Political Parties in Business:
Rent Seekers, Developmentalists, or Both?

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Ruling party-owned business (Parbus) empires arise from a total capture, by an insurgent vanguard party, of key institutions in fragile market economies. The Parbus can be a market-defying form of grand corruption or a market-conforming innovation for party-led growth. This paper offers a theoretical framework buttressed by two analytical country studies. The impact of Parbus on wealth creation and distribution explained by four regime characteristics: insecurity, organizational capacity, ideology, and centralization. Three possible evolutionary paths are identified: paragonist favoring transition to an open system, parasitic leading to poverty-tyranny trap, and mutualist or uneasy coexistence of state, party, and private actors.

Key words: Party-state capitalism, party-owned companies, developmentalist state, Ethiopia, Taiwan.

JEL codes: D72, F35, H41, L33, O57, P52.

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I. Introduction

The role of party-owned businesses (hereafter *Parbus*) is quite familiar to students of Taiwanese development show a broad resemblance to Milbus. To avoid confusing it with socialist economies, we dub the Parbus-dominated market economy "party-state capitalism." The Parbus of party-state capitalism are politically embedded, profit-seeking, and patronage motivated. They are enigmatic since they straddle, or attempt to fuse, the often competing spheres of the private (by being for-profit entities) and the state (by having unparalleled direct political access).

It may soon become a specter that haunts Africa with tale-tale signs in Horn and Southern Africa. Insurgent or liberation movements which managed to capture resource-poor states, unlike entrenched oligarchies, often lack an independent economic base. Fronts which acquired some organizational capacity in the course of a protracted armed struggle are most prone to the temptation of supplementing their control of state assets with party-owned businesses empires.

Some motivations for supplementing state or government-owned business (hereafter *Govbus*) with Parbus are quite obvious. First, access to state employment and public services is a major leverage over schooleavers who cannot be fully absorbed in the fledgling non-state sector, students who wish to obtain higher education and businesspersons who need licenses and related public services; and home regions which need massive redistribution to develop. Second, myopia, born of deep insecurity about the tenure of power fosters a 'steal while you can' mentality[1]. Low trust means that material rewards provide the most potent incentive for garnering support and gaining legitimacy. Where there is little in the public coffers to steal, Parbus provides a bigger and steadier stream of organizational income to underwrite patronage. Third, a strong desire to generate economic

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[1] A telling Amharic saying aptly captures this sentiment: *sishom yalbella, sishar yiqochewal* (He who fails to will live to regret it upon losing it). Parenthetically, the race to capture the state by political entrepreneurs imposes a huge rent-seeking cost on society in the form of talent diverted to unproductive activities, resources devoting to financing insurgent militia and state army, destruction of lives and property, and disruption of economic activities.

surplus may exist which reflects a utopian ideological commitment to promote egalitarian development.

Using case studies of two paradigmatic examples of party states—KMT's Taiwan and EPRDF's Ethiopia, we frame the discussion by posing a number of questions: Why do some dominant parties prefer to build party-controlled business empires rather than to amass individual wealth by tunneling state assets as well as siphoning off some of the profits and rents from politically affiliated private business groups? Why did socialist monoparties (a good control group) typically shy away from the Parbus? How will this apparent rigging of political and market competition affect the level and allocation of investment, the balance between political entrepreneurship and economic entrepreneurship, and economic inequality?

Our overarching argument is that the impact of Parbus on long-term wealth creation and distribution revolves around four empirically measurable variables: regime insecurity, its organizational capacity and discipline, its ideology, and the degree of centralization of the state it inherited. Monoparties in formerly socialist countries, which peddled universalistic class-based ideologies and faced no organized opposition from private business elite, needed only to focus on national defense, economic growth and the provision of basic needs to all in order to earn legitimacy to rule. Similarly vanguard but narrowly-based parties in market-led economies, on the other hand, are compelled to stand on multiple economic legs (private, party, state) to mitigate deep-seated political insecurity. Furthermore, the nexus of the four factors noted above suggest three possible paths of evolution: a paragonist path favoring a competitive politico-economic system, a parasitic path of entrenchment of organized interests that results in a poverty-tyranny trap, or an unstable mutualist path of coexistence of state, party, and private actors.

The paper proceeds as follows. Section 2 provides a theoretical framework for examining our research questions concerning the genesis, forms, and behavior of the Parbus. Section 3 presents a brief account of the business empires of the KMT along with a more detailed look at that of the EPRDF. Section 4 explores the impact of party enterprises and the possible pathways out of the party-state system as income rises. Section 5 concludes with summary and suggested areas for further research.

II. Toward a Theory of Parbus Behavior

Current fashion in development economics, which rarely offers definitive answers to many fundamental questions, favors institution-based explanations for the enormous and persistent gaps in cross-country economic performance[2]. Good institutions—enduring formal and informal rules that govern social, economic, or political interaction—are thought to be those that provide positive incentives for engaging in individually as well as socially rational economic behavior. Those institutions that give rise to political polarization and economic inequality, by discouraging productive use of scarce resources and by failing to resolve distributional contests in a low-cost manner, harm the cause of shared prosperity.

The literature on the political economy of Africa tends to focus on party formation, state capacity, and the intersection between the two within the broader context of patrimonial relations—domestic as well as global. African polities, it is often argued, display certain peculiarities such as pervasive patronage, winner-take-all politics, and distributional contests that prioritize state capture over market capture. In an environment of underdevelopment, power relations accentuate informality and reciprocity because of the low fixed cost (but high marginal cost) of enforcing commitments since interactions are limited to tightly-knit communities.

A popular but contested conceptual entry point is neopatrimonialism in all its renderings (developmentalist, parasitic, or neutral). African polities and economies are viewed in this literature in pathological terms whose implied remedy is adopting some version of an external model—Eurocentric or Nipponian. Ironically this diagnosis is

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[2] However, we have a few clues about the origins of deep institutions that give rise to specific organizations and policy preferences (Dixit, 2007: 149): "Development economics is undergoing a paradigm shift, from theories that view resource and technology constraints as key obstacles to growth, to theories that view information asymmetries as key constraints to the operation of markets, and now to theories that view institutions as keys to success or failure. In the process of a paradigm shift, no one's point of view will dominate, and major differences will persist for a while. This is not very satisfactory for practitioners, who cannot afford to wait until the dust settles and a new paradigm emerges."

sometimes coupled with calls for government leadership in support of the private sector. Mkandawire, for example, attributes this to the reliance on such concepts as universalist and vacuous concepts as patrimonialism which have weak analytical content (Mkandawire, 2001).

Given the history of easy access to land for farmers and pastoralists in much of Africa, some students of African politics (Hyden, 2008; Kelsall, 2008) urge serious rethinking of orthodox analytical approaches and policy advice that require going "against the grain" of long-enduring African practices whose persistence must have a deeply rational basis. This perspective requires a good grasp of the underpinnings of relationship-based systems that put a high premium on loyalty. The endogeneity of economics and politics also means that it is essential to have a contextual understanding of the origins and roles of formal institutions in shaping incentives of paramount importance.

A number of African governments have not respected the requisite formal and informal restraints against mixing politics and economics. Some have even gone so far as to obliterate the state-party distinction--the ruling parties in Eritrea and Ethiopia being the primary examples. Other countries with nascent party business include Rwanda, Malawi, Uganda, South Africa, and Zimbabwe. Temptations in this direction by the African National Congress (ANC) of South Africa are particularly instructive given the presence of a free press and a well established legal system (Brunner and Robinson, 2006). The purported role of a South African holding company, Chancellor House (a nascent Parbus) has scandalized the ANC. Chancellor House, a private trust-held entity registered as a charitable trust, owns stakes in several companies, primarily in South Africa's booming resource extraction industry. The board of trustees, which includes three prominent ANC members, enjoys broad discretionary power to choose who receives profits made by the trust. In practice, the proceeds of the company are funneled directly into ANC's party coffers.

Our working hypothesis, built around four empirically measurable explanatory variables (insecurity, organizational capacity, ideological predisposition, and degree of state centralization), may be stated as follows. The first hypothesis addresses the conditions of existence for Parbus while the second deals with their impact and evolutionary paths:

H1: The Parbus emerge in low-income societies under four conditions each of which is necessary, but sufficient only collectively: the ruling party is *deeply insecure* because of its dependence on external financial resources and its legitimacy to rule is undergirded by a narrow political base; the party acquired substantial *organizational capacity* before assuming power which enables it to discipline cadres and followers and to efficiently manage scarce resources; the party relies on a *populist ideology* to motivate an extensive patronage system and to mount an ambitious program of development in countries that lack substantial natural-resource rents; and, finally, the party has captured a state that was *highly centralized*, often as a result of a revolution or a long experience as a colony, thereby preempting the emergence of an autonomous business class or independent civic/political movements.

H2: Whether such a vanguard party will be developmentalist or parasitic would depend on its organizational competence, the appropriateness of its big ideas for development, and its eagerness to solidify political legitimacy and survival by reconciling the competing interests of Party, State, and society.

With respect to H1, the analytical challenge is to do comparative political-economic analysis by focusing on the interface between the political and the economic, and identifying formal and informal networks involving state, party, business society, and civil society.

With respect to H2, the challenge of distinguishing the developmentalist tendency from the parasitic tendency would entail identification of the conditions of existence for the blatant fusion of political power and economic power. Just as importantly, one has to delineate the pathways of successful transition to a constitutional political order and a competitive economy where it would pay more to be an economic entrepreneur in the private sector than to be a political entrepreneur under the protection of a captive state.

The switch from a redistributive regime to a productive regime is induced, at least in theory, by a number of factors. One decisive game changer is “leadership” which may be a product of existential crisis to the state—a factor that is invoked to explain why authoritarian East Asian leaders engaged in “good corruption” by twinning the buildup of personal wealth with that of productive investment. Leadership is perhaps a product of random luck. Either way, once the poverty-tyranny trap is broken, long-term and short-term goals can be reconciled as popular trust in leaders buys the patience of the citizenry to shoulder the front-loaded costs of radical reform, and permit appropriate formal institutions to take root.

So far, we addressed motivations, capacity and probable triggers that collectively feed the propensity of monoparties in poor post-conflict market economies for building business empires. What about the behavior of party-owned companies themselves in the light of their soft budget constraints (Kornai, 1992) and the politically-slanted directives from their owners?

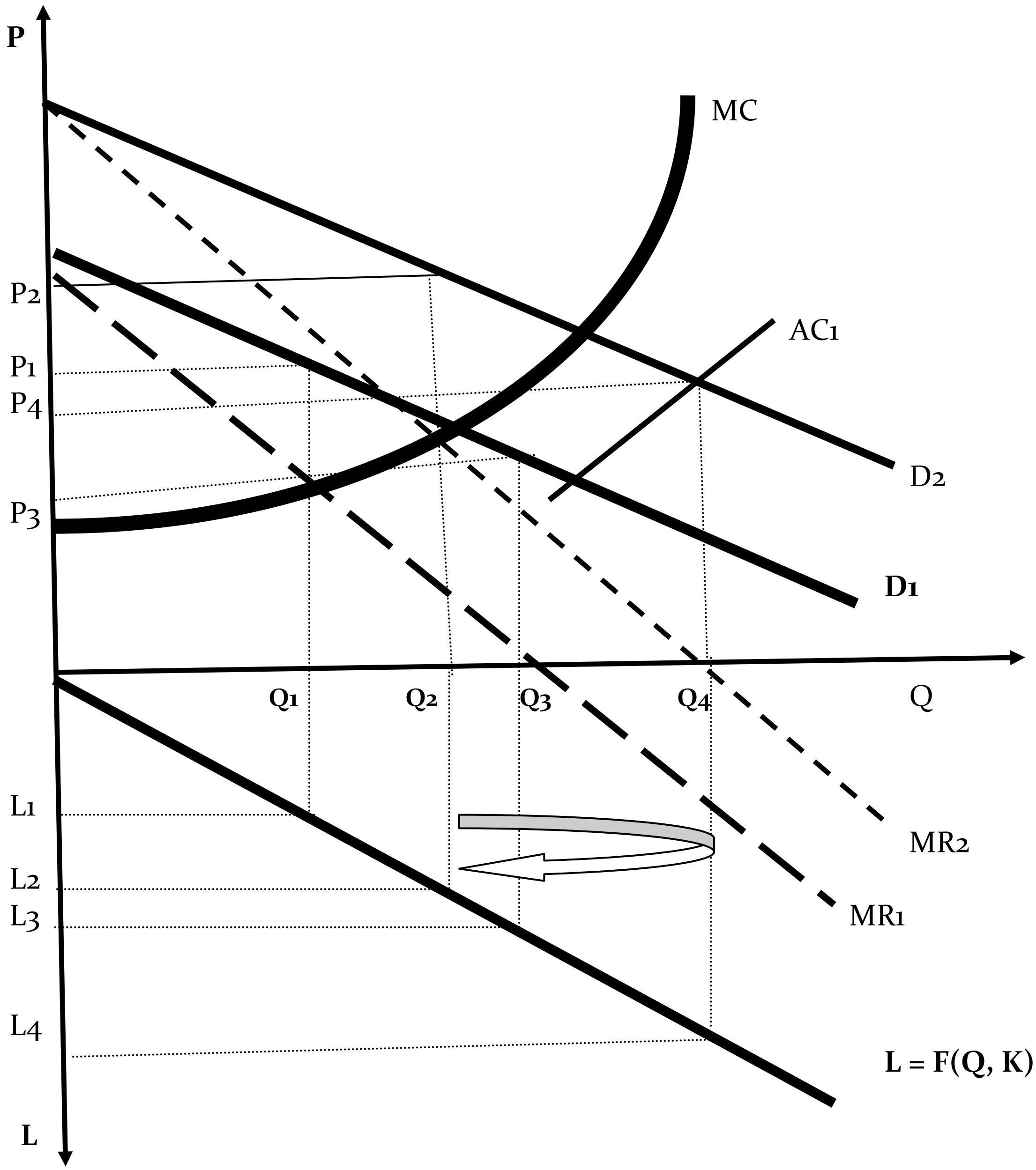
Figure 1 depicts illustrative cases of partial equilibria in a market populated by independent private firms and politically-connected firms. The illustrations are based on the following assumptions which are intended to capture the typical environment in which Parbus are found: firms in the formal modern sector consist of medium-scale and large-scale enterprises, firms in the same industry face similar cost structures and enjoy some market power (not price takers), the politically-unconnected private firms maximize long-term profits which means that they may choose to maximize sales to gain market share but only on a temporary basis, and the politically-connected Parbus may maximize profits or revenue at all times depending on Party directives.

The behavior of the two proto-typical competitor firms would take the following forms. If both firms maximize profits, then each firm equates marginal revenue (MR) and marginal cost (MC) to attain equilibrium (P_1, Q_1, L_1). A level playing field prevails. If, on the other hand, both firms maximize revenue (and employment), then the corresponding equilibrium will be (P_3, Q_3, L_3). Output will normally be set to ensure break-even price covering average cost.

Suppose now that the ruling party is hostile to the private competitor, and wishes to squeeze out the latter's profits (say, through discriminatory applications of taxes and regulations or rigging government bids) to a point where the firm is severely hamstrung but not eliminated. The effect will be much like the use of limit-pricing by an oligopolist in a

Figure 1

The Behavior Parbus and Private Firms in Governed Markets



Key:

(P, Q) = price, output

D = demand

L,K = (employment, capital)

AC = average cost (suppressed)

contestable market trying to discourage the entry of a potential competitor. The Parbus will increase its market share only if it is permitted to re-invest much of its profits.

To illustrate the impact of differential treatment on firm behavior, let us consider the impact of the issuance of new export licenses. This policy will result in a shift in demand to D2 and triggers a race between the two firms to capture the additional market. The private firm is induced to devote real resources to rent seeking in the form of lobbying and bribery costs. The equilibrium for the private firm changes to (P2, Q2, L2). This equilibrium will produce higher profits if the lump-sum cost of rent seeking (by shifting the average cost curve up) is lower than the additional sales revenue. The Parbus firm, on the hand, does not have to incur any additional costs to obtain access to exporting opportunities. With a sales-maximizing mandate, it will move to (P4, Q4, L4). With a profit-maximizing mandate it will join the private firm at (P2, Q2, L2).

Three conclusions may be drawn from this simple-minded exercise. First, the co-existence of Parbus and bona fide private firms requires a strong commitment of the government to market competition. This fact, as we shall see below, differentiates Taiwan from Ethiopia. Second, careful planning may create complementarity between the two types of firms if Parbus are required to operate in strategic market niches where the private sector is unable (due to high, investment, or technological requirements) or unwilling (due to high perceived risk) to invest. This is, in fact, a common rationale offered by ruling parties for establishing Parbus. Third, private firms may recognize their inability to fight a politically-rigged market and rationally choose to find various forms of affiliations with Parbus, Govbus or even Milbus. This said, a nagging doubt still remains that we may have narrowed the scope of the theory by implicitly building it around the known attributes of the two country case studies.

III. Analytical Case Studies of Two Business Empires

As case study countries, Taiwan and Ethiopia could at first blush not be more different. Ethiopia is three times as big in terms of population, forty times poorer, culturally much more diverse, landlocked, and located in an economically non-dynamic neighborhood. On the other hand, there are striking similarities: both share age-old authoritarian political cultures, have experienced major social upheavals since the outbreak of the Second World War, boast ruling elites with an ambition to restore lost national glory, and have few easily exploitable mining resources. Taiwan boasted was home (at least until 2000) to the world's richest political party, and Ethiopia is said to host Africa's richest political party.

The histories of the KMT and the EPRDF do not always jibe with statist accounts of the so-called East Asian miracle. These accounts presume that the state has the capacity to pursue selective economic policy with the help of a cohesive and politically insulated technocracy. Nor are they consistent with marketist accounts which tend to presume that state and market have separate origins and independent existence, and that state policies are rarely effective (World Bank, 1993; Wu, 2005).

The experiences of the two countries underscore instead the fact that politics and economics are intertwined with the first assuming primacy in the early stages of development and the latter in the advanced stages; that modern markets ironically presuppose the existence of capable, disciplined and accountable states, that viable states rely on a productive, competitive and autonomous private sector; and, contrary to standard institutionalist conceptions, bureaucracies cannot be reduced to mere rules and norms—policies are also profoundly shaped by internal politics with personalities, factions, and agency chains serving as important filters (Wu, 2005; Fields, 1998; O'Donnell, 2010).

The founding and ruling party of Taiwan, from which the current Ethiopian leadership is said to find inspiration, maintained for nearly half a century a substantial portfolio of commercial assets. A key difference, however, is that a politically confident KMT made public basic financial information on its business holdings, while Ethiopia's party endowments remain notoriously opaque.

We will now build our two case studies around the four key variables we identified earlier in formulating the working hypothesis: regime insecurity, party capability, party ideology, and state centralization. More attention will be given to the Ethiopian case since it has been less researched and understood.

KMT's Taiwan

Following the defeat of the Japanese in World War II, the island colony of Taiwan was returned to Chinese sovereignty in 1945. The ruling Nationalist Party, the Kuomintang or KMT, under the leadership of Chiang Kai-shek lost the civil war in the Mainland and fled to the province of Taiwan in 1948. Some 2 million mainlanders (capitalists, soldiers, cadres, and refugees) joined the exodus to Taiwan—a resource-poor island archipelago. This influx raised Taiwan's population by about a quarter, its high level manpower by an even bigger margin, and ensconced an émigré regime soon after the end of a brutal colonial era. The legacies of fifty years of Japanese rule included an exclusionary and extractive colonial state, some Japanese style education, significant investments in research and commercialization of smallholder agriculture (exporter of rice and sugar), and investment in physical infrastructure have provided a good springboard for an agriculture-led industrialization drive.

The KMT, as an émigré regime, had reasons to be deeply insecure. It was suspicious of the native Taiwanese landlord and business classes, keen to establish a social base to ensure its survival, and perhaps advance the cause of unification with the mainland. Accordingly, the Party is said to have devoted well over half of the state budget to defense and intelligence during 1950-70. The majority native Taiwanese population came to endure authoritarian mainlander overlordship under a martial law that ended only in 1987. The combination of lack of internal legitimacy and external threat (Cold War) induced the KMT to be monopolistic with respect to its control of state institutions. It was rather leery of the emergence of autonomous economic groups (which might have induced an egalitarian land reform and a short leash on large-scale private enterprises) and sought a clientelist relationship with large capitalists by extending protection-based rent and subsidies, and control over non-state organizations and associations (business, worker, farmer, etc.). As Wu (2005) persuasively argues, politics was in command of economic policy until the 1980s.

The major elements of KMT ideology included Chinese national revolution, the paramount ruler of all China, and anti-communism. Embracing Dr. Sun Yat-sen's populist

Three People's Principles (Nationalism, Sovereignty, and Livelihood), the KMT saw its mandate as one of meeting the basic needs of all while nurturing a nationalist bourgeoisie with the help of a state-directed economy. It did this in a paternalistic and authoritarian manner.

The KMT created and deployed substantial economic rent to reward loyal party cadres and private business groups and allied associations. The Party systematically prevented the emergence of independent economic and civic organizations for fear of being challenged. Finally, the regime's economic ideology tilted toward a market-led economy in the 1960s as a result of successful economic recovery, an active policy-making role played by U.S. aid agencies (which, during 1950-1965, supplied US$2.5 billion in economic aid to finance a third of investment), and the farsighted leadership of a determined cadre of top policymakers.[3]

The KMT brought a certain level of organizational capacity, too. With a two-decade experience of ruling over the mainland and the large number of skilled workers and businesspersons who fled to Taiwan with it, the Party had a significant experience in running a state and in managing a patronage system for non-state actors. This task was made a bit easier by the fact that the KMT inherited a centralized colonial state that was extractive in orientation and intolerant of independent Taiwanese organizations. The immediate post-colonial landscape then paved the way for the total capture of economy and society.

The hallmark of KMT's development strategy was its market-conforming nature. Through activist and flexible policies, it laid down the foundations of a sound market economy by the end of the 1960s. For over four decades, the party-state intervened in the economy with a paternalistic heavy hand—nurturing, protecting, and regulating domestic markets. Building on the legacies of a colonial economy, Taiwan successfully pursued structural transformation and rapid growth. Like South Korea and mainland China, Taiwan successfully pursued a strategy of enhancing the productivity of smallholder agriculture. As importantly, it integrated smallholder farming with small-scale agro-

[3] The most notable ones were Chen Cheng, Yin Zhongrong, K.T. Li, and Yan Jiagan.

processing by exploiting decentralized networks. However, unlike Korea which opted for a chaebol-led modern sector, Taiwan's development strategy favored agile small and medium enterprises which today comprise some 90 percent of the nation's enterprises.

The record of economic performance during the take-off phase (1953-1975) was quite remarkable. Real per capita income grew at the annual rate of nearly 9 percent to attain six times its 1953 level. On the demand side, Taiwan took full advantage of the booming world economy (and the Korean War) registering double digit growth rates for exports which accelerated dramatically after 1970. On the supply side, structural change was led by the productive sectors: agricultural output continued to grow at 4 percent per annum while industry registered a whopping 23 percent annual growth rate for such an extended period of time thereafter (see Li, 1998, appendix tables).

Industrial deepening into secondary import substitution and export promotion paved the way for political liberalization in Taiwan (and South Korea). The transition to democracy was well underway in the late 1980s and codified in 1991 with the legalization of opposition political parties. This was soon followed by relatively free elections to the National Assembly and the Legislative Yuan. The first direct presidential election, held in early 1996, saw the election of Lee Teng-hui (the incumbent president and KMT party chief). In 2000, the presidency passed to Chen Shui-bian, the leader of the opposition Democratic Progressive Party (DPP) who subsequently won a second term in 2004. However, the KMT candidate won back the presidency and the parliament after the 2008 elections.

KMT's Business Empire

KMT companies had their origins in the legacies of Japanese colonialism and the Chinese civil war. By the end of 1947, the KMT government had nationalized as enemy property: 593 units of public property, 129 private firms, and some 50,000 units of private property. Of the 860 industrial firms confiscated by 1950, 775 were Japanese-owned while 85 were native Taiwanese-owned (Wu, 2005; 41). While small-scale firms were sold to the private sector, the rest were incorporated into the public sector (banking, energy, transportation, and basic industry) or the party sector. The second source of Party assets was the relocation, especially in 1948-49, of government and party assets from the mainland. The result was a predominantly state-owned modern sector which, with the addition of Parbus, resembled a monopolized socialist economy rather than a governed market economy. Throughout the 1950s, state corporations accounted for over half of industrial output, a third of gross fixed capital formation, and nearly all of modern banking and insurance.

Other mechanisms used to build up party assets included manipulating the state budget in order to subsidize (via overpricing, reselling stolen assets, paying party officers from state budget, and the like) party enterprises; giving non-competitive public procurement and infrastructural contracts to party enterprises; relying on subsidiaries to escape legislative scrutiny; and establishing joint ventures with state and private enterprises. Around 1990, the bona fide private sector accounted for 75%, the KMT-owned enterprises for 6% and the state enterprises for 20% of national output. Since then, a large number of Govbus have been privatized in an orderly manner, including China Steel, Taiwan Motor Transport Company, China Airlines, Chunghwa Telecom, and three major banks (Xu, 1997; Pu, 2005).

Financial statements of the KMT's seven holding companies for 1998 showed total assets of NT$147 Billion. Many observers, however, estimate that this figure to be much higher, as the KMT has overseas assets that are not listed with the holding companies. Being the fifth biggest business syndicate in Taiwan, the KMT not only has a financial edge in political campaigns, but it has for too long exerted considerable leverage over the business community.

Since 1992, the party managed its commercial empire through seven holding companies, two of which are quite big (Central Investment and Gurghua Investment). Central with 60 affiliated firms concentrated in finance and petrochemicals while Kwang Hwa with 58 firms specialized in gas supply. Chii Sheng Industrial with 26 firms focused on construction and real estate while Jen Hwa with 28 affiliates specialized in securities and venture capital. King Dom focused on life insurance while Hua Hsia with 11 firms had

Table 1

The Business Empires of Two Canonical Party States: Taiwan and Ethiopia

Party Companies	**Taiwan, 1950-75**	**Ethiopia, 1991-2010**
Wealth at peak (net)	• World's richest party: US$5-35 billion	• Africa's richest party: US $1.0 – 1.5 billion[a]
Initial Party Assets	• Japanese colonial state and Japanese Zaibatsu • Assets brought from Chinese Mainland	• Redirected famine relief aid •
Management	• Initially, KMT central financial committee • Later, business management council • Restraint: US aid staff & global forces	• EFFORT and Party central committee • Party NGOs (REST, TDA) and regional governments • Restraint: Donors and IFIs
Legality of Parbus	• No legal basis until 1992 • Corporate Trusts in 1994: open books	• Prohibited by Civil Code and electoral laws • Endowments in 1993: closed books • One of two income centers: state and party coffers
Development Agents	• Upstream and basic service Govbus • Diversified Parbus under 7 holding companies • Complemetarity with Govbus and private	• Govbus providing basic public services • Diversified Parbus • Limited complementarity: compete with private
Accumulation and Utilization of Resources	• Govbus monopolies as cash cows • Main profit centers for KMT • Jobs and rents for patronage • Defense: 58-90% of state budget until 1974	• Govbus monopolies as cash cows • Main profit centers for KMT • Jobs and rents for patronage, • Development of ethnic homelands
Evolution of Parbus Role	• Initially: party rebuilding via revenue max • Later: development and profit max • Crisis of maturity: devolution, trusts, or divestment following multiparty politics • Asset tunneling and dissipation	• Initially: party rebuilding via revenue max • Later: occupying high-profit activities in competition with Govbus and large private • Later: boosting the development of ethnic regions • Continued growth in the face of an enfeebled private sector and regimented multiparty politics

Sources: Xu (1997); Fields (1998); Wu (2005); Anonymous (2006; 2009); World Bank (2007).
a. Based on the publicly available data, the value of EPRDF was around US$0.5 billion in mid-1990s. A 7% annual rate of return will give us a current net asset base of US$1.25 billion—70% belonging to EFFORT, 16% to ANDM, and 10% to ODO and SEPDM.

significant presence in the mass media. Asia Pacific is distinctive in that it invested abroad, especially FDI. There are also private businesses closely affiliated with KMT. The Business Management Council (BMC) of Taiwan included heads of private business groups with shareholding relationships to KMT companies but not directly under the party's Central Financial Committee (CFC).

A number of developments occurred after 1990 which signaled the beginning of the end of Parbus in Taiwan. The Civil Organizations Law of 1992 allowed parties to register themselves as corporations. Soon after, opposition parties and civic organizations intensified their demand for de-corporatizing the party companies or prohibiting them altogether from engaging in for-profit activities. The assets, it was widely suggested, belong to the public sector and must therefore be transferred to the state or to independent non- governmental charities. The KMT itself, mindful of shifting public sentiments and the coming of competitive multiparty elections, argued for the establishment of a trust to manage Parbus-generated funds (Low, 2000). A decade later, press accounts suggest that most of the KMT assets, with the notable exception of Central Investment Holding Co, could not be accounted for (I-ming, 2010).

Consistent with H2, the KMT took well over three decades to feel confident enough to contemplate embracing a fully competitive economic system and a multiparty political system. The use by the KMT of Parbus and Govbus to spearhead a successful development drive was in large part motivated as much by organizational interests as by economic nationalism. The party-dominated businesses were also, in many respects, pioneers in emerging sectors and activities. The KMT Parbus, for example, moved into the new, riskier commanding height of the economy—the financial sector and FDI—far ahead of the bona fide private sector.

This outcome was by no means planned or easy. It was rather a product of pragmatic imagination on the part of many trailblazers within the party and those discharged from the government who then joined the party bureaucracy. Revenues generated by The Parbus helped the party to maintain an extensive patronage system (especially social welfare support for war veterans) to buy the loyalty of cadres and followers (such as voter mobilization). It was also used to co-opt or threaten emerging competitors using gangsters linked to KMT-run businesses or neutralizing competitors by gaining leverage over native businesses.

The existence of Parbus, therefore, had two contradictory effects. On the one hand, it was a major factor in maintaining the monopoly of political power by the KMT elite (Matsumoto, 2002). On the other hand, the existence of party assets may have contributed to the willingness of the ruling elite after 2000 to seriously entertain divesting control of state assets thereby providing a soft landing toward multi-partyism.

As noted earlier, the key to understanding why politics is the key driver of regime attitude toward economic policy requires a full appreciation of the sources of its insecurity and the limitations of its capability. We return to these issues after taking a closer look at the Ethiopian experience.

EPRDF's Ethiopia

Ethiopia accommodated three distinct postwar regimes: Monarchy (1941-74), Derg (1974-91) and EPRDF (1991--). In terms of NMW's (2009) three doorstep conditions for transition to an open society, all three regimes managed to gain control of organized violence by centralizing the government; the first two widely enjoyed legitimacy by tradition or nationalistic credentials; and none met the requirements for a Weberian rule-based political system. A puzzling feature of Ethiopian statecraft is that the ruling elites (imperial, military, or socialist) have failed to utilize the not inconsiderable state power at their disposal for the promotion of economic development and wider political participation.

Aside from the Parbus, the Ethiopian formal private sector economy is dominated by three entities: budding Ethiopian DBGs and large multinationals. A good example of the former is East African Holdings[4] (owned by Buzuayehu Tadele and family) which is a public

[4] The 1960 Commercial Code of Ethiopia and subsequent additions or amendments do not provide for a detailed company law that governs holding (parent) companies and subsidiaries which often involve intricate cross-holding relationships. This might explain why some CEOs, who are listed as owning just a handful of

corporation with more than nine affiliate groups and 5,000 employees. East African is involved in manufacturing, agro-processing, printing, real state, and import-export trading along with a highly developed domestic distribution system. Another example is the Sunshine Group of companies (owned and managed by Samuel Tafesse) which runs Sunshine Construction—the country's largest construction firm (Sutton and Kellow, 2010).

The private sector has recently attracted a number of FDI companies and groups. However, none rival MIDROC (Mohammed International Development Research and Organization Companies; al-Muwakaba for Industrial Development and Overseas Commerce). The rank order of the three ownership groups in the modern sector by assets is Govbus, Midroc, and then EFFORT. Midroc is owned by Sheik Mohamed Hussein Ali al-Amoudi, an Ethiopian-born Saudi business tycoon and philanthropist with a net worth of $10 billion. Al Amoudi and his Saudi co-investors own a broad portfolio of businesses that span oil and gas as well as construction, real estate development, mining, agriculture, banking, transport, hotels, hospitals, finance, operations and maintenance. Midroc Ethiopia controls some 50 companies which collectively boast over $1 billion in investment.

Two liberation fronts from the northernmost provinces (Eritrea and Tigray) captured the post-revolutionary Ethiopian state in 1991. The province of Eritrea officially seceded in 1993 while the Tigray People's Liberation Front (TPLF), claiming to represent only about 5 percent of the national population, proceeded to assume the helm of the central government. Political insecurity, therefore, goes a long way toward explaining why the hallmarks of the current Ethiopian party-state include organizational parallelism between party and government in the style of Soviet-style single-party rule; reliance on an extensive security or intelligence apparatus; and an ethnocentric federalism without devolution; modernizing civil administrative capacity for regulation and service delivery by absorbing over US$5 billion annual inflow of foreign-originated resources (currently over $3b in development aid, $1b in remittances, and $1b in exports); and establishing Parbus to serve myriad purposes.

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shares, become legal partners with the power to run the companies and to appoint managers (Seifu, 2010; Sutton and Kellow, 2010).

The EPRDF government is clearly committed to long-term economic development and poverty reduction. It has managed annual growth rate of GDP in the range of 5-6 percent in the 1990s and 7-8 percent in the 2000s thanks largely to the large inflows of aid[5]. However, the Government's claim of double-digit growth rates since 2005 and promises of the same in the next five years (GOE, 2010) are clearly unrealistic. The exaggerated claims appear to be intended to signal to the population that rapid growth should be an acceptable compensation for the denial of democratic governance.

EPRDF's Business Empire

There are four large umbrella Parbus-holding endowments in Ethiopia today. The four constitute the heart of the EPRDF complex of companies which also includes for-profit entities owned or co-owned by allied regional elites and politically-connected associations—aptly called para-NGOs. Furthermore, private conglomerates such as Midroc and well-connected individuals have formed cross-holding and business alliance relationships with party companies (Anonymous, 2006).

The largest endowment is owned by the four biggest members of the ruling coalition. The Endowment Fund for the Rehabilitation of Tigray (EFFORT or *Tirit*) is owned by the TPLF (Tigray). EFFORT is by far the largest in terms of assets, number of subsidiaries, sectoral coverage and supra-regional orientation. The junior partners of the ruling coalition also own for-profit companies of lesser importance, again overseen by holding companies registered as endowments. They are Endeavour (*Tiret*) of ANDM (Amhara), Tumsa Endowment (formerly Dinsho) controlled by OPDO (Oromiya), and Wondo Group controlled by SEPDM (Southern). SEPDM, the weakest of the four, has yet to establish an endowment to coordinate its companies.

The initial capital for TPLF's business empire apparently came from several sources. A major conduit was the Relief Society of Tigray (REST), a famine-relief charity run by the

[5] The World Bank along, through IDA, has supported the EPRDF government through 60 operations and more than US$7.6 billion during 1991-2010. This has contributed to: two-fold increase in the number of children in primary school between 2001 and 2008, a reduction in child mortality to 109 in 2010 from 204 in 1990, increased rural access to safe water to almost 62 percent in 2009 from only 19 percent in 1990, and helping raise the per capita income by 40 percent in the past decade.

Front. REST is widely credited for serving as an effective front organization for funneling aid money and materials from unsuspecting as well as willful foreign benefactors into TPLF coffers (Plaut, 2010). Other sources of initial assets included the spoils of war, and remittances from supporters in the diaspora. After the TPLF came to power in 1991, REST was formally registered as an NGO with the Ethiopian government's Relief & Rehabilitation Commission. In the summer of 1995, the TPLF established EFFORT to oversee its commercial ventures. Another conduit is a para-NGO called the Tigray Development Association (TDA) which focuses on raising funds obtained mainly from ethnic Tigreans and managing aid-funded projects in Tigray. According to some accounts, the initial paid-up capital was in excess of 2.7 billion birr — about $160 million at the current exchange rate (Ginbot 7, 2009).

The TPLF leadership publicly invokes a KMT-style rationalization of EFFORT as an entity that was established for the sole purpose of generating income to support war veterans and their families, and to rebuild the regional state of Tigray. As if to mock the law, a top TPLF cadre (whose registered ownership is a single share) is listed as chairman of the board of directors many affiliates. In reality, the companies are fully or largely party-owned. EFFORT itself is managed by an Executive Committee whose seven members who are or were members of the TPLF's Central Committee[6].

The establishment of holding companies to oversee party-owned enterprises is widely taken as a contravention of the 1960 Ethiopian Commercial Code on charitable trusts. The Code prohibits that donors having control over a registered charity and that all the proceeds must be channeled to designated purposes or beneficiaries. Furthermore, the Parbus clearly violates a 1993 proclamation which prohibits registered political parties from owning for-profit enterprises precisely because they violate the principle of a level playing

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[6] The principles of parallelism and nomenklatura dictate that key party officials occupy multiple strategic offices in government, party, and Parbus. Abadi Zemo, head of REST in the days of the civil war, is the longtime CEO of EFFORT. He serves along with a recently-appointed deputy CEO-- Azeb Mesfin, the powerful wife of the prime minister. Another example is Seyoum Mesfin, the former foreign minister, who variously served as chairman of Ethiopian Airlines, chairman of the board of Mugher Cement Factory, chairman of the Ambo Water Factory, chairman of EFFORT, and deputy-chairman of the TPLF (Anonymous, 2009).

field for meaningful political competition. This Political Parties Registration Proclamation (No. 46 of 1993)[7] could not be any clearer: "[A] political party which has attained legal personality may not directly or indirectly engage in commercial and industrial activity." Since EFFORT does not open its accounts for government audit, it is not clear whether it pays any taxes at all.

EFFORT companies are engaged in industrial, agricultural, and service industries. In the industrial sector, their business interests include, but are not limited to, agriculture (Hiwet Mechanization) with a particular emphasis on the rehabilitation of the Humera area; trading (Guna Trading House) reportedly to improve supply to remote areas, ensure a market for crops such as cotton and sesame, and loosen the grip of extant monopolies; cement production (Mesebo Cement Factory) in order to reduce the regional costs of this critical input and promote spin-off industries; textiles and garmenting (Almeda Factory) to maximize the processing of locally available resources for the domestic and export markets; livestock and leather (Sheba Tannery); and mining and exploration (Meskerem, Ezana) for base metals and industrial minerals. Activities in the service sector include, transport (Trans-Ethiopia and Selam Bus Co.), engineering, construction, and consultancy (Mesfin Engineering, Sur Construction, Addis Consultancy, and Addis Engineering); and the financial sector (Wegagen Bank and Africa Insurance). Wegagen Bank is the only "private" Ethiopian bank listed among Africa's top 100 banks in terms of assets, loans, and deposits (Access Capital, 2010).

The most recent investment climate assessment by the World Bank (World Bank, 2009a: iii) characterizes the mix more delicately using a narrow (individualized) definition of corruption: "[G]overnment *preferences* play an important role in distorting competition, whereas *corruption* does not appear as influential. Types of preference include ownership of enterprises, directed credit, and barriers to entry. State firms appear to outstrip private firms in accessing some resources and opportunities, such as public markets. State and

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[7] *Negarit Gazette*, 1993-04-15, No. 35, Article 27.2.

Box 3

Incubating a Golden Goose: The Story of Formosa Plastics

Compared to its South Korean counterpart, the KMT state had a more ambivalent stance toward the private sector—it had to reconcile its anti-business bias (fearful of an independent power base by owners of large private businesses) and its recognition of the legitimating value of market-driven growth. To reconcile these conflicting goals, it pursed a policy of both protecting and restricting large enterprises. Examples of state-fostered private enterprises include firms in the textile industry, the Formosa PVC project and Xinzhu Glass Plant.

Formosa Plastics Corporation was established in the early 1950s as a result of the push by the Industrial Development Council (IDC) which singled out plastics for promotion and insisted that it be private. Using four selection criteria for picking winners (medium size, efficient, quick operation, and ready market), the Bank of Taiwan was asked to check for a potential investor with adequate deposits. It recommended Wang Yongqing, a rice merchant whose earlier interest in plastics and tires had received a cold shoulder from the IDC authorities because of his ignorance of manufacturing. Mr. Wang was apparently persuaded to take over the PVC project with promises of considerable technical support from IDC.

The first build-operate-transfer plastics plant in Taiwan was then built under government supervision in 1954 with about a million dollar loan from U.S. aid agencies. The plastics project, the smallest PVC plant in the world at that time, was sold to Mr. Wang in 1957. To ameliorate the high cost and the absence of local downstream industries, a strategy of vertical integration was adopted.

Two corporations were established before the end of the decade to produce secondary products such as pipes and film, and tertiary products such as bags and shoes. Soon an internationally competitive petrochemical industry emerged. The Formosa Plastics Group (FPG) diversified into the textile industry in 1965, staple fiber in 1967, nylon and acrylic fiber in 1974, became one of the largest producers of fiber in the world, printed circuit boards in 1984, oil refinery and petrochemicals, and production of LCDs and DRAMs by 1995. FPG also owns hospitals and a university.

Besides being the world's biggest producer of VCM and the second-largest maker of PVC, FPG today is the largest private enterprise in Taiwan. By the time of Mr. Wang's death in 2008, the conglomerate the oligarch built had a secure international reach along with a net income before taxes of over US$9 billion. Mr. Wang died with the pedigree of the richest man in Taiwan.

The incubation and continued support of FPG and other promising private firms is a remarkable cautionary tale of a pragmatic, experimental approach to development that successfully groped toward the harmonization of the competing interests of the ruling party, business, and society. The three-way partnership (government, party, and private sector), it must be noted, did not always pick winners. The Korean War fortuitously provided a much-needed demand. Nor was the IDC dominated by pro-market bureaucrats. In this case, the state picked a promising sunrise import-substituting industry rather than a winning firm per se, and provided timely support for the upgrading of technological and marketing capability.

Sources: Wu (2005); Wade (1990); FPG Website: http://www.fpg.com.tw/html/eng/his.htm; http://www.fpcusa.com/company/news/company_literature/Formosa-CW061307.pdf.

Box 4

Strangling a Golden Goose: The Story of Ethiopia Amalgamated

Ethiopia Amalgamated Ltd (EAL), was established in 1964 and became Ethiopia's largest private agricultural supply company. Mr. Gebreyesus Begna took over EAL and built it into a diversified agro-marketing company with interests in fertilizer importing and domestic marketing, commodity trading, shipping, and transit services.

Starting in 1984, fertilizer importation, distribution, and pricing were controlled by government enterprises. With a change in government in 1991, the private sector was allowed to participate in fertilizer importation and distribution following the issuance of the National Fertilizer Policy in 1993. At the same time, the incoming EPRDF-run government created a number of party-owned companies which enjoyed preferential treatment in the allocation of foreign exchange to importers and retail credit to farmers. By the end of the decade, there were a handful of fertilizer marketing agencies in the market: the government-owned Agricultural Input Supply Enterprise (AISE), the privately-owned firms (EAL and Fertiline), and three EPRDF-owned endowment enterprises (Ambassel in Amhara, Guna in Tigray, and Disnho in Oromia regional states). Regional governments accelerated support for their own enterprises and for affiliated farmer's cooperative unions (FCU) by providing government staff, credit, collateral, storage facilities, and transport for their retailing operations. Regional states, including Addis Ababa, also controlled virtually all of micro-financing to farmers and small enterprises. Local authorities were used to enforce fertilizers debt collection. This augmented government/party coffers as poor farmers transferred any productivity gains to their politically-connected creditors. By 2001, the party companies and FCUs have driven out independent private operators to account for 100% of fertilizer imports and local distribution. In 2006, FCUs accounted for 60% fertilizer sale—exactly equal to that of AISE in 1996.

The discriminatory methods used to drive EAL out of the market took various forms: denial of access to the fertilizer market as district (*wereda)* stores became critical nodes, credit facilities and donor-provided foreign currency allocated for fertilizer; intimidation and harassment of EAL's agents; frustrating sales and distribution contracts, forbidding delivery of fertilizer already sold; imposing taxes on EAL that are not applied to its favored competitors; and cancellation of a major import bid EAL won by denying a routinely-given letter of credit to cover the forex from state banks.

EAL's headquarter buildings were then foreclosed on by the Commercial Bank of Ethiopia and sold to a government-owned brewery on May 18, 2004. Ethiopia's largest private agricultural inputs and outputs marketing company was thus liquidated with 400 employees losing their jobs.

The subsequently exiled owner-director of EAL distilled the lessons from this saga in the following terms (Addis Tribune March 19, 2003): "Although the Ethiopian government overtly pledged allegiance to free market principles and invited the private sector to participate in the economic development of the country, it covertly pursued policies that favored party owned enterprises to engage in commercial activities such as fertilizer importation and distribution to create steady revenue streams to finance party activities to the detriment of genuine private sector companies, and the poor Ethiopian farmers who live from hand to mouth." The fusion of control over state banks, ministries, regional governments, party companies and affiliated coops provided the ruling party myriad instruments to hamstring the bona fide private sector by frustrating the emergence of contestable credit, fertilizer and seed markets.

Sources: http://www.africa.upenn.edu/eue_web/fertlz96.htm; Anonymous (2006); Gebreyes Begna, "Lessons for the Private Sector: The Ethiopia Amalgamated Ltd. Case," http://allafrica.com/stories/200406020806.html; http://allafrica.com/stories/200312050440.html.

endowment-owned firms, on average larger, are less constrained by investment climate issues and are more likely to be consulted on policy issues" (emphasis taken).

So, consistent with H1 and H2, the EPRDF has yet to muster the self-confidence to escape its ethnic cocoon and dogmatic ideology to credibly open up sufficient space for other fundamental societal groups to freely pursue their legitimate interests. Entering its third decade at the helm of state power, it has yet to fully privatize the commanding heights in the state sector, continues to expand and consolidate party businesses, and shows no let up in accentuating the differentiation between allies and competitors, or insiders and outsiders.

IV. Rent seeking, developmentalist, or both?

If Parbus is a mongrel that emerges prior to the modern institutional separation of the state and the economy, what then are the theoretical and historical pathways toward a transparent, accountable, and openly competitive political and economic system? In other words, will party-state capitalism in Africa end up formalizing political corruption or will it instead become progressively developmentalist as in the case of Taiwan?

Three trajectories suggest themselves with respect to the long-term equilibrium political and economic outcome. We dub them: paragonic, parasitic, or mutualist. Each trajectory has its own economic and political ramifications in terms of its nature (conserving or transforming) and the possible triggers for turning points.

The Paragonist Path prevails in the case of a progressive withering away of party-led economic institutions as they outlive their usefulness thereby resolving the intrinsic tension between stability and modernization (Huntington, 1970). Ruling parties that are competent and attuned to popular sentiment have a strong incentive to allow Parbus and Govbus to evolve into virtuous handmaidens of a market-led economy with a competitive private sector eventually assuming the role of economic leadership. China is recognizably traversing this path. The historical experience of Taiwan, and in some respects Afrikaaner-dominated South Africa (with respect to the manipulation of state enterprises), are great examples of this outcome. The preconditions for the Paragonist path include the willingness and the capability (discipline) on the part of the ruling party to comply with a division of labor (among private, party, and state actors) that is based on comparative advantage.

The Parasitic Path materializes with a festering of party-led dysfunctional institutions. This path is traversed when the Parbus myopically degenerate into a pathological mechanism of rent-creation and appropriation for unproductive uses. Rents, as products of opportunities created by institutional distortions, are always contestable. If so, regardless of the intention at the time they were established, the Parbus may end up as little more than the codification or formalization of corruption and the over-politicization of economic life. Contests among factions within the Party, or between the Party and its security apparatus may lead to a political trap where the new normal is an endless rotation of vanguardist ruling parties. Economically speaking, myopia generated by insecurity and policy uncertainty discourages private investment by political outsiders thus paving the way for a self-fulfilling expectations trap. The party-state regime may very well end up as oligarchic or even kleptocratic if the top echelon of the party elite cedes political control in exchange for personalizing control of party assets.

The Mutualist Path is the intermediate or transitory trajectory whereby Govbus, Parbus, and private business groups lead an uneasy coexistence. Here, some Parbus engage in activities that enjoy strategic complementarity with private investment while others crowd the latter out.

Ethiopia today finds itself at the cross-roads of the parasitic and mutualist paths[8]. The Ethiopian case illustrates the difficulties of moving away from an ethnocentric regime that put a high premium on creating minority rule based on political-cum-economic

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[8] The withering away the revolutionary-democracy would mean civilian control over the military, control of the terms of political and economic competition by an autonomous and accountable state, and the emergence a robust middle class to ensure that an open system has in-built features to sustain itself. As Anonymous (2006: 194) surmises, "Given the ideological background and convictions of the small ruling circle of the EPRDF, one would not be amiss to see in their conviction that their mission of reshaping Ethiopia, including its economy, according to the vision of revolutionary democracy is far from finished… [I]f threatened with the loss of power, (they would be tempted to convert) party and government property under their control into their own private ownership as happened in Russia."

dominance when the domestic economic engine is not robust enough to deliver the promised prosperity along Taiwanese lines. Prosperity enables such narrowly-based regimes to rely less on ethnic fracturing and cultivated primordial loyalty (of co-ethnics, or co-religionists, or co-regionalists) and more on calculated cooptation of potential contenders, and restoring legitimacy for state institutions.

V. Concluding Observations

A Parbus-based fusion of political power and economic power, by being institutionalized, does not neatly fit traditional conceptions of episodic and individualized corruption, central planning, public enterprises, bona fide private enterprises, or oligarchy. Party-state capitalism is a rather novel phenomenon which adds an important dimension to the debate on developmental states and neo-patrimonialism in Africa.

The KMT-EPRDF comparative analysis suggests that, at the extreme ends of economic and political governance, the Parbus can be a market-defying formalization of grand corruption or a market-facilitating strategy of shared growth. The (parasitic) *rent-seeking* interpretation is that the party-owned business group is an ingeniously disguised mechanism for tunneling public assets and for creating economic rent in resource-poor, post-conflict societies where the private sector is underdeveloped and the state is a big economic prize. The argument is that political overlords who capture bureaucratic authoritarian states in weak societies, unlike oligarchies, often lack a secure political base and an autonomous economic base in the private sector prior to assuming state power. A well-organized group of political entrepreneurs then have a strong incentive to convert political power into economic power, including using party ownership of business entities under various guises.

The charitable, *developmental-vanguard*, interpretation is that party-owned business empires constitute an innovative "third way" for responding effectively to the double whammy of market failure and government failure. The Parbus can help solve coordination failures and informational failures where the predominantly service and mercantile private sector. The Parbus then affords the ruling party investable funds to underwrite shared prosperity thereby earning the legitimacy to rule at low cost.

This paper makes a modest contribution to the scanty literature on the political economy of party states by offering a general theoretical framework that is buttressed by two analytical studies of canonical cases. It sought to identify a nexus of key explanatory variables and the probable conditions under which one of the two tendencies—developmental or parasitic— is likely to dominate in a given setting. It concludes that the genesis and net impact of Parbus on long-term wealth creation and distribution revolves around four empirically measurable variables: regime insecurity, organizational capacity, populist ideology, and degree of centralization of the inherited state. Interactions among these factors generate three possible paths of evolution: a paragonist path (KMT's Taiwan) favoring a competitive politico-economic system, a parasitic path toward a poverty-tyranny trap, or an unstable mutualist path of coexistence among state, party, and private actors.

Two lines of further research will surely advance our knowledge of the Parbus phenomenon markedly, both of which depend on the availability of establishment-level data. One is micro level (enterprises, groups, regions, sectors) studies of how party companies differ from private and state competitors in terms of choice of economic activity, method of competition, and disposition of net income. The other is a study of decision-making at both the level of the enterprise and the holding company with a focus on the role of individuals and factions who grapple to reconcile self-serving political dogma with the imperatives of economic globalization.

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