	1	0.993594
1	1	0	0	1	1	0.992398
1	0	1	1	1	1	0.991308
1	0	0	0	1	1	0.991197
0	1	0	0	1	1	0.988412
1	1	0	1	4	1	0.918384
1	1	1	1	0		
1	0	0	1	0		
0	1	1	1	0		
0	1	1	0	0		
0	1	0	1	0		
0	0	1	1	0		
0	0	1	0	0		
0	0	0	1	0		
0	0	0	0	0		

In conclusion, the HDI is not well-suited for a medium-n QCA of countries at similar stages of development due to a lack of variance. The HDI scores for all cases are relatively close to each other, so that even when choosing any alternative threshold value between 0.55 and 0.70, consistency scores for all rows are so close that they would either all have to be coded negative or all positive.

IV.5 Summary of results

From a theoretical point of view, a number of interesting results have emerged from the analysis above:

- a) Low corruption is not a necessary condition for high growth.
- b) High corruption is associated with low growth only if political capability is also low.
- c) A second scenario is associated with low growth, although not as robustly: high state coherence with low business organisation and low political capability, with corruption scores not being relevant.
- d) The combination of high corruption, low state coherence, high business organisation and high political capability is a sufficient condition for high growth, but not for a high proportion of manufactures exports.
- e) The combination of high corruption, low business organisation, high state coherence and high political capability is a sufficient condition for moderately high growth, and a combination of the latter two conditions is sufficient for a high proportion of manufactures exports.

In relation to the theories and hypotheses discussed in chapters II and IV.2, these results have several implications. Orthodox theories of corruption and growth were shown to be too simplistic and the results of regression analyses do not hold up to this more case-oriented scrutiny. The role of corruption is more complex. By itself it is neither necessary for growth nor sufficient for low growth. The results rather confirmed the claims of heterodox theories that it is political capability which matters; all configurations which are sufficient for growth feature high political capability, while

low political capability in combination with corruption does seem to cause low growth. In fact, most cases with low growth exhibited this particular configuration (EGY 1984-1990, EGY 1991-2003, MOR 1984-1991, MOR 1992-1999 and JOR 1984-1989).

With respect to the role of state coherence and business organisation, most of Kang's (2002) ideal types did not emerge as necessary or sufficient configurations. Scenario c) does broadly fit the predatory state type and is associated with low growth as expected. A look at the case level shows that there are similarities to a typical predatory state, but a more fitting characterisation would be that these are cases of semi-rentier states which kept the state coherent and societal forces away from policy-making through varying mixtures of rent allocation, neopatrimonial patterns of rule, clientelism and co-optation (JOR 1984-1989, JOR 1990-1998, EGY 1984-1990). The opposite type of low state coherence and high business organisation would, in Kang's model, lead to low growth as well (the "rent-seeking" type), but in fact it is associated with high growth in conjunction with high corruption and high political capability. This is the case of Egypt 2004-2010, and as the within-case study will show, the different result stems from the organisation of power and the political interests of both rulers and business elites. Kang's types are rather static without considering the political dimension expressed by POLCAP. A configuration resembling Kang's "mutual hostages" type is MOR 1984-1991, with the *groupes* coming closest to the Korean *chaebol* of any of the cases here as well as a coherent state. However, the case exhibits low growth, contrary to the hypothesis. It is again the organisation of power and dimension of actors' interests which makes a large difference, as the Fassi elites constituted the most important clients of a neopatrimonial ruler who had no political incentive to manage rents effectively.

From an empirical point of view, the most important finding is the identification of two distinct paths which are associated with positive development outcomes. Both feature a high degree of political capability and high corruption. The first path is the one represented by Egypt 2004-2010, which combines these conditions with high business organisation – due to dominant, cross-sectoral conglomerates and capital concentration rather than collective action – and low state coherence, owing to the penetration of economic policy-making by business elites. This path is associated with the highest growth rates of all configurations, but not with economic development in a wider sense

of economic transformation and increasing productive capacities. The within-case study will explore this further.

The second path combines the same two conditions, political capability and high corruption, with low business organisation and high state coherence. It is similar to configuration c) which was found to be sufficient for low growth, but in conjunction with high rather than low political capability it is more akin to Kelsall's (2013) "developmental patrimonialism". This characterises the more recent periods of Tunisia, Morocco and to a lesser extent Jordan (which scored above the threshold for GDPCAP2 but not GDPCAP1), where business elites remained cronies and the state largely coherent in policy-making. While business elites did not directly attain decision-making power as in Egypt but were included in policy-making top-down, political interests were similarly aligned pro-business and allowed the implementation of growth-promoting policies with few obstacles in the organisation of power. In the case of Tunisia and Morocco, this was not the least because of a marriage of political and "private" business interests in the person and family of the ruler himself; where before rulers were tied to the public sector which provided one of the main sources of regime legitimation, the rulers were now politically and economically oriented to the private sector. This path is associated with moderate growth rates but a higher degree of economic development in the wider sense compared to the first path. Hence, this suggests that high state coherence with high political capability facilitates transformative policies. The low degree of state coherence and penetration of policy-making by business elites in Egypt, in contrast, seems to have pushed growth-enhancing policies but not resulted in wider economic development. This will be explored in more detail in chapter V.

Finally, from a methodological point of view, the results show the strength of QCA in evaluating competing typological theories and capturing the complexity of SBR. Some patterns, such as the two paths of state-business collusion and their different outcomes, could have been suspected by comparing a limited number of cases, for example only the latter periods of the four countries, using a small-N comparative design. However, the results are more robust as not only four configurations were included in the analysis, but approximately eight, and logical remainders were not ignored but cautiously considered as counterfactuals. In addition, the results regarding necessary conditions on

the one hand and sufficient conditions for low growth on the other would not have emerged, as Mill's methods do not distinguish between sufficiency and necessity and do not account for asymmetrical causality.

Chapter V

Growth without Economic Transformation: State-Business Collusion in Egypt 2004-2010

The case of Egypt between 2004 and 2010 emerged as a particularly interesting configuration from the qualitative comparative analysis, raising questions how a combination of high corruption, low state coherence and high business organisation could lead to high growth but not wider economic development. The QCA identified political capability as the main factor in determining the economic outcomes of collusive relations. This chapter will investigate the organisation of power and political interests of state and business actors in more detail, using the congruence and process-tracing methods presented in chapter III.2.⁶⁶

V.1 Overview: The riddle of Egypt 2004-2010

With the Arab Spring protests of early 2011 not least of all inspired by socioeconomic grievances, one tends to overlook that during the last years of Mubarak's rule, growth-oriented economic policies were remarkably successful. The 2000s were marked by the most ambitious economic reform programme and the highest growth and investment rates of the past decades. The government implemented trade and financial sector reforms, accelerated privatisation and improved the business environment, for which it received the title of "top reformer" by the World Bank (World Bank and IFC 2007). Policies were based on an industrial development strategy which specified target sectors and included clear performance goals (MFTI 2006). Between 2004 and 2010, the Egyptian economy grew by 5.6 percent on average, boasting growth rates of about 7 percent for three consecutive years (2006-2008). It attracted foreign direct investment worth over 50.8 billion USD – more than double the total amount that had come into the country since the beginning of economic liberalisation in the mid-1970s (data from: World Bank 2018a).

A closer look at these positive trends shows that the Egyptian economy was not on a path of sustainable economic development. High poverty, inflation and unemployment persisted, and proclamations of an "emerging success story" (IMF 2007) were clearly premature. Yet, the achievements were too striking to be ignored or dismissed as accidental; there was a deliberate growth strategy which seems to have been effective.

⁶⁶ This chapter draws on previously published work (Matzke 2011, 2013) and the author's unpublished M.A. dissertation (Matzke 2008).

This is all the more surprising since the same period was characterised by an unprecedented level of high-profile corruption. Never before had so many businesspeople occupied political offices in the cabinet and the ruling *National Democratic Party* (NDP). Thanks to political ties, businessmen-turned-ministers made huge profits in the stock market and state-owned enterprises as well as state land were sold to investors under value (Roll 2010b; Adly 2011). After the overthrow of President Mubarak, several of his former ministers and high officials received long prison terms for embezzlement, profiteering, money laundering and similar offences (for an overview see Bassiouni 2012).

The coexistence of shameless corruption and high growth begs explanation. Orthodox economics as well as the *good governance* perspective taken by international financial institutions expect corruption to inhibit growth – so why was Egypt different?

The first part of the within-case study will employ the congruence method discussed in chapter III.2.1, examining the change of SBR in 2004 as well as economic outcomes before and during the 2004-2010 period. The objective is to establish whether there was a congruence between changes in SBR and changes in economic outcomes which would suggest a causal relationship. Economic outcomes are divided into indicators of economic performance on the one hand and wider economic development on the other in order to identify potential differences in surmised effects on both.

The second part looks more closely at mechanisms linking SBR and economic outcomes by focusing on the process of policy-making and policy implementation, specifically instances of information exchange, reciprocity, credibility and trust as discussed in chapter II.4 (Schneider and Maxfield 1997). The aim is to identify causal process observations which can confirm or refute theoretical expectations.

V.2 State-business relations and economic outcomes in the 2000s

V.2.1 The emergence of Egypt's collusive growth coalition

In the 2000s, Egypt witnessed the emergence of close relations between state and business elites who had the explicit goal of promoting private investment and growth. This was enabled by a specific constellation of political and economic conditions following earlier developments. Politically, Sadat's economic opening (*infitah*) in the 1970s and Mubarak's support of selected loyal business elites had enabled "crony capitalists" to build private business empires dependent on state patronage (Henry and Springborg 2001: 152-155). Then, during the 1990s, businesspeople, public sector managers and bureaucrats had used the selective privatisation of state-owned enterprises to establish monopolies and oligopolies (Wurzel 2004), and preferential access to credit from public banks led to capital concentration in the hands of few businesspeople and families (Roll 2010b). Economically, although the structural adjustment policies of the 1990s had achieved macroeconomic stabilisation, the stagnating performance during the first years of the new millennium suggested a need for investor-friendly reforms. Several obstacles to private investment were identified by observers and IFIs, among them an investment climate marred by red tape, trade barriers and sluggish privatisation (IMF 2001, 2004).

In this situation, a rising business faction within the NDP pressed for further reforms. The evolving nexus between state and business was embodied by Gamal Mubarak, an investment banker and one of the president's sons. He had personal ties to many businesspeople representing the second generation of crony capitalists.⁶⁷ This so-called new guard or "Gamal group" (Demmelhuber 2009) started climbing the ranks of the NDP at the 2002 party congress, when Gamal Mubarak became chair of the newly established Policy Secretariat, tasked with the coordination of party policies, as well as a member of the Steering Office. Several business elites from the "Gamal group" joined the General Secretariat. Businessmen Ahmed Ezz, Hossam Awad and Hossam Badrawi,

⁶⁷ Their connection was institutionalised as early as 1992 through the foundation of the *Egyptian Center for Economic Studies* (ECES), a think tank which established itself as the ideological driver of neo-liberal economic reforms (Roll 2010a: 363-365; Henry and Springborg 2010: 169). Among its members were businessmen Ahmed Ezz, Nassef Sawiris, Rachid Mohamed Rachid and Ahmed El-Maghrabi.

who already chaired parliamentary committees, were given leadership of three party secretariats. The new dominance of business-minded politicians was seen as a weakening of the “old guard” and led to criticism from other NDP delegates (El-Din 2002a, 2002b). In 2006, Gamal Mubarak was appointed Deputy General Secretary and Ahmed Ezz chair of the Secretariat for Organisational Affairs.

Starting in 2004, businessmen also began to dominate the government and attained direct control over economic policy-making: in the cabinet of technocratic Prime Minister Ahmed Nazif, a former engineering professor, all economy-related portfolios were given to members of the new guard.⁶⁸ Previously, business elites had been mostly dependent clients, despite increasing numbers entering parliament. Now, they possessed considerable political power to translate their preferences into policies and intervene into day-to-day business affairs using their ministerial competences.

Moreover, financial dependence on the state had decreased. A second phase of financial liberalisation and privatisations in the banking sector starting in 2003 provided new financing opportunities through multinational banks and a growing stock market (Roll 2010a). Not only did this reduce dependence on loans from public banks, it also diminished state control over private assets – from the “business as capital” perspective, capital gained structural power. Private investors were needed to combat economic stagnation. In addition, state leaders increasingly relied on direct financial support from big business. Gamal’s rise and claim to the presidency was financed and supported by his big business allies (Roll 2010a: 365, 368), and business tycoon Ahmed Ezz reportedly funded President Mubarak’s 2005 election campaign (El-Din 2007). He also coordinated work on the campaign itself and Mubarak’s programme using his own consultancy organisation (El Tarouty 2015: 64f.). At the start of the Arab Spring, businesspeople tried to maintain regime stability and some were accused of having paid for armed thugs to attack anti-Mubarak protesters (ibid: 79).

⁶⁸ Examples include Rachid Mohamed Rachid, former chairman of Unilever Egypt, who was made Minister of Foreign Trade and Industry, Ahmed El-Maghrabi of the Mansour and Maghrabi Investment Company, a financier of real estate development projects, who was first appointed Minister of Tourism and then Minister of Housing in 2005, his successor as Minister of Tourism, Zoheir Garranah, an executive of the tourism conglomerate Garranah Group, Tarek Kamel, former board member of Telecom Egypt, who was made Minister of Communications and Information Technology, cotton exporter Amin Abaza, who became Minister of Agriculture and ECES senior economist Mahmoud Mohieldin, who became Minister of Investment. In 2006, Mohamed Mansour, sole distributor for GM, Caterpillar and other companies, became Minister of Transportation (Demmelhuber 2009; Roll 2010b; company websites).

Consequently, at least for the top business elite, hierarchical patron-client relations seemed “increasingly to diminish in favour of mutual dependence” (Roll 2010a: 367). Thomas Demmelhuber asserts that a “new generation of businessmen has entered the very core of the ruling élite” (2011: 152).⁶⁹ As there was no clear distinction between the two categories but, in typical neopatrimonial fashion, manifold personal overlaps, one could even say that essentially, business elites within and outside of the state supported each other.

Relations between state and business elites were thus closer than ever and both pushed for growth-oriented policies. However, in contrast to Bräutigam et al.’s (2002) “growth coalition”, they were characterised by individualised collusion rather than organised collaboration. Numerous examples of high-level corruption show how state and business elites colluded for private gain. Ministers Ahmed el-Maghraby, Mohamed Mansour and Rachid Mohamed Rachid reaped high profits from their stakes in the investment bank *EFG-Hermes* when share prices rose and thus directly benefited from government decisions (Roll 2010b: 209-214). Production licenses were allocated in a corrupt fashion; after Mubarak’s ouster, Minister of Trade and Industry Rachid was convicted of having conspired with Amr Assal, head of the *Industrial Development Authority*, to illegally allocate licenses for the production of steel to companies owned by Ahmed Ezz (Bassiouni 2012). Privatisation deals were also prone to collusion. Investment Minister Mohieldin allegedly intervened to lower the price at which retail chain Omar Effendi was sold to a Saudi investor in 2006 by 100 million USD (Adly 2011: 17-19). Public land was often sold to private businesspeople under value, and embezzlement and misuse of state funds were common. After the 2011 uprising, Minister Rachid was found guilty of having used his position as chairman of the Export Development Fund to channel funds to companies in which he himself was a shareholder, and of having misused funds of the *Industrial Modernisation Centre* (IMC). Finance Minister Boutros-Ghali was convicted of having used state resources to

⁶⁹ The political influence of big business was certainly of a different quality than during the 1990s, when businesspeople were often consulted by the state but did not have any real influence on policies (Zaki 1999). Still, one should not overestimate the business elites’ newfound power; it was ultimately President Mubarak who took the most important political decisions. This showed during the last days of Mubarak’s rule, when all businessmen-turned-ministers were sacked without much resistance in order to appease public discontent (Matzke 2011; see also Springborg 2013 for a critique of the perceived political importance of business in Mubarak’s Egypt). The relevant characteristic of SBR during this period is the business elites’ direct control over economic policy-making and implementation rather than their political power vis-à-vis President Mubarak.

finance his campaign for the 2010 parliamentary elections and embezzled ministry-owned luxury cars (Bassiouni 2012). The president's sons Gamal and Alaa were both handed a prison sentence for embezzlement and insider trading (they were released in 2015).⁷⁰

Indices and surveys also attest to the prevalence of corruption during the 2000s. The ICRG average score 2004-2010 is 1.86, the lowest of all country periods covered in chapter IV. Transparency International's *Corruption Perceptions Index* ranked Egypt 77th out of 145 in 2004 and 98th out of 178 in 2010; the absolute value remained almost the same. The *Global Competitiveness Report 2010-2011* issued by the World Economic Forum (2010: 148f.) identified corruption as the main obstacle to doing business in Egypt.

While there were anti-corruption initiatives, often funded by external donors, state-business collusion was not effectively curbed. The *Egyptian Competition Authority*, which was established in 2006 to investigate antitrust cases, was not politically independent (Afifi 2010). It was under direct supervision of the Prime Minister, who delegated his authority to the Minister of Foreign Trade and Industry. The referral of a case to the state prosecutor required ministerial approval, and the minister was able to override judicial verdicts. All 15 board members were appointed by the Prime Minister. Business elites with close ties to or within the cabinet were therefore in no danger of losing their monopolies and quasi-monopolies. One anti-corruption initiative at the Ministry of Investment, which was supported by UNDP, aimed at building capacities and generating awareness, but did not allow for the sanctioning of offences.⁷¹ According to the project director, the political leadership had no interest in pursuing high-profile corruption as business elites could have withdrawn their political support. There was

⁷⁰ One might object to using the trial of Mubarak regime figures after Mubarak's fall as an indicator of widespread corruption since convictions could reflect post-Arab Spring bias. Yet, it is plausible that the corruption cases are based on actual offences and, moreover, that they represent only a small share of those cases which could have been investigated. Much of the evidence was publicly known even under Mubarak and allegations discussed in the media. Bassiouni (2012: 27) concludes that "[t]he persons brought to trial were narrowly selected from a much larger potential pool, and the charges brought against them were limited. (...) These cases were hastily investigated, presumably, due to the public demands for immediate action. But it could also be interpreted, as some in the media have done, to be a way of placating the demands of public opinion without stirring the corruption pot too much."

⁷¹ *Supporting the Ministry of Investment in Enhancing Transparency and Fighting Corruption*, 2006-2012, with a budget of almost 2 million USD.

also a lack of regulation which hindered transparency, for example regarding the disclosure of financial statements by companies listed on the stock market.⁷²

V.2.2 Economic performance

After the emergence of Egypt's "collusive growth coalition", economic performance improved markedly. At the beginning of the 2000s, the economy was stagnating; growth stood at 3.19 percent in 2002/2003 (see table 43 for an overview of selected economic indicators). Foreign direct investment (FDI) inflows were as low as 0.24 billion USD in 2002/2003, which equalled only 0.04 percent of global FDI. By then, official unemployment had risen to 11 percent. Starting in 2003/2004, however, an upward trend set in, which was particularly pronounced between 2006 and 2008, when growth rates reached about 7 percent. GDP per capita grew at slightly above 5 percent. Increased private investment seems to have been the major source of growth, rising to 14.41 percent of GDP in 2007/2008. FDI in particular surged to an all-time high of 11.58 billion USD in 2006/2007, which now represented 0.47 percent of global FDI. At the same time, total debt service in percent of GDP declined during the 2000s and budget deficits remained high but did not vary greatly, so growth was not simply debt-financed (data from: World Bank 2018a).

During the global financial crisis in 2008, FDI started to decline and GDP growth fell to 4.67 percent in 2008/2009. This was, however, still above the level of most European countries and the United States, which had been hit harder by the crisis. In 2009/2010, the growth rate rose again to 5.15 percent. For the following years, the Finance Ministry expected a further increase to 6 percent in 2010/2011 and 7 percent in 2011/2012 (Ahram Online 2010). Due to the serious economic repercussions of the 2011 uprising, however, actual growth was much lower.

Lagging behind increased growth, the rate of unemployment dropped after 2004/2005, with a low of 8.5 percent in 2007/2008. Newly created jobs were insufficient to offset a labour force potential growing at about 2.8 percent per year (Hassan und Sassanpour 2008: 3). Also, capacity utilisation in manufacturing was low, so only small

⁷² Personal communication with Ahmed Ragab, project director at the Ministry of Investment, Cairo, 16 December 2010.

employment effects were to be expected.⁷³ Youth unemployment was particularly high: in the third quarter of 2010, 87.1 percent of all unemployed were between the ages of 15 and 29, and almost every other Egyptian between 20 and 24 was out of work (CAPMAS 2010).

Table 43: Selected economic indicators, 2000/2001-2009/2010

Year ^a	Real GDP growth	Real GDP per capita growth	Private investment in % of GDP	Net FDI inflows in billions of US\$	Unemployment rate	Inflation, average consumer prices
2000/2001	3.54	1.62	8.99	0.51	9.3	2.27
2001/2002	2.37	0.45	8.40	0.65	10.0	2.74
2002/2003	3.19	1.25	8.06	0.24	11.0	4.51
2003/2004	4.09	2.16	7.64	1.25	10.3	11.27
2004/2005	4.48	2.58	8.62	5.38	11.2	4.87
2005/2006	6.85	4.97	10.74	10.04	10.5	7.64
2006/2007	7.09	5.23	13.06	11.58	8.8	9.32
2007/2008	7.16	5.28	14.41	9.49	8.5	18.32
2008/2009	4.67	2.76	10.93	6.71	9.1	11.76
2009/2010	5.15	3.09	10.50	6.39	9.0	11.27

^a The Egyptian fiscal year starts on 1 July and ends on 30 June.

Source: *World Development Indicators* (World Bank 2018a)

It should be noted that many experts estimate the unemployment rate to have been even higher, up to 20 percent (Bertelsmann Foundation 2011). In any case, the official unemployment rate has only limited significance. Approximately half of all private sector employees worked in the informal sector (Hassan and Sassanpour 2008: 8). The share of informal small enterprises was estimated at 82 percent, unchanged from the year 1988 (OECD 2009). Also, underemployment was widespread. According to data from 2005, only 60 percent of all employees worked full-time. Considering the low level of wages and a high level of inflation, even those who were employed could have suffered from income poverty (Hassan and Sassanpour 2008: 7, 11).

⁷³ According to the World Bank enterprise surveys, capacity utilisation was at 68.8 percent in 2008, up from 67.9 percent in 2007 (World Bank 2008).

Indeed, growth in Egypt cannot be considered pro-poor. Irrespective of high growth, national poverty rates rose consistently from 16.7 percent in 2000 to 19.6 percent in 2004/2005 and 21.6 percent in 2008/2009 (UNDP and Institute of National Planning 2004, 2008, 2010).⁷⁴ The share of “ultra-poor”, that is those who do not have enough income to cover their nutrition, decreased from 5.8 percent of the population in 2000 to 3.9 percent in 2004/2005, but rose again to 6.1 percent in 2008/2009. Moreover, larger shares of the population – including middle-class Egyptians – were threatened by poverty than the numbers at one single point in time suggest. Longitudinal analysis of a sub-sample of the household income and expenditure surveys of 2004/2005 and 2008 shows that between the reporting years, the welfare situation of 36 percent of the population improved, but that of 38 percent deteriorated (World Bank 2011a). This high degree of mobility implies that between 2005 and 2008, more than half of all Egyptians lived in poverty or near the poverty line at least once.

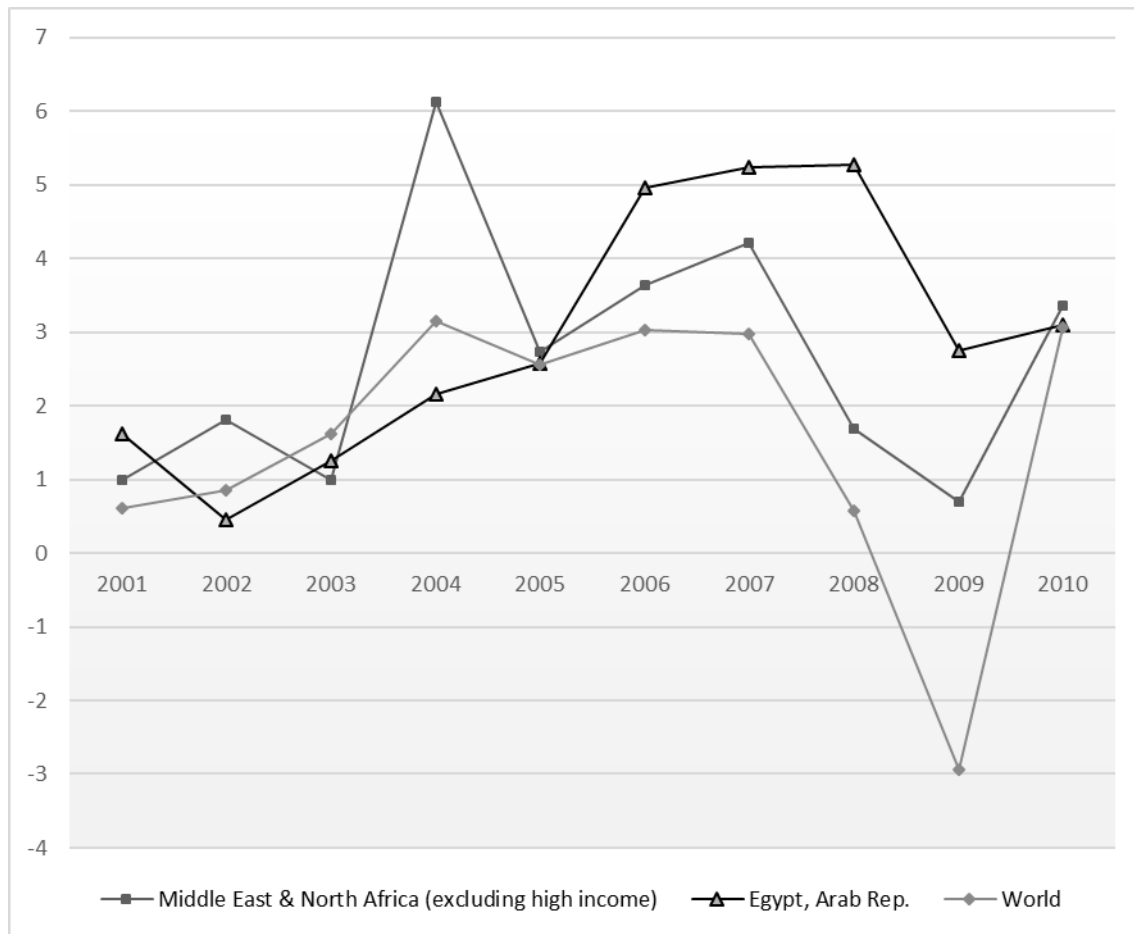
A likely reason for persisting poverty were high rates of inflation, in particular with respect to food and energy. The peak annual average was registered in 2007/2008 with 18.32 percent. This was in part due to economic growth, but also due to an increase in global energy and food prices which was not offset by domestic subsidies. In addition, poultry prices rose due to outbreaks of avian influenza in Egypt. Food inflation was as high as 26.3 percent in 2008 (CAPMAS 2011).⁷⁵

Critics have pointed out that Egypt’s growth performance could have been mainly due to favourable external conditions. The mid-2000s were marked by high growth rates globally and in other MENA countries. High oil prices resulted in almost a 100 percent increase of oil receipts for Gulf Cooperation Council states between 2004 and 2007, parts of which were invested in Egypt (Achcar 2009). A comparison with global per capita growth figures as well as MENA economies does show that there was a positive overall trend (see figure 3). However, there were marked differences; growth in Egypt picked up later, surpassed other MENA lower and middle-income countries as well as the global average, and it did not suffer as much during the global financial crisis.

⁷⁴ The national poverty rates cited here were calculated from consumption data collected by the household income and expenditure surveys of 1999/2000, 2004/2005 and 2008/2009 in comparison with the costs of basic needs during the respective years (UNDP and Institute of National Planning 2010: 241).

⁷⁵ This figure includes non-alcoholic beverages.

Figure 3: Real GDP per capita growth compared



Source: *World Development Indicators* (World Bank 2018a)

Moreover, Egypt was particularly successful with regard to FDI inflows. The FDI success is remarkable as Egypt was described as unattractive to foreign investors in the early 2000s due to its difficult business climate (Schlumberger 2005: 109-111). Improvements in the business climate were one of the policy priorities of the new growth coalition (see below).

FDI inflows rose from 3.4 percent of GDP in 2002/2003 to 8.2 percent in 2006/2007, by far surpassing the 2.5 percent average of lower and middle income (LMI) countries, the 1.3 percent average of MENA LMI countries as well as regional comparator Turkey's share of 3.3 percent (USAID 2008: 26). Only part of the surge in FDI can be attributed to high oil prices: during the high-growth years 2005/2006, 2006/2007 and 2007/2008, only 3.4, 25.4 and 17.1 percent of all FDI originated in the oil-rich Gulf states and Libya (Kamaly 2011). Instead, the bulk came from European countries and the United

States. Most of the oil profits were in fact invested in the West, only 13 percent went to Arab countries and Turkey (Pfeifer 2012). Thus, while external conditions certainly benefited the Egyptian economy, they cannot explain the magnitude and timing of its growth. Rather than constituting competing explanations, there seems to have been a coincidence of favourable circumstances and the growth-oriented economic policies implemented by Egypt's state-business coalition which will be examined in more detail in chapter V.3.

In summary, the discussion of Egypt's exceptional growth performance identified the rise of private domestic and foreign investment as the most important component. Growth has not benefitted the poorer parts of the population as evidenced by surging inflation and persistently high poverty and unemployment rates.

V.2.3 Economic development

Does the overall positive economic performance after 2003 also constitute economic development in the sense of an expansion of productive capacities and economic transformation? First, we will examine whether there is evidence of a sectoral transformation towards manufacturing. At first sight, rising growth rates of value added in manufacturing, peaking at 8.1 percent in 2007/2008, suggest that there is (for selected indicators of economic development see table 44). However, value added in manufacturing measured in proportion of GDP dropped nearly consistently between 2000/2001 and 2009/2010. While manufacturing investment (including oil products) represented the largest share of total investment in 2006/2007 and 2007/2008, it was surpassed by investment into extractive industries before and after (CBE, various years). Similarly, the share of FDI going into manufacturing peaked at 8.6 percent in 2007/2008 and declined thereafter (Kamaly 2011).⁷⁶ Investment into extractive industries made up 55 percent of total FDI inflows during 2006-2009. Tourism investments were also particularly high; FDI into tourism rose twelvefold between 2004/2005 and 2005/2006 (OECD 2007: 14f.). Thus, even though manufacturing benefited considerably during the high-growth years, this did not signify a profound transformation.

⁷⁶ The earliest data on the sectoral composition of FDI is from 2006/2007.

Second, there are few signs of an introduction of more advanced technology and only small productivity gains. In the survey-based *Global Competitiveness Reports* issued by the World Economic Forum (various years), Egypt ranked low with regard to firm-level technology absorption and the availability of latest technologies, despite relatively good marks for the transfer of technology through FDI. Its ranking did not change much during the high-growth years 2007 and 2008 with some short-lived improvements.⁷⁷

The lack of sectoral change and technological upgrading also shows with respect to the composition of exports. Egypt's exports in percent of GDP increased considerably during the mid-2000s (see table 44). However, the total share of manufactures exports even declined up to 2007 and only rose again during a time when energy prices went down. Next to oil, gas and petroleum products, which made up about half of all exports, mainly products of energy-intensive industries such as electric machines and appliances, cement, base metals, iron and steel products and pharmaceuticals were exported (CBE 2008: 72).

Moreover, the share of high-technology exports remained low throughout the 2000s with no discernible positive trend (see table 44). Diversification of exports was relatively low but did improve considerably during the 2000s: the number of exported products with a value of over 100,000 USD approximately doubled. Egypt thus caught up with the Philippines, which exported about 2,000 products during that time.

One element which may have contributed to the limited nature of the expansion of productive capacities was the neglect of Egypt's human capital. Its education system was notoriously ineffective and in dire need of reform (Henry and Springborg 2010: 187). An "inadequately educated workforce" was repeatedly cited as one of the top three obstacles for business in the *Global Competitiveness Report* executive opinion surveys (WEF 2008, 2009, 2010). Labour productivity growth was slow, although higher than the median of MENA lower and middle-income countries (USAID 2008: 6f.).

⁷⁷ There is no data available prior to 2006 so comparison across all years is not possible.

Table 44: Selected indicators of economic development, 2000/2001-2009/2010

Year	Growth of manufacturing, value added	Manufacturing, value added (% of GDP)	Exports of goods and services in % of GDP	Manufactures exports in % of merchandise exports	High-technology exports in % of manufactures exports	Number of products exported ^a
2000/2001	3.6	19.1	17.5	32.7	0.9	1036
2001/2002	4.2	19.1	18.3	35.4	0.8	1164
2002/2003	1.7	17.8	21.8	31.0	0.5	1231
2003/2004	2.8	17.6	28.2	30.5	0.6	1321
2004/2005	4.4	17.0	30.3	23.6	0.4	1418
2005/2006	5.9	16.6	29.9	21.2	0.6	1362
2006/2007	7.6	15.7	30.2	18.8	0.2	1405
2007/2008	8.1	15.7	33.0	36.5	1.0	2005
2008/2009	4.1	16.0	25.0	43.8	0.8	2059
2009/2010	5.3	15.8	21.3	43.4	0.9	2066

^a These figures refer to exported products with a value of over 100,000 USD during calendar years 2001-2010 according to Standard International Trade Classification, Rev. 3.

Sources: *World Development Indicators* (World Bank 2018a); *Commodity Trade Statistics Database* (UN Statistics Division 2018)

In summary, there were some signs of economic development but not of significant overall economic transformation. The positives included a considerable growth of manufacturing and exports, transfer of technology through FDI and a higher diversification of exports, but there was no shift towards a dynamic, competitive manufacturing sector and increased export of higher-value goods.

V.3 Collusive state-business relations as an explanation for ambiguous outcomes

Application of the “congruence method” has yielded an ambiguous picture. On the one hand, high growth rates and the surge of FDI after 2004 suggest that the emergence of a “collusive growth coalition” had positive effects. On the other hand, there was no economic transformation in the sense of dynamic capitalist development with a successful transition from import substitution to export-oriented growth and high-productivity sectors, although some indicators of economic development did improve. The traditional reliance on income from tourism, extractive industries, migrant remittances and the Suez Canal was not broken. In essence, Egypt displayed “growth without economic transformation”, a phrase coined for the case of Ghana by Whitfield (2011).

Following from the theoretical literature, there are two competing hypotheses with regard to the causal effect of collusive SBR as they were identified for the case of Egypt 2004-2010. Orthodox theories would expect them to have led to an uncertain investment climate and low growth. The previous chapter already called this into question, but we will now test the claim in more detail.

Heterodox theories, in contrast, hold that the relationship between corruption and low growth is not automatic and that, under certain conditions, collusive relations can raise investment levels and growth. Timing does speak in favour of such a link, but this chapter will look for further evidence in the form of causal-process observations.

The starting point for the process-tracing analysis is the argument by Schneider and Maxfield (1997) which assumes that causal mechanisms work through information exchange, reciprocity, credibility and trust within the policy-making process. Policy-making thus represents an intervening variable between changes in SBR and economic outcomes. If there was a causal relationship, we should find evidence of growth- and particularly investment-promoting policies and incidents of information exchange, reciprocity, credibility and trust between state and business actors working towards the introduction and implementation of these policies. We should also find evidence of these characteristics in state-business collusion preventing the success of industrial policies which could have led to a transformation of the economy.

V.3.1 Growth-promoting policy reform

The emerging collusive growth coalition did indeed pursue growth-oriented policy reform in several areas. Financial reform started in 2003 with the floatation of the Egyptian pound and continued in 2004 with deregulation measures and a restructuring of the entire system, including the sale of the Bank of Alexandria to Italian banking group San Paolo IMI in 2006. The total number of banks was reduced from 62 in 2003 to 39 in 2009, and fewer than half remained publicly owned. The main beneficiary of this second phase of financial liberalisation in Egypt was big business (Roll 2010a, 2010b). Moreover, privatisation was accelerated across the board and provided opportunities for domestic and foreign private investment. The government privatised ten times as many firms in fiscal year 2004/2005 as the year before, and privatisation proceeds between 2004 and 2008 were twice as high as during the previous decade (Roll 2010b: 120).

Trade liberalisation was another major area of reform. The association agreement with the EU entered into force in June 2004 and provided free access for manufactured goods. In September 2004, tariffs and non-tariff barriers were reduced. Also, the Greater Arab Free Trade Area came into effect in 2005. Further trade agreements were struck with Turkey in 2005 and Switzerland, Norway, Iceland and Liechtenstein in 2007.

Of particular importance for the link between policy-making and investment were the government's industrial policy and business climate reforms. There is evidence of both "weak" or "horizontal" and "strong" or "targeted", "vertical" industrial policy (cf. Khan and Blankenburg 2009). Horizontal industrial policy refers to an improvement of conditions for private investment in general. The Nazif cabinet, in particular Mahmoud Mohieldin, who was Minister of Investment from 2004 until 2010, implemented several reform measures to attract and support private investors. The *General Authority for Investment and Free Zones* (GAFI), a subsidiary of the Ministry of Investment, was transformed into an investment promotion agency. In January 2005, GAFI introduced a "One-stop shop" which integrated about thirty different government agencies and formed a central contact point for investors. "One-stop shops" were also established in ports. In addition, the required minimum capital for starting a business was substantially reduced, the procedures for the issuance of building permits were simplified and the

costs for registering property were lowered (for an overview see World Bank 2011b). The new cabinet also implemented a tax reform in order to promote investment and raise tax revenue. Corporate tax and the maximum personal income tax were lowered to 20 percent, regulations for multinationals and tax administration were improved. Despite tax rates thus being cut by up to 50 percent, revenues rose (Ramalho 2007).

Egypt's rankings in the World Bank's *Doing Business* surveys indicate the success of these investment climate reforms. It was given the title of "top reformer" in 2006/2007, in particular thanks to the time needed for opening a new business having been cut in half. In 2010, it was nominated one of the ten strongest reformers worldwide for the fourth time in a row. These survey-based indicators are supported by hard evidence: the number of companies registered in Cairo more than doubled after the introduction of the GAFI one-stop shop, and the number of newly registered companies in Cairo, Alexandria and Assiut rose by 72 percent during the six months after the reduction of the minimum capital requirement (World Bank and IFC 2007: 6).

To get an idea of the euphoria with which these reforms were received by large businesses, one only needs to look at the multitude of media interviews with private investors from the mid-2000s, for example in *Business Today Egypt's* special 2006 issue "49 reasons why Egypt is hot today". Businesspeople praised the economic reforms and newfound responsiveness of the government to business interests. Hassan Abdalla, Vice-Chairman and Managing Director of the Arab African International Bank, said that "(t)he Central Bank has a very clear vision for the sector. We in the industry now have a council for coordinating policies and have benefited from clear leadership at the CBE" (Oteify 2006a: 60). Samir Allam of Hassan Allam Sons Co., one of Egypt's largest construction companies, commented that "(t)he relationship between government and the business community changed drastically under the Nazif cabinet (...) Now, the dialogue is much more responsive and based on positive language, and the government looks at the business community as a partner" (Oteify 2006b: 64). Magdy Tolba, chairman of ready-made garments producer Cairo Cotton Center, confirmed that "(w)hen the new government came in in 2004, it was evident from the beginning that the environment would be different" (Mostafa 2006: 68). Similarly, James Pringle, a business consultant for tourism investment, applauded that "decisions that used to take months now take days or minutes. There is clearly a new dynamic going on. I have

never seen this before in my 28 years in the Egyptian market. I have never seen the cooperation of almost what I can call a public-private partnership, where the government really wants to have a dialogue and resolve any problems of legitimate, serious investors” (Oteify 2006c: 107).

The author’s interviews with businesspeople confirmed these statements. The head of corporate and regulatory affairs at a large multinational corporation stressed there was now a “business mentality” in government and that the new ministers were “results-oriented”. This was important as bureaucracy overall was still slow, so the quickest results were achieved by phoning contacts at the ministries directly.⁷⁸ The late Mohamed Taymour, chairman of *Pharos Holding for Financial Investments* and previously chairman and founder of investment bank *EFG Hermes*, one of the largest investment banks in the region, praised the Nazif government for doing “a fantastic job”, and added that there were “clearer policies” and a true “dialogue with the private sector”. The businessmen-ministers in particular were “quick to react”. Taymour was also chairman of the *Egyptian Capital Market Association* (ECMA), the professional association of investors established in 1996, and described that there was a dialogue between the ECMA and the *Egyptian Financial Supervisory Authority* (EFSA) with nearly monthly meetings and easy access to its head Ziad Bahaa-Eldin (in office from 2008 until 2010) – “if there are urgent matters, a phone call is possible” – and that the ECMA was being consulted before new laws were passed.⁷⁹

Businesspeople repeatedly stressed how the government and government agencies became more responsive to business demands and grievances, were easier to approach and quicker to solve problems, and that the new ministers understood the private sector because of their own private sector background. The new government was seen as *credible*, and there was *reciprocity* and *trust* in relations between state and business as well as *information exchange*.

These observations establish a direct link between the change in SBR, horizontal industrial policy and the rise in investment. All the while, the coalition which improved the investment climate was clearly collusive, and measures were often intransparent.

⁷⁸ Personal communication (confidential), Cairo, 12 December 2010.

⁷⁹ Personal communication, Cairo, 14 December 2010. It should be added that the reported responsiveness of the government to the ECMA could of course have applied to its chairman and key figures only rather than all members. It does not necessarily follow that this is an example of successful collective action.

A 2010 OECD report found that the Ministry of Investment and GAFI “tend to hold consultations in an *ad hoc* manner and the results of consultations are not routinely summarised or made publicly available” (2010a: 6). Improvements were not an outcome of “good” SBR. Therefore, not only is there no negative correlation between corruption and growth in the case of Egypt 2004-2010, even the causal process leading from corruption to an unfavourable investment climate and low investment rates hypothesised by the orthodox literature (for example Mauro 1995) is directly contradicted by the evidence. We can observe precisely the opposite process: a collusive coalition of state and business elites implemented reforms which improved the investment climate and increased investment, in other words: orthodox theories fail a “hoop test” while heterodox theories pass a “smoking-gun test”.

V.3.2 Ambivalent implementation of vertical industrial policy

Industrial policy was also targeted at specific industries and laid down in the Ministry of Foreign Trade and Industry’s *Egypt Industrial Development Strategy* (EIDS) in 2006 (MFTI 2006). This document had been authored by appointed experts during 2004 and 2005, among them businesspeople from the “Gamal group” (Loewe 2013: 33). Again, this process shows the individualised nature of SBR, with no formal involvement of private sector organisations, and the direct link between collusive SBR and industrial policy.

The EIDS aimed at increasing domestic investment through a variety of measures and set clear performance indicators.⁸⁰ It did not cover tourism, the hydrocarbon industry or small and medium enterprises (SMEs) and focused on medium to large manufacturing firms. Small and micro enterprises were supported by the *Social Fund for Development* (SFD). Since the EIDS listed as many as fourteen sectors to be promoted and thus hardly left out any major sector, Loewe (2013: 33) rightly points out that industrial policy was *de facto* more horizontal than vertical.

⁸⁰ For a comprehensive discussion of industrial policy in Egypt during this period, see Loewe (2013).

The EIDS provided for the following measures (Loewe 2013: 31-38):

- Promotion of labour skills through the *Industrial Training Council*
- Introduction of *Technology Transfer Centers* in order to increase industry productivity by introducing new technologies
- Promotion of a *National Quality System* in order to increase export competitiveness
- Development of capital markets to provide credit for private investment
- Development of industrial infrastructure, including the establishment of industrial parks
- Enhancing competitiveness through support for enterprises with over ten employees from the *Industrial Modernisation Centre* (micro-enterprises were to be supported by the *Social Fund for Development*)
- Promotion of exports, for example through reformed customs administration and the *Egypt Export Promotion Centre* as a central agency
- Attracting FDI to specific sectors through GAFI.

All measures were coordinated by an *Industrial Policy Unit* at the ministry.

This framework, initiated by corrupt elites, constituted the most elaborate industrial policy to date. The majority of measures concerned the increase of private investment, productivity, competitiveness and exports. In particular, the *Industrial Modernisation Centre* (IMC), for which the EU provided more than half of its budget between 2005 and 2010, seems to have been effective. Suppliers in the automotive sector reported significant productivity increases after participation in IMC programmes (Loewe 2013: 37). The IMC was staffed by educated, young people in their 30s and 40s who saw themselves as a counterweight to the old corporatist elites who were often in their 70s, such as the then-chairman of the *Federation of Egyptian Industries* (FEI), Galal El-Zorba.⁸¹ *Export Councils* promoted exports through training and subsidies – rents for learning – which were paid after companies successfully exported. This happened despite it being a violation of WTO rules (Loewe 2013: 38). The IMC and export councils regularly consulted with each other.

We will now specifically look for evidence of how state-business collusion hindered the effective management of rents with respect to transformative policies. In a comprehensive study of industrial policy in Egypt after 2004, Markus Loewe (2013: 2) finds that “Egypt’s post-2004 industrial policies have been comparatively effective in promoting investment and exports but much less so in facilitating structural change”. A likely reason for the lack of success in increasing productivity was the absence of

⁸¹ Personal communication with IMC employee (confidential), 15 and 16 December 2010.

independent and effective monitoring (Loewe 2013: 44). Goals were monitored by the implementing agencies themselves, which had an incentive to disburse funds. Also, they focused on measuring output, not impact. Boards of trustees which were supposed to monitor results were made up of the same elites who had been involved in drafting the strategy. In addition, and in contrast to developmental states such as South Korea, there were no sanctioning mechanisms if goals were not met by supported firms.⁸² Thus, big business, which dominated the industrial sectors targeted by the EIDS and was the main beneficiary of industrial policy, was not monitored whether it was becoming more productive as a result of financial support.

In fact, while some firms who had not been exporters before were able to benefit from state support and start exporting, the subsidies also helped firms who did not need it: “Enterprises that already were exporters when the Nazif government was appointed (...) benefited from substantial financial support that they did not need. Along with the aspiring exporters, they were the main constituency of the business ministers and Gamal Mubarak’s wing in the NDP and Parliament” (Loewe 2013: 77). The same applied to state support for smaller enterprises through the SFD, which was easier to access for those businesspeople who were educated and already had capacity. This resulted in the same people repeatedly applying for assistance.⁸³ Consequently, only a small number of companies managed to upgrade to being competitive exporters. Particularly SMEs continued to suffer from insufficient support for upgrading (see Loewe et al. 2013 for a comprehensive study). One of the main difficulties was access to finance as banks mainly lent to large businesses. SMEs often did not have the capacity to present business proposals to banks and could not evidence the required accounting and auditing processes.⁸⁴ The EIDS was also not concerned with reducing poverty or inequality (Loewe 2013: 33).

These observations can be seen as a passed “straw-in-the-wind test” which strengthens the hypothesis that state-business collusion facilitated industrial policy initiatives but blocked effective rent management for transformation and wider economic development.

⁸² Personal communication with Magda Shahin, Director of the Trade-Related Assistance Center at the American Chamber of Commerce, Cairo, 11 November 2010.

⁸³ Personal communication with Egyptian business consultant (confidential), Cairo, 30 November 2010.

⁸⁴ Personal communication with Mohamed Taymour, ECMA chairman, Cairo, 14 December 2010.

V.3.3 Evidence of collusion in selected sectors

Energy-intensive industries

The lack of rent management capacities to achieve economic transformation also shows with respect to energy subsidies, a form of transfer rent (Khan 2000a). They privileged businesses in energy-intensive industries such as cement, steel and so on – the majority of which were owned by members of the “Gamal group”, such as Ahmed Ezz (steel) and Mohamed Abou El-Enein (ceramics). The cabinet did at first raise prices moderately and, in 2007, introduced a plan to phase out energy subsidies over a period of three to five years. It was, however, scrapped in the context of the global financial crisis. While fuel subsidies were decreased from 6.8 percent of GDP in 2005/2006 to 5.4 percent in 2006/2007, they rose again to 6.7 percent in 2007/2008 (IMF 2010). In order to afford food subsidy and salary increases, the government announced a cut of energy subsidies to industry in 2008 but did not follow through (Henry and Springborg 2010: 178). At the end of the decade, the average rate of energy subsidisation amounted to 55.6 percent, with total energy subsidies reaching over 20 billion USD or 9.3 percent of GDP (Fattouh and El-Katiri 2012: 34). The real economic cost was even higher at 11.9 percent of GDP (Castel 2012).

Moreover, energy subsidies were not tied to any productivity benchmarks. They did not lead to firms “graduating” from state support. A study on the effect of the phasing out of energy subsidies found that cost in energy-intensive industries would have risen by about 30 percent as a result (Abouleinein et al. 2009: 17). It is likely that without subsidisation, these industries would not have been able to compete. At the same time, energy subsidies were highly regressive, especially in urban areas, where the richest quintile captured 33.3 percent of their benefit compared to 3.8 percent for the poorest quintile (ibid: 19). Energy subsidies thus served to protect the firms belonging to business elites while the general population hardly benefited.

Cheap energy led to a stellar performance of energy-intensive manufacturing, and trade liberalisation provided new export opportunities. Iron and steel exports quadrupled during the four years after 2003 (Henry and Springborg 2010: 177). On the downside, the subsidies were a drain on the budget, and these industries did not provide as many jobs as labour-intensive manufacturing such as textiles and clothing could have. Despite

a latent comparative advantage, however, the latter industries lacked state support and were suffering from low productivity (Henry and Springborg 2010: 179-181).

Business elites also intervened in policy-making to prevent policies which would have increased transparency and hurt their economic dominance. A prominent example is the antitrust law which was enacted in 2005 after a decade of political struggle. Ahmed Ezz, who had extended his share of the steel market to 67.1 percent in 1999 (Ghoneim 2002: 7), used his position as chairman of the Planning and Budget Committee to prevent the new law from endangering his monopoly. In the final draft, penalties had been decreased sharply, and an article which would have provided leniency to whistle-blowers was scrapped completely (El-Wardani 2011). The resulting law designated any firm which controls more than 25 percent of a market and can influence product supply unilaterally as “dominant”, but it faces sanctions only if it is also found guilty of “monopolistic practices” such as price fixing. High market concentration alone – which did not only occur in the steel, but also in the cement sector, where three firms controlled 63 percent of the market, and in the fertiliser sector, where two firms controlled 90 percent (OECD 2010b: 5) – could not be sanctioned. There was no restriction on mergers and acquisitions, they only had to be reported (Attia 2010). Ezz’s intervention prompted conflict within the NDP. The speaker of parliament, Fathy Sorour, later claimed that President Mubarak was against the amendment initially but that Ahmed Ezz was such an important figure that he managed to insist on the watering down of the law, showing that the relationship had “developed from mere co-option to mutual dependency” (El Tarouty 2015: 66f.).

These observations show that there was *information exchange* and *reciprocity* between business and state elites in parliament and the NDP which influenced economic outcomes. They represent a passed “smoking-gun test” as they establish a direct link between state-business collusion, policies in support of industries dominated by business elites involved in such collusion, and the ambiguous effects on economic performance on the one hand and wider economic development on the other.

Tourism and construction

In addition to energy-intensive industries, big business elites dominated the tourism, construction and building sectors. Between 2005/2006 and 2009/2010, the average

annual growth of the construction and building sector was almost 14 percent, compared to 2.0 percent in 2003/2004 (CBE, various years). Tourism receipts increased dramatically from 3.42 billion USD in 2002 to 10.38 billion USD in 2008 (CBE 2012). With economic liberalisation, tourism had become a favourite sector for private investors. Differential rents were enormous, with returns on investment of between 1,000 and 2,500 percent annually (Richter and Steiner 2008: 955).

Both construction and tourism provided opportunities to increase profits through collusion, for example by acquiring public land at below-market prices.⁸⁵ There is ample evidence for a causal link between day-to-day collusive practices and investment, such as the example of Hussein Salem, who was very close to President Mubarak himself. He bought large tracts of land in Sharm El Sheikh for a very cheap price, at 2-5 LE instead of 5,000-50,000 LE per square meter, without any public auction, and invested in a luxury hotel, golf course and conference centre (El Tarouty 2015: 105). Another well-known case is NDP member Hisham Talaat Mustafa, who bought land for his construction project *Madinaty* without it having gone to public auction. The first contract was annulled in court, but the land was then again sold to Mustafa under the same conditions (Abu Ghazala 2010). These examples represent incidents of *trust*, *reciprocity* and *information exchange* between state and business elites, and the *Madinaty* case is an example of *credibility* (towards Mustafa – not the private sector as a whole). Particularly for land purchases, knowledge of available land and development plans was crucial.

While these corrupt deals meant that the state lost revenue, they did lead to productive investment and hence promoted growth. Particularly tourism and construction investments led to an increase in job opportunities as they are labour-intensive. Tourism generated the proportionately highest increase in employment, with the number of employees in hotels and restaurants rising by 46.2 percent between 2004 and 2008 (Ministry of Planning 2011). From a macro-economic perspective, tourism investment helped to offset trade imbalances by increasing service exports. This shows how opportunities to collude for tourism investment resulted in positive growth effects but inhibited structural transformation. Manufacturing investments in energy-intensive industries, in contrast, created relatively few jobs. Of course, one could argue that had

⁸⁵ This confirms the expectations of the neoclassical corruption literature that investments tend to be made in fields like real estate where bribes and kickbacks are easy to collect (Shleifer and Vishny 1993).

there been no corruption, a more efficient investor would have benefitted – but it is uncertain which share of these investments would have been made at all.

From a process-tracing perspective, this example represents a passed “smoking-gun test” as a direct link between collusion, investments and growth effects but to the detriment of effective rent management for economic transformation was observed.

Agrarian sector

A sector which was also important for job creation and exports was the agrarian sector, in which trade liberalisation opened new opportunities for export-led growth. Particularly the EU association agreement created new export opportunities for agribusiness as the EU is Egypt’s largest market for agrarian produce. There had been a lot of domestic opposition to the agreement. It entered into force in 2004 during the cabinet reshuffle. The new Minister for Foreign Trade and Industry, businessman Rachid Mohamed Rachid, accelerated its implementation in contrast to his predecessor. The new Minister of Agriculture, Amin Abaza – a major cotton exporter – also supported the agreement.⁸⁶ Again, mainly big business investors were able to profit from these opportunities. The Association Agreement initially allowed tariff-free exports for agrarian goods within certain quotas, which opened the door to collusive practices. For example, to export potatoes – one of the most important horticultural exports, next to tomatoes – Egyptian producers had to adhere to a certain overall quota per season, otherwise the full tariff was charged. Businesses with connections to the Ministries of Agriculture as well as Foreign Trade and Industry were often quicker to export, while other producers’ goods were held up in port to wait for permits.⁸⁷ In extreme cases, shipment dates were even forged in collusion with state officials so that businesses could still export under the quota even though the season was over.⁸⁸ Minister Amin Abaza also enabled businesspeople to buy state land at cheap prices, without public auction (Bassiouni 2017: 379).

⁸⁶ Chief negotiator Gamal Bayoumi stressed that the implementation of the agreement was only possible because of the change in political leadership. Personal communication, Cairo, 1 June 2006.

⁸⁷ Personal communication with Thomas Viot, Expert, Trade and Economic Section, Alberto Cortezon, Project Manager, Section of Social and Rural Affairs, NGOs and Civil Society, and Barbara Stacher, First Secretary for Trade Matters from the Delegation of the European Commission in Egypt, Cairo, 24 May 2006.

⁸⁸ Personal communication with Egyptian agribusinessman (confidential), Cairo, 6 and 7 June 2006.

The agrarian sector is another example where the opportunities from liberalisation were not fairly distributed, but the policies were successful in promoting growth. Agricultural exports surged from 487.54 million USD in 2003 to 4,008.31 million USD in 2010 (UN Statistics Division 2018). Before 2004, exports had stagnated; Gouda Abdel-Khalek writes that the earlier reforms were “in effect import liberalisation; the reform programme did not include enough measures to promote exports” (2002: 45). At the same time, however, this export success did not facilitate structural transformation, and particularly small farmers and tenants were not able to benefit from the new opportunities created by liberalisation as they carried no political weight (for a discussion of the long-term shift in regime legitimisation with regard to the agrarian sector, see Bush 2002).

This represents another passed “smoking-gun test” for the link between collusive SBR and growth claimed by heterodox theories and illustrates *credibility* in the GoE’s commitment to trade liberalisation as well as *reciprocity* between state and business elites.

V. 4 Summary of results

The within-case study of Egypt 2004-2010 showed how an exclusivist coalition of political and business elites colluded to implement policies which conformed to their political and economic interests and promoted investment and growth, but blocked other measures which could have contributed to more inclusive and dynamic economic development because these would have endangered their privileged economic position and hold on power. Orthodox theories of corruption and rent-seeking cannot explain this scenario. The congruence of the increase in state-business collusion and surge in growth and investment directly contradicts their central hypothesis. Furthermore, causal-process observations showed the direct link between changes in SBR, economic policy-making and implementation, and economic outcomes. The rise of business elites to decision-making positions created opportunities for investment and export which were then taken advantage of primarily by these elites.

One could argue that collaborative relations would have resulted in yet higher growth. From an orthodox point of view, compared with the allocation of resources in perfect markets, the result was likely suboptimal. However, this is beside the point empirically, and such an analytical isolation of the corruption variable from its political context is entirely artificial. Compared to the period before 2004, investments increased considerably *because* of the opportunity for collusion. Only because the relations were collusive did state and business elites have an incentive to implement growth-promoting policies. Export-oriented growth was now compatible with the organisation of power and did not threaten regime stability, which was based on a much narrower, elitist form of legitimation than in earlier decades and did not require the inclusion of lower and middle classes, as long as they could be kept at bay through a mixture of co-optation, subsidies and repression.⁸⁹

At the same time, while a growth-promoting rent management strategy was compatible with political interests, transformative rent management was not. There were some positive effects on wider economic development, for example regarding the diversification of exports, but they appear more like corollaries of an economic policy which heavily promoted private-sector growth in certain areas rather than results of a strategy aimed at economic transformation. While being pro-growth and “more” developmental than before, the kind of development the reforms aimed at was mainly economic growth without increases in productivity or wider benefits for poverty alleviation and human development.

Industrial policy was effective in a horizontal sense and Egypt’s investment climate improved greatly, which contributed to a surge in FDI. Investment also benefitted from macro-economic stability. Vertical industrial policy, however, suffered from a lack of rent management capability, particularly regarding the enforcement of performance standards. Sectoral transformation was not in the interest of business and state elites. It was no accident that sectors which were dominated by business elites thrived after 2004.

The ambiguous effects had to do with the interests of state and business actors, a dimension which is not sufficiently recognised by the mostly static theories discussed in chapter II. The economic outcomes of state-business collusion had the ambiguous

⁸⁹ Of course, this strategy of legitimation ultimately failed in January/February 2011 (see chapter VI.4).

character detailed above due to the organisation of power and mode of regime legitimation which entailed direct control over policy-making by business elites. Because these business elites were able to benefit from private sector growth and export opportunities while shielding themselves from threats to monopolies and the enforcement of standards, they facilitated growth-oriented policies. Had their interests been different, for example had they had vested interests only in protectionist policies, the resulting outcomes would have looked very different. It is thus not just the type of SBR which is important, but particularly in a situation where business elites have direct policy influence, their interests need to be considered.

The case study also showed that looking at “business” as a whole can be misleading. In contrast to Kang’s (2002) conceptualisation of business on a scale from organised to dispersed – the better organised, the more powerful towards the state –, the Egyptian case was more complex: the private sector was still dispersed, but its top elites had real decision-making power. On top of this, the overlap between state and business elites in the persons of businessmen-ministers illustrates the analytical difficulty in separating the two. Several of the identified causal mechanisms can have different implications for different parts of the private sector – for example, what is perceived as *credible* and *reciprocal* by a member of the business elite could be perceived as the exact opposite by a competitor who was disadvantaged due to political criteria. This explains the result of those enterprise surveys which identify corruption as an obstacle to business. For the majority of small and medium enterprises and those large enterprises without political influence, this was likely true. It does not contradict the argument that collusive relations promoted investment, but rather shows that many businesses did suffer from limited access to decision-makers, while a small number of (unrepresentative) business elites were able to collude for profit *and* promote growth.

From a methodological point of view, the example of Egypt 2004-2010 illustrates the empirical complexity of SBR and the need to go beyond simplistic, dichotomous notions of good versus bad, collaborative versus collusive relations. It is, however, difficult to recognise these complexities of SBR in the kinds of quantitative analyses commonly employed by the dominant corruption and good governance literature. They run the risk of brushing over empirical *varieties of collusion* because of a normative bias which regards all corruption as equally harmful. More detailed case studies and

comparative, qualitative methods which recognise political, social and economic context variables are better suited to studying the causal relationship between SBR and economic development.

Chapter VI

Conclusion

This chapter brings together the results summarised in chapters IV.5 and V.4 to discuss their wider implications for theory development, before suggesting areas for future work. It then gives an outlook beyond the Arab Spring and discusses its implications for SBR. I will conclude by interpreting the significance of the findings for development policy.

VI.1 Discussion of findings

Going back to the research question posed in chapter I – *What are the effects of different varieties of collusive state-business relations on economic development?* – both the QCA and the within-case study have contributed to unravelling the varieties of collusion and their effects. It was shown that the presence of collusive relations by themselves does not offer any explanatory value, contrary to the claims of the orthodox corruption literature. By including wider socio-political conditions, we found that *different configurations of collusive SBR are associated with different economic outcomes.*

Political capability is the most important differentiating characteristic. Both configurations which were found to be sufficient for positive economic outcomes exhibit high political capability and high corruption. Conversely, high corruption with low political capability was shown to be sufficient for negative economic outcomes. The latter finding suggests that the orthodox corruption literature can be useful for identifying mechanisms which link corruption and low growth, as long as this is not treated as a linear causal relationship but with consideration of sociopolitical context.

The two paths identified for the most recent periods illustrate the impact of state and business characteristics. The first path with low state coherence and high business organisation, represented by Egypt, led to high growth but limited economic development. The second, represented by Tunisia, Morocco and to a lesser extent Jordan, was consistent with moderately high growth and a beginning economic transformation. It appears that the direct control over policy-making exerted by business elites in Egypt resulted in quick wins for growth; the within-case study showed that their business mentality and results-oriented approach led to a surge in private investment. However, as they were not as interested in economic transformation,

transformative policies were not as successful, and the sectors they were active in themselves remained privileged. Economic policy-making in the other countries was more driven by the state, and while business elites had become more influential, they did not have direct control over policy-making. The growth performance in these cases was not as impressive, but transformative policies – while still limited, for example with respect to the *makhzen*'s firms in Morocco – were more effective.

The case of Egypt also demonstrates that while the operationalisation of the business organisation condition, which – following Kang (2002) – regarded business concentration as a functional equivalent to business organisation, did seem justified with regard to its impact on state-business balance of power, it could not capture an important difference. The considerable political influence in the hands of few business elites in Egypt enabled them to behave more like a distributional coalition and privilege their own sectors. This sectoral imbalance had much to do with the longer history of domestic industrialisation and more thorough period of ISI compared to the other cases. In contrast, an encompassing business association with more balanced sectoral representation could potentially have facilitated a more transformative industrial policy.

VI.2 Explaining political capability: Bringing the regime back in

If political capability is so important, how can it be explained? Going back to the case level shows that the main determinants for political capability were regime characteristics. It is worth recapitulating the definition of regime adopted here:

“A *regime or system of governance* is an ensemble of patterns that determines the methods of access to the principal public offices; the characteristics of the actors admitted to or excluded from such access; the strategies that actors may use to gain access; and the rules that are followed in the making of publicly binding decisions.” (Schmitter and Karl 1991: 76, emphasis in original)

Of particular importance for political capability are the first two aspects. They both vary according to the strategies of regime legitimation. While Tunisia had fairly high political capability throughout, in Morocco, Jordan and Egypt, political capability was only high during the last period, owing to a change in legitimation strategy. Economic liberalisation coincided with a narrowing of the support base of the ruling elites. The

former strategies of material legitimation aimed at broader sections of society and/or the patronage extended to particular social groups had to be abandoned due to budgetary constraints on the one hand and an erosion of patronage systems based on large public sectors on the other. A narrower, elitist base of legitimacy, in contrast, was more compatible with the external constraints of structural adjustment. Business elites were needed to replace public with private investment and to provide direct financial and political support to ruling elites. This change in legitimation enabled new policy priorities which served the interests of business elites rather than those of the wider society.

The difference between the Egyptian regime and the other cases was that business actors were directly given “access to principal public offices”, and thus their characteristics became central to economic policy-making. The within-case study showed that their business interests, particularly with regard to the sectors they were active in, had direct consequences for the character of industrial policy. Growth-oriented policies and horizontal industrial policy were supported, but vertical industrial policy remained largely ineffective. In contrast, regimes in Tunisia, Morocco and Jordan did not provide for similar access, and economic policy was more state-led than business-led. In this sense, the different regime characteristics correspond to the different forms of state-business power balance.

This argument is particularly relevant given the long-standing debate regarding the effect of regime type – authoritarian or democratic – on development.⁹⁰ Adrian Leftwich (2000: 2-11) convincingly showed that regime type cannot be the main cause of development success or failure given that some of the most successful records of late development have been achieved by authoritarian states such as Korea (before 1987), China, Thailand, and Indonesia, while democratic states such as Brazil (after 1985) and Venezuela were unsuccessful.⁹¹ Instead, he argued that it is the type of state – developmental versus predatory – which can explain developmental success or failure. While this was an important paradigm shift which contributed much to understanding

⁹⁰ Much depends on the definition of development; if it includes human rights, civic liberties and social justice or similar concepts, then democracy is likely a prerequisite, and, as Amartya Sen (1999) argues, democracy has of course intrinsic value beyond economic development.

⁹¹ This complex relationship is also illustrated by early developers, given that Western industrialised countries only became democracies (according to contemporary definitions) during the 20th century, when they had already industrialised. The roots of their economic development can be traced back well into the 18th century. Democratisation in the 20th century then accelerated economic development (Chang 2008).

the success of developmental states such as Korea, it is of limited use for the analysis of cases such as the ones examined here which are clearly not developmental states. The developmental state literature does not provide hypotheses which can easily be tested in states which do not conform to the ideal type. Jeff Tan (2009: 158) asks “why should a state be developmental?”, and laments that the developmental state literature usually assumes the state to be benevolent without explaining the reasons. He argues that rather than classify states as benevolent or predatory, it would be more useful to assume that the dominant political objective of any ruling elite is to remain in power, and that policies and strategies are formulated around this. The issue is whether this manifests itself in terms of developmental (growth-enhancing) or predatory (growth-reducing) policies. A similar argument is made by Whitfield and Buur (2014: 129), who contend that “(w)hether (a faction of) ruling elites have mutual interests with a particular group of capitalists depends on whether they need those capitalists for their primary objective of political survival through building and maintaining their ruling coalition in order to remain in power.”

Hence, while Leftwich (1995) aimed at “bringing politics back in” by dismissing the type of regime in favour of state characteristics, I argue that we should *bring the regime back in*. By this, I do not mean the distinction between democratic and authoritarian regimes, but the dimension of change *within* regimes, on a lower analytical level.⁹² Looking at structural characteristics of state and business alone does not help understand why state and business actors pursue certain policies, only whether they are able to do so without being constrained by their respective counterparts. Regime characteristics, however, can explain why state actors will pursue policies, depending on whether they are in line with strategies of regime legitimation or not, and which business actors have access to public office, determining which private sector interests are reflected in policy-making. This perspective thus focuses attention on actors and their interests rather than the structural characteristics of state and business.⁹³

⁹² I follow Albrecht and Schlumberger in differentiating between “changes *within* a regime” and “changes in regime *type*” (2004: 385, emphasis in original). The regimes studied here were authoritarian regimes throughout but their characteristics did change.

⁹³ The late Adrian Leftwich was founding director of the *Developmental Leadership Program* research initiative, which also investigates the role of “leadership, power and political processes” in addition to institutional characteristics (DLP 2018), and much of his later research was about the role of agency and elite coalitions.

VI.3 Future work

While this thesis answers a number of questions, of course it leaves many open. With the research design adopted here, the conclusions are best applicable to late-late developers during periods of economic reform and structural adjustment, and the scope conditions were deliberately limited in order not to introduce too much variance in economic context variables. From an empirical point of view, research on the effects of state-business collusion would benefit from a widening of the scope conditions and an application to other cases. On the one hand, the same comparative framework could be applied to countries at similar stages of development and with similar histories of economic reform in other regions, for example in Sub-Saharan Africa. This would allow for a similar design as adopted here, which keeps economic context relatively similar, while introducing more variance in sociopolitical context and economic outcomes. On the other hand, the case selection could be expanded to include other MENA countries. Syria, for example, displayed a similar rise of business elites during economic reform, although it did not implement a comprehensive structural adjustment programme (cf. Haddad 2011). In oil-rich countries, private sectors have also expanded and business elites become more independent, but without the same budgetary constraints and with different regime characteristics (cf. Hodson 2013). This may require the addition of a fifth condition for the purposes of a QCA which recognises the differences in rent income as proportion of state revenue.

In addition, given that the within-case study in chapter V only examined one particular configuration of SBR in detail and the country chapters in chapter IV painted each period with a rather broad brush and only as much detail as necessary to substantiate the coding of cases, more in-depth case studies of Morocco, Tunisia and Jordan would be desirable. These could explore the second path of SBR in more detail and disaggregate causal mechanisms in a similar manner to the Egypt study conducted above. It would be particularly interesting to identify differences to the first path and, for example, examine instances of successful vertical industrial policy and investigate whether these were due to the exclusion of business elites from direct control over policy-making.

From a theoretical point of view, the approach would benefit from an inclusion of the recent literature on variants of authoritarianism and their effects with respect to different

areas of economic policy-making and policy performance. This could help identify regime characteristics below the level of the authoritarian-democratic dichotomy which impact on political capability. The distinction between personalist, military and single-party authoritarian regimes made by Geddes (1999) could be a helpful starting point, and the more recent classification of authoritarian regimes along patterns of legitimation by Kailitz (2013) is particularly relevant (cf. Croissant and Wurster 2013 for an overview).

VI.4 Outlook: State-business collusion and the Arab Spring

The Arab Spring in early 2011 changed state-society relations across the region and with it SBR, albeit to a different extent in different countries. While the protests were in part an expression of popular discontent with injustice and a lack of democracy and human rights, economic grievances were one of the central issues in every country, especially (youth) unemployment, inflation and poverty (cf. Schlumberger et al. 2013). The uprisings were therefore not only directed against authoritarianism, but also – and perhaps primarily – against economic liberalisation, the narrowing of the regimes' power base and a privileged business elite. Especially in those countries which had embarked on state-led, populist development policies in the 1950s and 1960s and established a form of “social contract” between the state and society, the broad population was dissatisfied with the reduction of subsidies, the cancellation of price controls and the privatisation of state-owned enterprises. While the elitist model of regime legitimation presented above may have worked well during the 1990s and 2000s, it became a liability in 2011.

In Morocco and Jordan, protests were comparatively low-key, and the kings managed to contain opposition through a mixture of repression and legitimation strategies, employing broadly similar measures of crisis management as in earlier periods (cf. Josua 2014 for a systematic analysis of the case of Jordan). In Tunisia, Ben Ali was not as successful and was toppled in January 2011, and state-society relations have begun to change with the start of a democratic transformation. Egypt is a particularly interesting case; a short period of regime change and free elections was followed by a military coup

in 2013 and the establishment of a military regime under General Abdel Fattah el-Sisi which bears a lot of resemblance to the Egyptian regime before the inclusion of business elites. Many prominent members of the core business elite were already sacrificed by Mubarak during the last days of his rule in an attempt to appease popular opinion – particularly Ahmed Ezz had been the target of public anger – and many were prosecuted for corrupt practices (Matzke 2011). However, a large part of the elite managed to salvage their holdings, and, in many cases, sentences were later commuted (Roll 2013). A number of business elites who initially fled abroad have since returned. Yet, big business “lost to the military part of the direct influence on political decision making (...) acquired during the Mubarak era” (Roll 2016: 37). Particularly after the 2013 coup d’état against Mohamed Morsi, the military has become the dominant actor with regard to economic policy-making, and its own business interests take priority over those of the business elite.

The events of 2011 show that state-business collusion was ultimately detrimental to regime legitimacy, at least in Egypt and Tunisia. While Egypt’s collusive growth coalition kickstarted growth, this only reached a narrow group of beneficiaries as shown in chapter V.2. Despite the more successful economic transformation towards export-led growth in Tunisia and a decrease in poverty rates, large parts of society suffered from high youth unemployment and underemployment. Interestingly, all countries affected by the Arab Spring employed measures of material legitimation in an attempt to regain some of the legitimacy lost during the post-populist era (Matzke 2012). This is unlikely to be sustainable in the long run given budgetary constraints, and effective industrial policy is more relevant than ever.

VI.5 Lessons for development policy

“The fight against corruption is a part of the fight against poverty, not just because corruption is wrong and bad but because it really retards economic development.”

(Paul Wolfowitz, President of the World Bank Group, at a press conference on 15 October 2006, cited in Chang 2008: 161)

The findings of this thesis challenge the good governance paradigm which followed the Washington Consensus approach toward the end of the 1990s and was adopted by IFIs such as the World Bank. The analysis showed that collusive SBR were directly linked to increased investment and growth in Egypt, and that growth-enhancing policies were pursued because they were compatible with collusion and the organisation of power. Other cases which were more successful at starting an economic transformation and expansion of productive capacities displayed a different form of *governance*, but it was still not *good* governance. With their combination of high political capability and high state coherence they rather resemble the *good enough* type of governance identified by Tim Kelsall (2012, 2013) for neopatrimonial states.

In particular, the results call into question what is often seen as a contradiction between market-friendly reforms and improvements in the business climate on the one side and the persistence of collusive practices on the other. I argue that this supposed contradiction is only a result of the good governance lens with which such reforms are often seen. The reforms were not introduced in order to achieve good governance – they were introduced as they were in the interest of state and business elites. Development policy has overstated the role of good governance while ignoring the real obstacles to economic development. IFIs and donors seek to overcome corruption and bad governance by funding capacity-building programmes, without evidence of whether this will lead to economic development. A case in point is the *MENA Development Report* published by the World Bank in 2003, which explicitly called for good governance promotion because it was expected to improve the business environment and the investment climate, which were seen as main impediments to growth. The case of Egypt shows that these exact improvements were implemented, but not under conditions of good governance.

Governance is important as a determinant of political capability, as discussed above with regard to the importance of regime characteristics – after all, regime is defined as a “system of governance”. However, the analysis shows that there are other forms of governance which can be effective for growth and/or economic development. Of course, I readily concede, following Merilee Grindle (2010: 2), that good governance is “a good idea”. However, it is questionable whether this idea is empirically relevant for countries such as the ones covered in this study. The insistence on the importance of good governance resembles the earlier search for democratisation in the MENA region criticised by Albrecht and Schlumberger (2004) as “Waiting for Godot”. Instead of studying the different forms of corruption and rent-seeking actually present and their different outcomes, observers recommend the introduction of good governance as the solution, even though this is entirely unrealistic. Why would authoritarian political elites willingly implement good governance reforms which would curb their power and endanger regime legitimacy by taking away means to reward loyal clients? It seems strange that international donors are surprised when said elites do not implement good governance as intended. A more realistic approach to development promotion would make sure that funds are not spent fighting windmills and rather consider actual power structures and interests.

An example of such an approach is the DFID-funded *Anti-Corruption Evidence* research consortium led by Mushtaq Khan. It recognises the importance of political settlements for the success or failure of industrial policy and anti-corruption programmes. Its “aim is to identify opportunities within sectors where feasible policies can persuade a coalition of players to support the enforcement of rules that allow them to pursue their own productivity”, which can then support realistic anti-corruption programmes (ACE 2018).

“The implicit counterfactual to ‘crony’ capitalism is a ‘genuine and impartial’ capitalism of free markets, zero rents, fair market-determined returns for everyone, and a minimal state which only maintains a level playing field. However appealing such a mythical capitalism may be, (...) such a model is not relevant for developing economies, and perhaps not for any economy. The relevant distinction is between rent-seeking systems which are developmental and those which are crippling. The relevant policy question is to understand how one may transform into the other.”

(Khan 2000b: 140)

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Barbara Stacher, First Secretary for Trade Matters of the Delegation of the European Commission in Egypt, Cairo, 24 May 2006.

Mohamed Taymour, chairman of Pharos Holding for Financial Investments and chairman of the Egyptian Capital Market Association, Cairo, 14 December 2010.

Thomas Viot, Expert, Trade and Economic Section of the Delegation of the European Commission in Egypt, Cairo, 24 May 2006.

Data Appendix

ICRG corruption scores

<i>Case</i>	<i>Average ICRG corruption score</i>	<i>CORR</i>
MOR 1984-1991	2.5	0.621
MOR 1992-1999	3	0.501
MOR 2000-2010	2.954545	0.511
JOR 1984-1989	3	0.501
JOR 1990-1998	3.777778	0.311
JOR 1999-2010	3	0.501
TUN 1988-1995	3	0.501
TUN 1996-2010	2.4	0.651
EGY 1984-1990	2	0.731
EGY 1991-2003	2.423077	0.641
EGY 2004-2010	1.857143	0.761

Source: International Country Risk Guide. Copyright The PRS Group, Inc., 1979-2017, East Syracuse, NY 13057 USA. Reproduced with written permission from the publisher.

Calibration method

CORR was calibrated using qualitative anchors of 0,3,6. A constant of 0.001 was added to all CORR values.

(see chapter IV.2.1 for details)

Real GDP per capita

<i>Case</i>	<i>Mean GDP per capita growth</i>	<i>Difference to mean GDP per capita growth in OECD</i>	<i>GDPCAP1</i>	<i>GDPCAP2</i>
<i>MOR 1984-1991</i>	3.695855	0.999370366	0.27	0.5
<i>MOR 1992-1999</i>	1.162289	-0.741629716	0.06	0.07
<i>MOR 2000-2010</i>	3.428949	2.352291709	0.59	0.88
<i>JOR 1984-1989</i>	-2.86113	-5.99811463	0	0
<i>JOR 1990-1998</i>	0.7953	-0.923955682	0.05	0.05
<i>JOR 1999-2010</i>	2.637522	1.441584066	0.36	0.66
<i>TUN 1988-1995</i>	1.475248	-0.45583034	0.08	0.1
<i>TUN 1996-2010</i>	3.618941	2.195757161	0.55	0.86
<i>EGY 1984-1990</i>	2.063007	-0.955763825	0.05	0.05
<i>EGY 1991-2003</i>	2.001024	0.331036031	0.16	0.27
<i>EGY 2004-2010</i>	3.723758	2.894441169	0.71	0.94

Source: World Development Indicators (World Bank 2018a)

Calibration method

GDPCAP1 was calibrated using qualitative anchors of 5,2,-1.

GDPCAP2 was calibrated using qualitative anchors of 3,1,-1.

(see chapter IV.2.6 for details)

Manufactures exports

<i>Case</i>	<i>Manufactures exports (mean, in % of merchandise exports)</i>	<i>MANEXP</i>
MOR 1984-1991	47.02798849	0.41
MOR 1992-1999	55.91434972	0.67
MOR 2000-2010	66.15024366	0.87
JOR 1984-1989	44.27555073	0.33
JOR 1990-1998	49.70718235	0.49
JOR 1999-2010	69.82365751*	0.92
TUN 1988-1995	71.84964807	0.93
TUN 1996-2010	77.2137807	0.96
EGY 1984-1990	27.87191964	0.07
EGY 1991-2003	36.10248883	0.16
EGY 2004-2010	31.11997983	0.09

Source: World Development Indicators (World Bank 2018a)

* For Jordan in 2005, there was an obvious error in the data downloaded from the World Bank (2018a). The proportion was given as more than 373 percent, although it cannot be higher than 100 percent. The figure was also out of line with the values for the previous and the following year, which were 69.36 percent and 71.19 percent, respectively. The data for 2005 was therefore calculated by the author using the source data from the *UN Comtrade Database*, with the result of 72.05 percent (UN Statistics Division 2018).

Calibration method

MANEXP was calibrated using qualitative anchors of 75,50,25.
(see chapter IV.2.6 for details)

Human Development Index

<i>Case</i>	<i>HDI score</i>	<i>HDI</i>
MOR 1984-1991	0.461	0.01
MOR 1992-1999	0.493375	0.02
MOR 2000-2010	0.573364	0.07
JOR 1984-1989	n/a	n/a
JOR 1990-1998	0.666889	0.34
JOR 1999-2010	0.726167	0.69
TUN 1988-1995	0.5875	0.1
TUN 1996-2010	0.671733	0.36
EGY 1984-1990	0.547	0.04
EGY 1991-2003	0.589769	0.1
EGY 2004-2010	0.650714	0.27

Source: Human Development Index 2016 (UNDP 2017)

Calibration method

HDI was calibrated using qualitative anchors of 0.80,0.70,0.55.
(see chapter IV.2.6 for details)