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Why have some mono-parties in emerging market economies (such as Taiwan's KMT and Ethiopia's EPRDF) established formidable business empires while powerful ruling parties in socialist economies invariably decried them? The phenomenon of party-owned business (Parbus), much like military-controlled businesses, is an integral part of the drive for a total "capture," by an insurgent vanguard party, of key state and societal institutions in weak market economies. A Parbus-based fusion of political power and economic power is a conundrum for traditional conceptions of corruption, public enterprises, bona fide private enterprises, or oligarchy. Party-state capitalism is a novel phenomenon that is quite germane to the debate on developmental states and neo-patrimonialism especially in Asia and Africa.

At the extreme ends of economic and political governance, the Parbus can be viewed as a market-defying institutionalization of grand corruption or as a market-facilitating strategy of shared growth. The parasitic *rent-seeking* interpretation is that the Parbus is an ingeniously disguised mechanism for tunneling public assets and for creating and redistributing economic rent in resource-poor, post-conflict societies where the state is the biggest economic prize. The alternative, *developmental-vanguard*, interpretation is that party-owned business empires constitute an innovative third way for responding effectively to paralyzing mix of market failure and government failure. The Parbus stem coordination failures and informational failures (such as investment pooling and allocation, and discovery of new products and markets) where the private sector itself engages in rent seeking as much as in profit seeking. The Parbus thus provide the ruling party investable funds to underwrite shared prosperity and, hence, legitimacy. The war chest of patronage finance can also be tapped to ward off political contenders.

This paper makes a modest contribution to the scanty literature on a touchy subject by offering a theoretical framework buttressed by analytical studies of two canonical cases. It identifies key explanatory variables and outlines the conditions under which developmentalism or parasitism is likely to dominate. We argue that the overall impact of Parbus on long-term wealth creation and distribution revolves around four empirically measurable regime characteristics: insecurity, organizational capacity, ideology, and degree of centralization of inherited state. Self-confidence and organizational capacity are most decisive in determining the magnitude of socialization of economic losses and privatization of economic benefits. Three possible paths of evolution emerge: a paragonist path favoring transition to an open system, a parasitic path toward a poverty-tyranny trap, and a mutualist path of unstable equilibrium among state, party, and private competitors.

JEL Codes: D72, F35, H41, L33, O57, P52
Keywords: Party-state capitalism, party-owned companies, developmentalist state, Ethiopia, Taiwan.

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I. Introduction

African development is ultimately about a successful transition from a world of relationship-based informality to a world of rule-based formality that is more appropriate for large scale political and economic interactions. Such a transition, in turn, presupposes a selection environment whose meta-institutions (such as rule of law and accountability to stakeholders) favor the emergence of institutions for a low-cost and impartial enforcement of contracts or protection of property rights (Dixit, 2007).

A pivotal actor in this real-life drama is the dominant ruling party which in some developing countries is uneasily assuming dual roles: as a public good provider and regulator of private activity via the state it monopolizes (bureaucrats in business), and as a competitor in the private economy (parties in business). The formative state, in other words, remains a hotly contested terrain within itself—among the civilian ruling elites, the military and security apparatus, and the politically-embedded private interests.

Bureaucrats in business are much more ubiquitous than parties in business. Aside from the prominent role of state-owned enterprises, the former tends to include complementary business activities under the control of the military—the real power-holder.

This might explain why countries such as Egypt, Pakistan, China, and Indonesia have extensive military-controlled business empires or *Milbus* (Mulvenon, 2001; Siddiqa, 2003; Brommelhoster and Wolf-Christian, 2004)[1].

The roles of party-owned businesses (hereafter *Parbus*), quite familiar to students of Taiwanese development, show a broad resemblance to Milbus. 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).

To avoid confusion with socialist economies, we dub the Parbus-dominated market economy "party-state capitalism." It may soon become a specter that will haunt Africa with tale-tale signs in the Horn of Africa and Southern Africa. Insurgent or liberation movements which managed to capture resource-poor states often lack an independent economic base. Those Fronts which acquired some organizational capacity in the course of a protracted armed struggle tend to succumb to the temptation to supplement their control of state assets with party-owned businesses empires.

Regimes presiding over bureaucratic state capitalism, on the other hand, tend to attract state elites which self-consciously limit themselves to appropriating a manageable portion of public resources. The dual imperatives of bureaucratic autonomy and selective connections (or embedded autonomy), through the balancing effects of self-preservation and countervailing restraints from oligarchies in the private sector, induce such ruling groups to promote national development (O'Donnell, 2010; Evans, 1995). The instruments include protectionism, public enterprises, fiscal activism, and alliances with oligarchs (India, Russia and Egypt) or with organized popular classes (Latin America).

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[1] *Milbus*, as recent democratic awakenings have exposed, are quite prominent in several emerging economies including China, Cuba, Vietnam, Pakistan, Indonesia, Brazil, Israel, Egypt, and Turkey. The PLA ran an extensive business empire until the Chinese government put severe restrictions on such activities in 1998. Prudent authoritarian regimes rely less on praetorian guards (Middle East) than on ideologically cohesive (preferably nationalist) military and security apparatuses with a vested economic interest in the status quo (East Asia).

Some definitions are in order. By 'developmentalist,' we mean a state under the control of a group (autocratic, oligarchic, or even democratic) whose legitimacy to rule is underpinned by promises of sustained and widely shared economic growth, boasts a capable and meritocratic bureaucracy to implement the strategic plan, and allows sufficient space for wealth-creating private entrepreneurs while restraining redistributive contests (Chang, 2006). The best examples come from East Asia (Japan, South Korea, and Taiwan) but also from Africa (Botswana and Mauritius).

By 'parasitic,' we mean a ruling class that is incapable of undertaking redistribution with growth, and myopically resorts to redistributing existing wealth to its allies regardless of the consequences for long-term economic growth or for polarizing inequality. Where regimes lack self-confidence, as would be the case when bureaucratic competence and autonomy are limited, the private sector is also rent seeking, economic performance is lackluster, and predation become entrenched (see Meyns and Musamba, 2010, for a recent review of the literature).

A mix of predacious or developmentalist motivations can easily be identified for supplementing government-owned business (hereafter *Govbus*) with Parbus. First, the spoils of state capture provide a major leverage over the educated youth and the insecure business class which desperately need access to the services of the regimented government. Second, myopia, born of deep insecurity about the tenure of power fosters a 'steal while you can' mentality[2]. 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 emanating from a populist predisposition makes it expedient to seek out funding and profit sources some of which may be allocated to boost rapid and egalitarian development.

Since development in earlier stages is as much political as it is economic, the main issue of concern is whether this form of capitalization of political assets will produce an

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[2] 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.

institutionalized method of rent seeking[3], an African mode of developmental patrimonialism, or some sort of a mongrel that combines elements of the two. These three distinct possibilities and their implications for economic and political development are worthy of serious study. This paper provides a first-pass look at the genesis, strategies, and economic consequences of political parties in business in party states, i.e., in states which lack autonomy because they have been fully captured by the ruling party.

Using case studies of two paradigmatic party states—KMT's Taiwan and EPRDF's Ethiopia[4], we grapple with 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 establishing 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 had captured. 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. Vanguard but narrowly-based parties in market-led economies, on the other hand, are compelled to stand on multiple economic legs (private, party, state) in order to mitigate deep-seated political insecurity. Finally, the nexus of the four factors noted above suggests three possible paths of evolution: a

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[3] The focus here is not on economic rent (supra normal returns) that naturally arises as a scarcity value of certain assets or innovations that are more or less in fixed supply. My concern rather is with the type of economic rent that is artificially created and distributed by governments and private interests which creates little value but may impose high social costs. It is in the latter case where active "rent seeking" can be intelligible. Whether rent is incidentally growth-enhancing or poverty-alleviating is an empirical question.

[4] KMT = Kuomintang (Nationalist Party); EPRDF = Ethiopian Peoples' Revolutionary Democratic Front.

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 general 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, Inc., along with a more detailed look at that of the EPRDF, Inc. 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 a couple of suggested areas for further research.

II. Theoretical Framework

Current fashion in development economics favors institution-based explanations for the enormous and persistent gaps in cross-country economic performance[5]. 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 conflicts in a low-cost manner, harm the cause of shared prosperity.

Acemoglu, for example, attributes economic success to the soundness and transparency of a country's economic institutions: secure property rights, representative government, and the rule of law to ensure freedom from fear and access to capital (Acemoglu, 2009). The Spence Commission (COM, 2008), lists five elements that produce shared and sustained growth: stability, openness, market-driven resource allocation, good

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[5] However, we have a few clues about, and certainly no hard evidence on, 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."

governance (leadership) and high rates of investment. In a similar vein, Rodrik and Subramanian (2003) provide evidence that the qualities of three types of economic institutions (market creating, market regulating, and market stabilizing) are the deep determinants of income growth. Furthermore, they find no clear correspondence between institutional form and function: good institutions are those that are congruent with the ever-changing needs of societies at different stages of development.

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 privilege 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 where interactions are limited to tightly-knit communities.

The popular but contested conceptual entry point of neo-patrimonialism in its various renderings (developmentalist, parasitic, or neutral) has raised many concerns. African polities and economies are all too often viewed in this literature in rather pathological terms, the implied remedy being adoption of some version of an external model—Eurocentric or Nipponian. Ironically this diagnosis is sometimes coupled with calls for government leadership in support of the private sector. Mkandawire, for example, attributes this to the over-reliance on such concepts as patrimonialism with weak analytical content (Mkandawire, 2001; van de Walle, 2001).

Unfortunately, we have yet to muster a good-enough understanding of where institutions come from. The formation of institutions is variously traced to geography and ecology, slowly-fading historical legacies, enduring cultural values, or even luck. If mass poverty, identity-based political relations, and big-man (or big-party) politics are mutually constitutive in the early stage of modernization, the analytical challenge is one of understanding this dynamic in order to identity the escape routes from this trap into a more open (rule-based) politico-economic system (van de Walle, 2001; Bates, 2008; 2009; Hyden, 2008).

The African dilemma is then encapsulated by the existence of doubly week public and private institutions which give rise to deep insecurity for all (Herbst, 2000; World Bank, 2011). 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 analytical approaches and policy advice which go "against the grain" of long-enduring African practices whose persistence must have a deeply rational basis. This new 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 contextualized and nuanced understanding of the origins and the roles of formal institutions in shaping incentives.

Furthermore, this nativist reconceptualization recasts the issue of institutional design more pragmatically as good-enough governance that falls far short of the standards of liberal democracy, i.e., the rulers are expected to supply law and order, respect property rights, impose reasonable taxes and regulations, and ensure adequate domestic and international competition. From this vantage point, farsighted state elites are who are concerned with establishing legitimate authority to undergird a durable and legitimate social order which may or may not be democratic.

A useful big-think framework for a macro-level framing of the evolution of embedded and interlinked institutions is provided by North, Wallis and Weingast (NMW, 2009), Olson (2002), Bates (2001; 2008), and Acemoglu and Robinson (2009). They suggest that the challenges of stability and modernization of social orders revolve around issues that include control over organized violence, and fostering competition through responsive institutions and open organizations.

The two modern social orders (i.e., limited-access order and open-access order), and the transition between them, provide a deep-veined reconceptualization of the development process. A successful transition from a world of unproductive rent seeking and privilege to a world of open, competitive access to economic and political organizations entails three "doorstep conditions" (NMW, 2009). [6] They are: replacement (or supplementation) of personalized relationship by rule of law, taming of violence by civilian control of the military and the security apparatus, and existence of a perpetual state with significant organizational capacity and political legitimacy. We are still left with the challenge of providing satisfactory explanations of how countries which have long fallen into multiple traps can manage to meet the three doorstep conditions that appear to be as much the result of successful development as they are the cause of it.

2.1. Parbus as a Fusion of Political and Economic Entrepreneurships

The spectrum of enterprise types in developing economies includes two bona fide firms (state and private) and three hybrid, politically-linked firms (parastatal, Parbus, and affiliated)[7]. The Govbus are ubiquitous in major economies (World Bank, 1995). At one end of the spectrum are the historically centrally planned economies which comprised mostly of Govbus (Kornai, 1992) that still play a major role in many post-socialist economies such as China, Vietnam, Ethiopia, and the former Soviet Republics. Until the post-1990 wave of privatization, a number of market-oriented economies such as those in Western Europe, Northeast Asia, Latin America and Southern Africa also relied on Govbus in strategic sectors mainly to compensate for the weaknesses of the private sector.

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[6] Following NMW (2009), I distinguish the State from the Government. While the two are one and the same in open-access, democratic societies, this is not the case in non-democratic societies. In the latter case, the State comprises the government plus the extra-legal or extra-constitutional organizations controlled by the ruling clique which runs the government itself. Surplus generating Govbus, as opposed to purely budgetary institutions, come in two varieties: enterprises run by the civilian bureaucracy with varying degrees of autonomy, and enterprises run by the military to generate off-budget income.

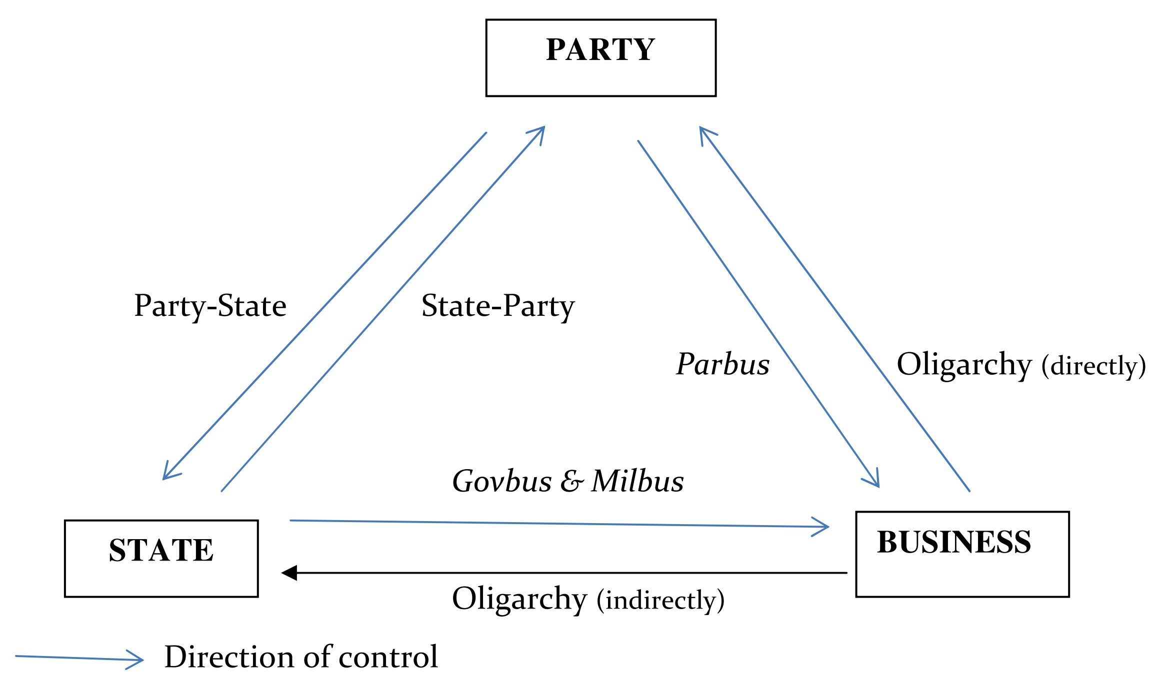
[7] I also refrain from using the confusing language common in the literature to describe these public and quasi-public entities. The Govbus is a "parastatal," a (wholly owned or partially owned) enterprise established by the government to provide social services or to undertake commercial activities on its behalf. Since the Govbus is bona fide "statal," it is not clear what the qualifier "para" is intended to convey. Symmetrically, the Parbus is dubbed "parapartal," an enterprise created by a ruling political party to undertake commercial activities whose net income ends in the party's coffers. In some sense, a Parbus is a parastatal in the sense that it is quasi-governmental (being better politically connected than even the Govbus) and yet it serves private organizational interest. If, on the other hand, para is meant to denote partial ownership, it then needs to be defined as such explicitly.

The Parbus, as noted above, is a politically-embedded for-profit corporation whose sole or majority owner is a duly registered ruling party. The party, having captured the state, subsumes the latter instead of governing through it. Key private sector allies are also embedded in the party and its business interests. Interestingly, the party-state is autonomous with respect to society. Some variants opt for supplanting rather than supplementing unaffiliated capital and for constricting political space for independent civil society organizations. And yet, the party-state often lacks autonomy with respect to international actors—big aid donors or big multinational investors.

The political and economic linkages among party, state, and oligarchic blocs in emerging market economies are depicted in Figure 1. The Parbus, as an entity that balances the duality of rent-seeking and profit-seeking, is clearly one of many instruments for rapaciously or benignly fusing political and economic power.

Figure 1

The Party-State-Business Triangle



The Parbus and the Govbus are often challenged by private diversified business group (DBG)—a more tightly organized form of conglomeration. Private economic groups, ubiquitous in East Asia, Russia, and Latin America, have two key characteristics: they are diversified across distinct markets or product lines, and they include a large number of member firms in a formal network led by a key bank or an industrialist tycoon. The most salient features of group networks include a group governance system undergirded by director interlocks, mutual equity ownership, debt relationships, trade relationships, personnel exchanges, political ties with state actors, and social ties among key players (Khanna, 2007; Abegaz, 2005).

Affiliated groups may be further disaggregated into three subgroups: (a) Govbus-Parbus whereby state enterprises may be interlocked with party enterprises through cross-holding, insider contracts, and non-conforming loans from state financial institutions; (b) Parbus-Coop where politically-affiliated mass organizations may be established under the tutelage of Parbus or as joint ventures; and (c) Private-Parbus-Milbus whereby the three establish joint ventures, business alliances, and illicit political financing arrangements. All in all, the economic landscape of the larger developing countries is a bewildering mix of political and economic maneuvers involving the Govbus-Parbus-Milbus trio, DBGs, other large private businesses, and myriad small private enterprises.

Though non-democratic states condone the commercial activities of the ruling party (especially the military), countries with democratic pretentions universally proscribe the mixing of organized politics and organized business. The rationale for decoupling the two spheres is straightforward. Clean competition among legally registered political parties which are committed to clear and universal rules (pertaining to campaign financing, conflict of interest, member mobilization, and the like) is the sin qua non of an accountable political system. The same logic applies to economic markets where contestability is a prerequisite for ensuring optimal quality, price or service. This would explain why such commercial activities are often registered under ostensibly "charitable" endowments or foundations.

A number of African governments have been rather egregious in flaunting 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 businesses 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 ruling party. 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 the profits made by the trust. In practice, the proceeds of the company are funneled directly into ANC's coffers.

The developed countries are not entirely immune from similar temptations. However, the motive for political parties to legally engage in rather ancillary commercial activities is the need or the desire to have a secure financial base for political financing. In parliamentary systems, it often takes the form of party-driven financing of electoral campaigns. Traditional parties are expected to provide social and other patronage services to core constituencies. In presidential systems, the need to establish front companies or to unduly politicize economic activities is both less feasible and less pressing since financing is candidate driven[8].

2.2. Toward a Theory of Parbus Behavior

Our working hypotheses, built around four empirically measurable explanatory variables (insecurity, organizational capacity, ideological predisposition, and degree of state

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[8] Examples of party businesses abound in the developed countries with socialist-oriented parties. Israel probably boasts the broadest range of party-linked enterprises whose origin lies in the search for economically autonomous and self-sufficient settlement communities. This meant that pioneers had to resort to owning publishing houses, banks, housing projects, wholesale and retail co-operatives, medical facilities, and even heavy industry. The Italian Communists Party ran chains of stores, garment-manufacturing firms, travel agencies, and import-export agencies while the French Communist party once owned some 300 commercial enterprises.

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 vanguard party is *deeply insecure* because of its dependence on external financial resources and its legitimacy to rule rests on a narrow political base; the party had acquired substantial *organizational capacity* before assuming power which enables it to discipline cadres 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 especially 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 as well as independent civic or political movements.

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

With respect to H1, the analytical challenge is to do credible 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 entails identification of the conditions of existence for the de facto 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.

Because of clandestine nature of their activities, though their presence is hidden in plain sight, complete and reliable firm-level financial data on Parbus is not available. If good data were publicly available on their assets, sectoral distribution, affiliates, accumulation of economic rent or profits, and the allocation of operating surplus to investment and social obligations, then we would have been able to evaluate Parbus performance relative to their peers in the private and public sectors. Even if we had good cross-country data, however, regressions can paint only an "average" picture.[9] One can, as we show below, make a compelling argument for the richness of well-crafted and in-depth case studies whose deep, context-specific insights are informed by a good theoretical framework.

Let us now parse the issues involved by employing a multi-step search process for explanatory variables. This involves posing three probing questions sequentially. The first pertains to the relationship between regime type and the degree of reliance on domestically-generated revenue resources relative to external revenue sources. External dependence has two dimensions, one of which is structural (exports and remittances) and the other is policy-driven (foreign investment and foreign aid).

These considerations provide us with the building blocks of a causal mechanism based on the typology of four regime types: (1) nationalist, involving a partnership between an inward-oriented state elite and a business elite where both domestic and foreign revenue sources are equally important; (2) vanguardist, involving externally-focused state elites who deploy their political capital to attract considerable external financial support to supplement the modest domestic resources; (3) oligarchic, where a small class of tycoons dominates the modern economy and captures key political actors in countries where domestic sourcing of revenue dominates foreign sourcing; and (4) state-failure, where scarce resources are

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[9] Where panel data are available, one could construct appropriate proxies for the four observable variables to estimate two-stage regressions of the form:

(a) [Input of Effort]: Parbus Investment/Total Business Investment = F(Poverty Rate for Party's Core Constituency/National Poverty Rate, Party Members Engaged in Development Activities/Total Membership, Public Investment/Gross Domestic Investment, Central Government Expenditure/Total Government Expenditure).

(b) [Outcome]: Growth Rate of Income Per Capita = F (Parbus Investment/Total Investment, Index of Business Climate, Index of Openness, Stock of Human Capital, Index of Macroeconomic Stability, Population Size, Distance from Sea Routes, Natural Resource Endowment).

dissipated as an alphabet soup of insurgencies (or factions within the government) ceaselessly vie for state power in countries where capturable domestic and foreign resources are equally meager.

For our purposes here, we can exclude failing states since clandestine business ventures owned by insurgencies are likely to be small and oriented toward looting in order to finance an armed struggle. We also skip over the nationalist and the oligarchic cases since well-entrenched business interests can restrain political actors from amassing organizational—as opposed to personal—wealth.

Our thusly narrowed search triggers a follow up question concerning the nature of vanguard parties in societies with weak political economies. How does the scope for self-reliance shape the fledgling politico-economic system in such post-conflict societies? The simple answer is that two types of corporatist regimes are likely to emerge in such societies given the prevalence of a strong incentive (and capability) to fuse political power with economic power. One is party-state capitalism where opportunities exist to extract high rent along with high profit from the Party's own commercial ventures. The other is oligarchic capitalism where the opportunities for the ambitious favor, at least in the long run, high profit over high rent.

What then are the conditions of existence for a party state as opposed to an oligarchic state? The key factor may very well be regime insecurity that reflects the nature of the mixed economy (where economic bases might emerge for potential competitors) and the shallowness of political institutions (deep uncertainty about political legitimacy). Three possibilities can be envisaged based on the four explanatory variables incorporated into our working hypotheses. They are: (1) successfully developmentalist where the ruling party is politically secure, ideologically so predisposed, and enjoys sufficient organizational capability; (2) unsuccessfully developmentalist, especially where the legitimacy of the ruling party is open to credible challenges (thus dissipating its income and energy on survival) despite having the predisposition and an organizational capacity to undertake considerable growth-oriented initiatives; and (3) descent to autocracy (or kleptocracy), where the party is highly insecure, resorts to an aggressive and exclusionary political strategy, and enjoys limited organizational capacity.

We now turn to the difficult task of sketching out the transition dynamics specifying the initial conditions, the instruments of power, and the pathways of societal transformation one possible outcome being a party state. A fruitful way of thinking about the causes and effects involving inter-regime transition would be to draw an analogy with the triggers-propagation-consequences framework employed in macroeconomics to explain the dynamics of financial crises in mature capitalist economies. The triggers in low-income country settings tend to be livelihood crises and deep-seated political insecurity which induce citizens to prioritize short-term survival and to rely on social networks for coping mechanism (World Bank, 2011). This favors the entrenchment of a patronage system whereby politicians rationally compete to capture economic surplus (by over-taxing trade and formal-sector businesses, foreign aid, royalty from natural resources, remittances, etc.). In a patronage system, the selection mechanism accentuates myopic wealth redistribution over wealth creation. In other words, a political Gresham's Law operates to create a self-perpetuating political trap: bad politicians drive good politicians out of circulation.

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 productive investment. Leadership is perhaps a product of random luck. Once the poverty-tyranny trap is somehow 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 post-conflict reconstruction or radical structural reform, and permit appropriate formal institutions to take root.

So far, we addressed motivations, capacity and probable triggers that collectively feed the proclivity 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, 2002) and the politically-slanted directives from their owners?

Figure 2 depicts partial equilibria in a market populated by a mix of 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. The demographics comprise firms in the formal modern sector which is dominated by medium-scale and large-scale enterprises, firms in the same industry facing similar cost structures and each enjoying some market power (not price takers), politically-unconnected private firms maximizing long-term profits which means that they may choose to maximize sales if only on a temporary basis, and politically-connected Parbus maximizing profits or revenue depending on Party directives.

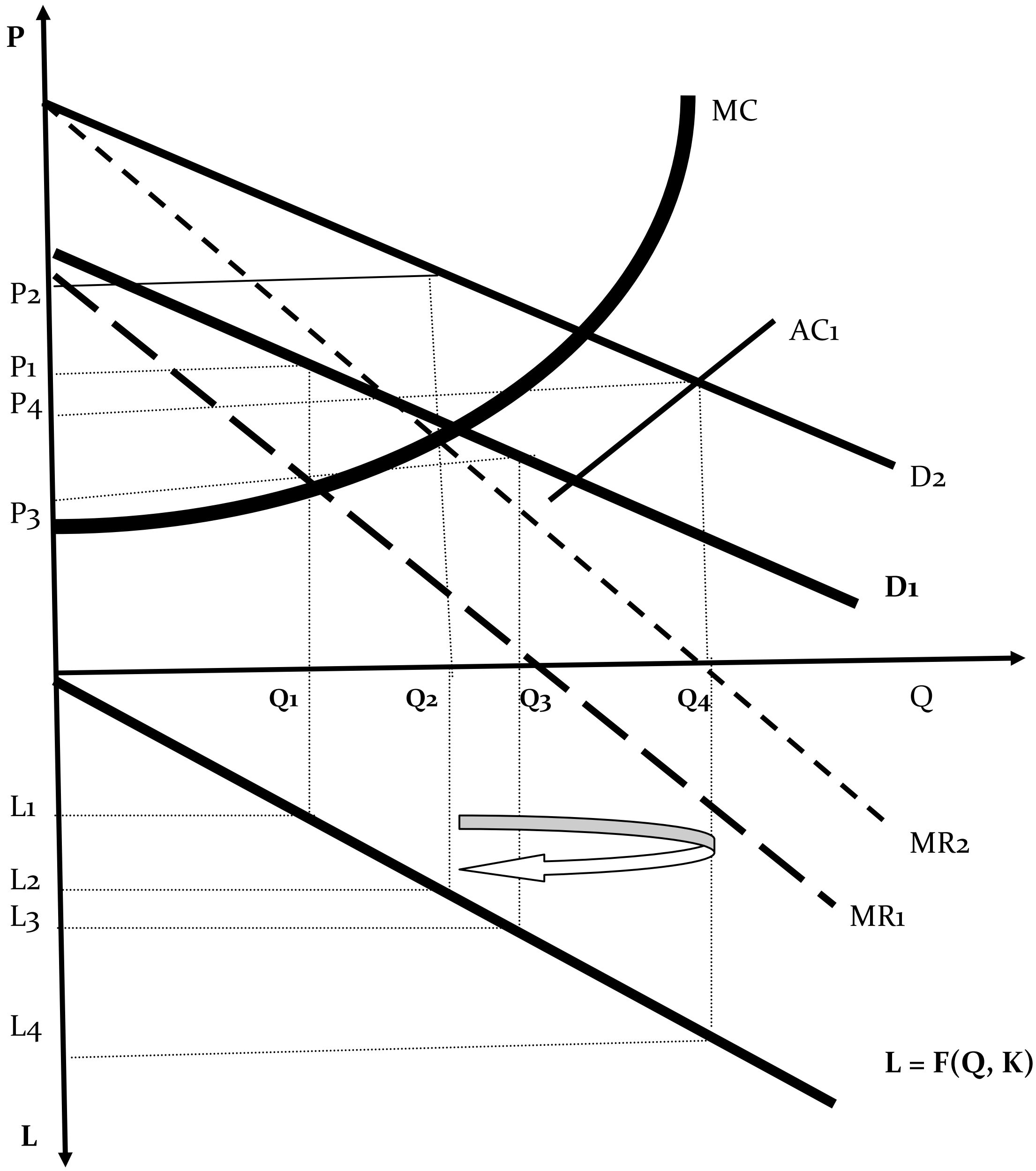
The behavior of the two proto-typical competitor firms takes the following forms. If both firms maximize profit under equally hard budget constraints, then each firm equates marginal revenue (MR) and marginal cost (MC) to attain equilibrium at (P1, Q1, L1). A level playing field prevails. If, on the other hand, both firms maximize revenue (or employment), then the corresponding equilibrium will be (P3, Q3, L3). Output will normally be set to ensure a break-even price that fully covers 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 comparable to that of limit-pricing by an oligopolist in a contestable market designed to prevent 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 political 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 will trigger 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) which will produce higher profits if the lump-sum cost of rent seeking (which shifts the

Figure 2

The Behavior Parbus and Private Firms in Governed Markets



Key:

(P, Q) = price, output
D = demand

(L,K) = employment, capital
AC = average cost (suppressed)

average cost curve up) is lower than the additional net revenue. The Parbus firm, on the other hand, may not have to incur any additional costs in order 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 calls for a strong commitment by the government to the disciplining effect of robust 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.

The real picture is more complicated because of heterogeneity. Some Parbus may, for example, focus in previously disfavored sectors or regions. They may also be less efficient than comparable private firms. This is especially the case in industries where they are latecomers since it takes time to master the technology or the marketing but can afford to exist thanks to the subsidies and preferential access to credit from state financial institutions[10].

Finally, we need a strategy for choosing among competing explanations for the Parbus phenomenon. One strategy is to show that there are no cases where the four regime attributes (insecurity, extraversion, centralization, and populism) exist without producing Parbus. The anecdotal evidence suggests that (a) where regime insecurity is low (China,

[10] Politically-linked enterprises may not maximize profits even in cases where there is little political pressure to pursue non-commercial objectives. Like the Yugoslav worker-managed firm, the Party-appointed management may choose to maximize employment and develop an aversion to financing investment out of net earnings. And, like the Mondragon (Basque, Spain) worker-managed cooperative network, the well-founded reluctance of non-Parbus banks to extend credit may trigger a desire by the Parbus to establish own development bank. An affiliated development bank also has the additional attraction of coordinating collective investment and disciplining member firms, and restraining powerful cooperators from demanding unreasonably high pay.

India, and Egypt) or none of the four conditions for the existence of Parbus are evident (South Africa), party-owned business empires are either unattractive or politically infeasible; and (b) where insecurity and external dependence are present but the requisite populist ideology and high state centralization are not in place (Uganda, Rwanda, and Zimbabwe), the Parbus are not the primary mode of accumulation of patronage funds.

This said, a nagging doubt still remains. We may very well have narrowed the scope of the theory by implicitly building it around the known attributes of the known cases of Parbus. Empirical analyses will certainly help. Cross-country or time series data may be available in the near future as popular pressure mounts for full disclosure of the finances of these quasi-political entities.

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 a heroic mission to restore lost national glory, and have few easily exploitable mining resources. Taiwan was home (at least until 2000) to the world's richest political party, and Ethiopia is said to host Africa's richest political party (see Table 1 for comparative portraits).

The founding and ruling party of Taiwan, in 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.

The histories of the KMT and the EPRDF do not always jibe with statist accounts of the so-called East Asian Miracle (Wade, 1990; Amsden, 2001). These accounts presume that the state has the capacity to pursue selective economic policy with the help of a cohesive

Table 1

Politics and Economic Policy in the Formative Years of Two Party-States: Taiwan and Ethiopia

State	Taiwan, 1950-75	Ethiopia, 1991-2010
Background	• Population (2009): 25 million • Income per capita (ppp, 2009): US$30,000 • Gini Index (2009): 0.34 • Industry/GDP (1950): 20%	• Population (2009): 80 million • Income per capita (ppp, 2009): US$800 • Gini Index (2009): 0.30 • Industry/GDP (1990): 20%
Regime Type and Insecurity	• Inherited economically autonomous colonial state • Insecure, authoritarian émigré regime • KMT strongmen above single-party state and party • Parallelism: party structure mirroring state	• Inherited an oppressive, hyper-centralized state • Insecure, authoritarian minority regime • TPLF strongmen above dominant-party state and party • Parallelism: party structure mirroring state structure
Ideology and Capacity	• Nationalist, commandist but anti-communist • Sun Yat-sen's Three People's Principles • Some organizational capacity to run a state	• Ethno-nationalist and agrarian populist • Revolutionary democracy • Limited organizational capacity to run a state
State Centralization	• Hyper-centralized state with weak non-state sector • Economically autonomous state • Private businesses controlled by native Taiwanese	• Hyper-centralized state with weak non-state sector • Economically autonomous state • Urban private businesses controlled by non-Tigreans
Economic Planning	• Economic autonomy of party-state means politics was in command of economic policy • State was neither coherent nor highly capable • Deep mistrust of big local capital initially	• Economic autonomy of party-state means politics was in command of economic policy • State was neither coherent nor highly capable • Deep hostility to independent private formal sector
Division of Labor	• State: control of financial system, infrastructure and upstream industries • Parbus and large private controlled intermediates • Backward-linkaged and export-oriented SME • Productive smallholders supplied food and fiber	• State: control of financial system, infrastructure and other public services • Missing middle with SME and smallholders marginalized • Limited backward linkages and market connectivity • Structural change service-sector driven, not industrial
End of Period Trends	• State and Party incubated capitalists • Taiwanization of both KMT and DBGs • Planning for economic integration • Path: IS1 to ES1 to IS2 to ES2	• State and Party incubated party companies and tolerated small capital • Selective, large-scale commercialization of agriculture • Ineffective agricultural development-led industrialization

Sources: Wu (2005); Amsden (2001); Wade (1990); Li (1998); Clapham (1988); Vaughan and Tronvoll (2003); World Bank, World Development Indicators 2010. IDC = Industrial Development Council; IS = import substitution; ES = export substitution.

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, 2002; Vaughan and Kjetil, 2003; O'Donnell, 2010).

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 less-well understood.

3.1. Taiwan's KMT

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.

As an émigré regime, the Nationalist Party had good 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 to 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 emergent 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 economics until the 1980s.

The major elements of KMT ideology included Chinese national revolution, 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 comprehensive, paternalistic and authoritarian manner—hence, the label, KMT, Inc.

The Party created and deployed substantial economic rent to reward loyal party cadres and private business groups. The Party systematically prevented the emergence of independent economic and civic organizations for fear of being challenged politically. 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.[11]

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 KMT employed Leninist methods of party control of the state apparatus which included democratic centralism, organizational parallelism, and political commissarism (Fields, 2002). Party organizations (and affiliated mass organizations) had structures that duplicated the state bureaucracy at every level to ensure political control. More importantly, nomenklatura positions in the top echelons of the state bureaucracy had to be approved by the head of the KMT.

Consistent with H1, the KMT's initial sense of deep insecurity, heavy dependence on the U.S., and its own paternalistic ideology made it instinctive for the party to capture every major societal asset and organization. What might have motivated it to supplement Govbus with Parbus, however, was the combination of its own organizational capability to manage commercial enterprises, the concern with the impending emergence of large private enterprises (mainly in the rent-rich service sector) with a potential for serving as independent centers of power in the near future. So was the weakness of the vast universe of small firms/farms in spearheading a much needed drive for reconstruction and development or an effective domestic mechanism of constraint on powerholders.

3.1.1. KMT's *Development Strategy*

[11] The most notable ones were Chen Cheng, Yin Zhongrong, K.T. Li, and Yan Jiagan. It should also be noted here that some 90 percent of state functionaries were members of the KMT whose own paid personnel exceeded 4,000 (Fields, 2002, pp. 117-8).

Given the above context, it is no wonder that the KMT relied on state and party enterprises to control the commanding heights and to provide upstream inputs for the fledgling private sector. The Party clearly favored rapid economic development to achieve multiple objectives: meet basic needs, develop a secure source of revenue for its defense and patronage needs, and use its economic achievements to earn legitimacy among the islanders.

As it succeeded in passing the first stage of industrialization, the KMT-controlled and Govbus and Parbus were no longer the sole priority. Politically affiliated private DBGs and export-oriented SMEs began to receive the warm embrace they deserved provided they were demonstrably economic winners and trusted political supporters. This was possible only because the KMT was able to increasingly feel politically secure.

The hallmark of KMT's development strategy was its market-conforming nature. For over four decades, the party-state intervened in the economy with a heavily paternalistic hand—nurturing, protecting, and regulating domestic markets. Building on the legacies of a colonial economy, Taiwan 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-processing by exploiting decentralized networks. However, unlike Korea which opted for a chaebol-led modern sector, Taiwan's development strategy favored agile SMEs which today comprise some 90 percent of the nation's enterprises.[12]

Taiwan's development strategy also made good use of a large number of state-owned enterprises which pioneered import-substituting industries to synchronize rising demand

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[12] The distinctive features of Taiwanese industrialization—state-owned enterprise (SOE) focus on upstream industries, blocking of the drive by large-scale private enterprise (LE) for vertical integration, and benign neglect of export-oriented small and medium-scale enterprises (SME)—are best understood as products of political considerations in economic policy until the mid-1970s. As Wu (2005: 23-24) puts it: "The clear-cut cleavage between the two markets in which the SOEs and LEs monopolized the domestic market whereas the SMEs had a free run in the export markets was a striking feature of Taiwan's political economy until the mid-1970s...[A new strategy was pursued subsequently toward] Taiwaniztion and concerted effort to link legitimacy to the success of the SMEs...The state became less and less the policeman of upstream economic activities and more and more the champion of integrated industrial development."

with concomitant supply; switched in a timely fashion to export promotion by private firms with the state providing key public infrastructure and intermediate goods; pioneered the diffusion of high technology and capital-intensive industries; and under-wrote key social welfare programs, especially for war veterans. It proceeded to deepen global economic integration beginning in the 1960s (Li, 1988; Cheng, 2001).

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 as in 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.

The peaceful transition from the authoritarianism of one-party state to multipartyism underwent some political paralysis as the divided government tried to handle such contentious issues as the separation of the state from the KMT, tensions with China concerning Taiwanese sovereignty, and electoral scandals. The new administration of President Ma Ying-jeou embarked on a pro-integration approach toward China, seeking to strengthen Taiwan's export economy and to attain an expanded political leeway for Taiwan on the international stage.

3.1.2. 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 Nationalist 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.

Having passed through the initial formation, development and transition phases of party-business development, the expansion phase was launched in the 1990s. 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 significant presence in mass media. Asia Pacific is distinctive in that it invested abroad, especially FDI (see Table 2 and Appendix 1.1). There were also private businesses closely affiliated with KMT. The Business Management Council (BMC) of Taiwan included heads of private business groups enjoying shareholding relationships with KMT companies but not directly falling under the party's Central Financial Committee (CFC). By the end of the decade, the party owned over 150 party-invested enterprises whose net worth was estimated in the range of $5-20 billion (Fields, 2002).

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 ill-gotten 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-owned funds (Low, 2000). Today, press

Table 2

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$5-20 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 EPRDF • 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 (2002); Wu (2005); Anonymous (2006; 2009); World Bank (2007).
a. Based on the data in Appendix 1.2, 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 (see below).

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. Reliance on 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 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 well-planned or easy. It was rather a product of pragmatic muddling albeit by 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 to threaten emerging competitors using gangsters linked to KMT-run businesses to neutralize competitors by gaining leverage over native-owned 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, it may have contributed to the willingness of the ruling elite after 2000 to seriously entertain divesting control of the assets after relying on them for a soft landing into the brave new world of 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 examining the Ethiopian experience.

3.2. Ethiopia's EPRDF

Ethiopia accommodated three distinct postwar regimes: Monarchy (1941-74), Derg (1974-91) and EPRDF (1991--). In terms of meeting North's (NMW, 2009) three doorstep conditions for a successful 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 historical or nationalistic credentials; and none met the requirements for a Weberian rule-based political system.

A puzzling feature of Ethiopian statecraft is that a succession of state elites (imperial, military, or socialist) have failed to utilize the not so inconsiderable state power at their disposal for the promotion of economic development and wider political participation. In terms of centralization and enhanced state capacity, the legacies of the Derg regime included the nationalization of much of the formal urban private sector and all land to be allocated as leasehold for smallholders and urbanites, a hyper-centralized government that left local communities unorganized and leaderless, and a war-torn economy entrapped in the U.S.-Soviet geostrategic rivalry. Consistent with the behavior of other radical regimes, as (Clapham, 1988: 128) notes : "The new elite sustains itself directly from the power of the state, rather than by using state power to provide itself with private assets, and is thus more explicitly bureaucratic than its predecessor." Despite remarkable progress in delivering basic social services to the poor, the Derg government suddenly collapsed in 1991 under the combined weight of the demise of its external benefactor (the Soviet regime) and domestic opposition.

Two liberation fronts from the northernmost provinces (Eritrea and Tigray) captured the post-revolutionary Ethiopian state in 1991. The province of Eritrea seceded in 1993 while the Tigray People's Liberation Front (TPLF), claiming to represent only about 5 percent of the national population, proceeded to capture the central state institutions. 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 meaningful 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.

Despite the form of a federal state structure and a multiparty system, post-1991 Ethiopia remains a de facto centralized one-party state. This is amply demonstrated most recently by the rigged parliamentary elections of 2005, and the largely uncontested district (2008) and national parliamentary (2010) elections which netted over 99% of the seats for the ruling coalition. The reversal of the gains made in the area of political liberalization during 1995-2005 became even more evident by the severe constraining of political space for civil society organizations as well as opposition political organizations. The passage in January 2009 of a draconian legislation restricting external funding and operations of civil society organizations, and the systematic imprisonment of members of the opposition under a restrictive anti-terrorism laws are widely condemned by international human rights organizations (HRW, 2010; Tronvoll, 2010; Epstein, 2010).

In order to fully appreciate the context in which state and party enterprises operate in Ethiopia, it will be useful to take a quick look at Ethiopia's modern sector. Ethiopia's economy is as non-industrial as it gets. Agriculture, in turn, is dominated by subsistence farmers with weak modern-market connectivity. Those smallholders who are producing cash crops (coffee, oilseeds, and livestock-based products) are slowly but steadily being integrated to the growing urban and export economies with concomitant increases in living standards. The agricultural sector generates half of GDP (one-third of which is accounted for by crops) and another 40 percent is accounted for by more capital intensive services. Household consumption accounts for two-thirds of final demand, of which one-third is non-marketed. These facts reflect the reality that some four-fifths of households earn less than US$2 per day. The ultra poor, over 40% of the population and a third of whom are chronically food-insecure, claimed less than a quarter of the total household income.

There are five types of enterprises in the modern, urban sector: Govbus corporations (public utilities, telecom, banking and insurance, and large-scale manufacturing), Parbus companies (organized under endowment holding companies), a diversified business group led by Sheik M. al-Amoudi, other FDI focused on commercial crops, real estate and hotels, and independent small and medium-scale private enterprises.

The urban formal sector is state-centered and heavily regulated. Results of recent assessments of the investment climate confirm the concerns of an uneven playing field and preferential treatment of the public sector firms in areas such as access to physical infrastructure, and administrative and financial services (World Bank, 2007). At the commencement of economic reforms in 1995, the public-enterprise sector consisted of 212 holding or parent enterprises, and contributed some three-fourths of industrial output and one-fifth of GDP. From a peak of 330, about 130 often debt-strapped enterprises are still in the public sector. They account for just under half of the national industrial output. Key sectors such as telecom, public utilities, air services, and financial services remain solely or largely in the public sector (World Bank, 2007; Access Capital, 2010a). The government is by far the biggest employer in Ethiopia. However, the technocracy enjoys neither insulation from politics nor a competitive pay[13]. Wages and salaries as a percentage of government expenditure account for over half of the total. Ethiopia has a large number of reasonably well-educated professionals, even in the face of a debilitating brain drain.

The private sector, concentrated in the Addis Ababa-Dire Dawa urban corridor, accounts for less than a third of the modern economy. The financial sector has been off limits for foreign ownership and remains dominated by large public financial institutions.

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[13] Ken Ohashi (2010), the Country Director for the World Bank, has interesting things to say regarding the case for competitive public-sector pay: "Excluding the Army, it is estimated that there may be nearly 1 million public employees. Of those, less than 15 percent are in the so-called PS1 to PS9 grades. They are the ones with varying degrees of professional training and skills, and their turnover is the main concern. The more senior levels (PS 5-9) cost Ethiopia about Birr 1.2 billion (about US$71 million) and the junior ranks (PS 1-4) cost about Birr 2 billion (about US$122 million). The rest of the public service costs about Birr 8.6 billion (about US$522 million)… The Government and public enterprises invest over US$3 billion a year. If high staff turnover delays implementation by one year on average, one can roughly estimate that the value of that US$3 billion may be reduced by 10 percent or more."

Nonetheless, the combined share of the twelve private banks has increased to 40-45 percent of commercial banking assets[14] (Access Capital, 2010b).

Rough estimates suggest that two-thirds of urban businesses are informal (1.2 million in 2003). Low skills, underdeveloped markets, inadequate and unreliable public services (especially power and ICT), and limited managerial experience collectively constitute binding constraints on rapid transformation of merchant capital into industrial capital. About half of the occupied urban land is without written leases or titles. Low wages provide little comfort in attracting foreign direct investment if they are accompanied by low labor productivity. Ethiopia's the extremely low productivity (less than half of China's) overwhelms its low wages to produce an uncompetitively high unit labor cost (Ohashi, 2009).

3.2.1. Midroc's Business Empire

Aside from the Parbus, the 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[15] (owned by Buzuayehu Tadele and family) which is a public 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).

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[14] The rather underdeveloped, even by East African standards, financial sector consists of three large state banks (the large Commercial Bank of Ethiopia, Construction and Business Bank, and Development Bank of Ethiopia), six medium-sized private banks (Awash, Abyssinia, Dashen, NIB, United, and Wegagen), and six small privates (about to double in number in 2011) as well as a number of state and private insurance companies (Africa, Awash, Ethiopian, Global, Nib, National, Nile, Nyala, United, and Universal).

[15] 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 shares, become legal partners with the power to run the companies and to appoint managers (Seifu, 2010; 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 asset value 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. This is a part of a larger global business empire which is organized under four holding companies: Corral Group, Midroc Europe, Midroc Ethiopia and ABV Rock Group (see http://www.mohammed-al-amoudi.com/business; http://www.midroc-ethiotechgroup.com/index.html).

Midroc Ethiopia controls some 50 companies which collectively boast over $1 billion in investment[16]. The affiliates are organized into three groups. The Midroc Ethiopia Investment Group is a widely diversified holding company comprising over 30 enterprises (mostly private limited). Midroc Ethiopia Technology Group has 16 companies, 11 of which were acquired through privatization of Govbus since 1992. The remaining enterprises fall under Midroc Ethiopia Affiliate Companies.

Established in 1996 to engage in development ventures and provide overall management services to its affiliates, the long-term oriented Midroc Ethiopia is involved in

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[16] The Midroc Ethiopia group owns the following share companies or limited-liability companies: Midroc Gold Mine, ELFORA Agro-Industries, Huda Real Estate, Kombolcha Steel Products Industry, Modern Building Industries, Trust Protection and Personnel Services, Addis Home Depot, Trans Nation Airways, Addis Gas & Plastics Factory, Wanza Furnishings Industries, Daylight Applied Technologies, Summit Engineered Plastics., Blue Nile P.P & Craft Paper Bags Manufacturing, Rainbow Exclusive Car Rental and Tour Services, United Auto Maintenance Services, Unity University, Addis International Catering, Ethio Agri-CEFT, Ethio-Leather Industry, Sheraton Addis, Midroc Ethiopia Construction, Moha Soft Drinks Industry, National Mining Corp. (Kenticha Tantalum Mine, Lega Dembi Gold Mine), National Motor Companies, Bauer-Midroc, Sara Lamps, Kebire Enterprise, Lame Dairy, Unlimited Packaging, MAMCO Paper Products, Star Soap and Detergent Industries, Midroc Energy House Electro-Mechanical Services, Pharmacure, Mugad Travel, Derba Midroc, and Ethio Coffee & Tea Plantation & Marketing.

almost all sectors of the economy, with particular emphasis on construction, manufacturing light and heavy industries, agriculture and agro-industry, mining, beverage production and the service industries--hotels, tour operation, commercial and trading transport, health care and real estate development. The group has recently acquired Unity University to train the high-level manpower it needs, and also has an affiliated private bank known as Dashen Bank (Sutton and Kellow, 2010). With a work force exceeding 15,000, Midroc Ethiopia as the largest single private investor, is the biggest private employer in the modern sector[17].

Midroc, widely perceived as having close ties with the ruling party, holds extensive leases of prime land in the major urban areas as well as extensive land leases in the outlying rural areas. There are also press accounts that the group has borrowed heavily from the domestic banking system. Some argue (Anonymous, 2009), that the major beneficiary of the privatization of state enterprises was Midroc rather than EPRDF conglomerates although opaque cross-holding relationships complicate the picture.

As noted earlier, market concentration is high in the urban sector. The oligopolistic soft drink industry, for example, is dominated by the largest two companies (one of which, Moha, is a Midroc company). The manufacturing sector (which concentrates in the production for domestic use of construction materials, metal and chemical products, and basic consumer goods such as food, beverages, clothing, and textiles) is dominated by the Govbus. State-monopolized markets include cement, postal services and telecommunications, and power. Other oligopolistic markets include formal mining sector.

[17] A rough estimate of the significant presence of politically-linked party and private conglomerates may be obtained with a back-of-envelope calculation. Assume that the value of the annual output of the formal private sector (some 120,000 registered enterprises) at best US$1 billion. If we apply an average capital-output ratio of 4, this would give us a private sector capital stock of US$4 billion. Let us also take at face value a widely-quoted estimate of the capital of EPRDF's business empire of some 100 companies, at current prices, of US$1 billion. That means, party-owned (via provident-type endowments) and other party-linked companies may very well account for a quarter of private sector capital stock. When the $1 billion Midroc business empire is factored in, the three biggest players (Parbus and DBG) may very well control half of the capital stock of the modern private sector. When we add the value of Govbus, which is larger than the two, the Govbus-Parbus-DBG trinity may claim some three-fourths of the capital of the Ethiopian formal sector--a remarkably high concentration ratio indeed.

In the construction industry companies affiliated with member parties of the EPRDF, Midroc and the Sunshine Group and the Friendship Group (all of which are said to be close to the government) are the biggest players. The transport sector is to a large extent in the hands of companies belonging to the ruling party or the state. Anti-competitive behaviors of serious consideration include predatory behavior such as exclusive distribution arrangements (e.g., soft drinks), improper dealing with related parties such as the privileged relationships between government-owned or party-owned companies and similarly-owned financial institutions, and unfair competition such as contraband imports underselling legally imports and domestic goods[18].

3.2.2. EPRDF's Development Strategy

Mindful of this environment and context, let us now come back to the story of the rise of the EPRDF. Unprecedented among post-socialist countries, the ruling group did not just lose the periphery; it was captured by the periphery. Deeply insecure about its legitimacy and narrow base, the TPLF employed a number of stratagems to enhance the appearance of inclusiveness: it assembled a coalition of four ethnic-based fronts to form a governing coalition called Ethiopian Peoples' Revolutionary Democratic Front (EPRDF). It adroitly sought and received Western reconstruction and readjustment aid by agreeing to liberalize the economy, privatize the less important Govbus, and reorganized the civil and security services with party cadres occupying key posts. It also introduced a new constitution whose key feature is an ethnic-based federal system that decentralized decision-making devolving little central authority. And, finally, it opened up some space for civil society and opposition parties before closing it (Vaughan and Tronvoll, 2003).

Political insecurity, therefore, goes a long way toward explaining why the hallmarks of the current Ethiopian party-state include organizational parallelism between party and

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[18] As Gote Hansson (2004: 26) puts it, "It is obvious that the Midroc group has a size and orientation that makes it highly influential and important in the Ethiopian business life. Its activities also seem to be of a long-term character. It is of great importance that the Midroc-group does not get a dominant position within a specific sector or market. The strategy so far seems to be to create a largely diversified business conglomerate covering most business sectors of the economy."

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.

The major elements of EPRDF's ideology are agrarian socialism which combines state ownership of land with state support to enhance smallholder productivity, ethno-nationalism which prioritizes group rights over individual rights and accepts the widely contested assumption of existence of longstanding self-governing cultural communities, and the right of a dominant state party to rule by being developmentalist and under a system of multiparty competition involving only a loyal opposition of satellite parties.

The EPRDF had managed to develop significant military capabilities. Effective provisioning meant that the Front had to establish a number of revenue sources, including small clandestine businesses scattered at home and abroad. Unlike the KMT, there was little transferable experience with running a modern civilian and economic bureaucracy by the time EPRDF assumed state power.

In sum, consistent with H1, the EPRDF's initial sense of deep insecurity and its totalitarian ideology of revolutionary democracy predisposed the party to capture every major societal asset and organization. Its access to sizeable development aid unencumbered by an effective political conditionality allowed it to devalue the voice of citizens. What might have motivated it to supplement Govbus with Parbus, however, is the combination of its strengthened organizational capacity to manage commercial enterprises, the concern with the impending emergence of large private groups with a potential for serving as competing centers of power, and (unlike Taiwan) the inability of the vast universe of micro enterprises to serve as tugboats of a vigorous industrialization drive.

The EPRDF was forced by unforeseeable international circumstances (collapse of state socialism and the imperative of receiving conditioned aid from the West) to soften its socialist economic program. The uneasiness about allowing for an independent private sector to thrive is evident from its development strategy which is best characterized as market-tolerating and government-led (Abegaz, 2001; GOE, 2010).

The EPRDF government's development strategy, at least in theory, has the following pillars (Zenawi, 2006; World Bank, 2007; GOE, 2010): a vision of rapid and broadly-shared development led by revolutionary party that seeks to foster government-business partnership roughly along East Asian lines. It provides for selective protection to local industries in the hope of nurturing national champions. This vision distinguishes between the national capitalist and the comprador (disfavored) class, between the party's natural constituencies (its ethnic home base), strategic allies (cooperating elites from other ethnic groups or regions, and the national capitalist class) and strategic enemies (foreign-affiliated comprador capitalists and hostile domestic competitors). It also favors continued government ownership of all land; restricting foreign investment in public utilities, defense-related industries, and banking and insurance; interventionist trade policies with a view to maximizing foreign exchange earnings; and directed currency and credit allocation. Finally, the Party expresses its populism and pro-poor credentials through an agriculture-led industrialization drive anchored on smallholders, selective commercialization (also practices by the two predecessor governments), and agro-processing industries.

The hallmark of the government's development strategy, known as agricultural development-led industrialization (ADLI), counts on rapid industrial development that would produce modern inputs and consumption goods suitable for the subsistence-oriented agricultural sector, and adding value to agricultural products. This approach is intended to facilitate the switch to export-led growth passing through the stages of labor- and resource-intensive manufacturing capabilities. The key plank is a significant increase in public investment that is intended to crowd-in private investment—domestic as well as foreign[19].

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[19] The Ethiopian Government has prepared three growth and poverty reduction strategies since 2002 to negotiate aid programs with the international financial institutions. They are: the Sustainable Development and Poverty Reduction Program (SDPRP, 2002-2005), the Plan for Accelerated and Sustained Development to End Poverty (PASDEP, 2006-10)), and the Growth and Transformation Plan (GTP, 2011-2015). They are all informed by the overarching development strategy known as Agricultural Development Led Industrialization.

The Party apparat is enamored of an imagined transferability of an East Asian-style development strategy even though its capacity to implement ambitious development programs is far more limited as is its appreciation for the vital role of an independent and competitive private sector (Zenawi, 2006). Furthermore, an authoritarian sensibility is not tamed by a pragmatic one. The ADLI strategy is flawed in many respects. It, for example, misidentifies the key import of the Taiwanese development experience—i.e., proper management of the inter-sectoral links between agriculture and industry. Firstly, by prohibiting the market-driven transfer of land to the most efficient farmers, it prevents the emergence of optimal farm sizes and off-farm activities. Secondly, it devalues the critical role of the urban sector in underwriting a successful industrial drive as the leading source of investment, skills, and domestic demand. Thirdly, it discourages the transition of commercial entrepreneurs into modern farming and agro-processing by failing to provide adequate support for domestic proto-industrial classes. And yet, it aggressively courts foreign investors with mixed results.

Nonetheless, the government seems 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[20]. However, the Government's rather overblown claim of double-digit growth rates since 2005 and promises of the same in the next five years (GOE, 2010) appear to be designed to signal to the population that this economic achievement should accepted as a sufficient trade-off for the denial of democratic governance.

3.2.3. 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

[20] 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.

associations—aptly called para-NGOs. Furthermore, private conglomerates such as Midroc and well-connected individuals have formed cross-holding and business alliance relationships with the party companies (Anonymous, 2006).

The largest endowment is owned by the biggest of the four members of the ruling coalition. The Endowment Fund for the Rehabilitation of Tigray (EFFORT or *Tirit*), established in 1995, is owned by the TPLF (Tigray). It 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 business ventures.

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 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. 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, TDA's 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[21]. As if to mock the

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[21] An internally distributed party document, translated from Amharic, provides the following rationalization for seeking to establish party companies (*Ethiopian Register*, 1996, p. 28): "In order to facilitate 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 are or were members of the TPLF's Central Committee[22].

The establishment of holding companies to oversee party-owned enterprises is widely seen as a contravention of the 1960 Ethiopian Commercial Code on charitable trusts. The Code prohibits donors having control over a registered charity and 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 field to ensure meaningful political competition. This Political Parties Registration Proclamation (No. 46 of 1993)[23] could not be any clearer: "[A] political party which has attained legal personality may not directly or indirectly engage in commercial and

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attainment of the revolutionary democratic goals, these revolutionary democratic forces should make it their primary objective to monopolize rural credit services throughout Ethiopia and mobilize their resources to this end. They should also select strategic places and, in accordance with local conditions, be highly involved in rural transport, wholesale trade, import/export, rural banking services, production of agricultural raw materials, manufacture of fertilizer and other modern agricultural inputs. Some of these, such as wholesale trade and transport, should be extended to the urban areas, too. They should establish banks, insurance companies, small-scale industries, and service cooperatives in the urban areas. They should also invest in mining… [R]evolutionary democratic forces … should follow the following strategies: a) They should select those spheres of economic activity which, though outside the direct influence or control of the State, play a crucial role in facilitating development; they should strive to control these or hold an upper hand in their processes, and b) In order to influence other private investors and successfully play the other role of enhancing rural based development, economic integration of the regions, human and natural resources development, the investment of revolutionary democratic forces should apply modern management practices and should be absolutely profitable."

[22] 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).

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

industrial activity." Since EFFORT does not open its accounts for government audit, it is not clear whether it pays any taxes at all.

As shown in Appendix 1.2, EFFORT companies are engaged in industrial, agricultural, and service industries (see also Box 1 for selected company profiles). 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, 2010b).

The tentacles of EFFORT and its sister endowments have also spread to microfinance institutions (MFI). Nearly 90 percent of the gross loan portfolio of the MFI sector is accounted for by the biggest five MFI which are para-NGOs of the ruling coalition: Amhara Credit and Savings Institution, Dedebit Credit and Savings Institution, Oromia Credit and Savings Institution, Omo Microfinance, and Addis Savings and Credit Institution. Dedebit Credit and Savings is largely owned by the TPLF-controlled regional government of Tigray. The financial institutions have numerous financial links with other TPLF-controlled businesses. Dedebit, as a partner in the Rural Credit Program, acquired a near total monopoly over the supply of credit to farmers.

Reflecting the paramount importance of political control, important linkages exist between party and its co-ethnic constituency. EFFORT, in fact, claims myriad development goals focused on the Tigray regional state, including attracting new investment to the resource-poor region, opening up new sectors and markets for others to follow, and establishing a core of skilled workforce and experienced managers. As a result, EFFORT claims that many of the ventures it undertakes incorporate technology transfer and skills development.

EFFORT companies, which employ a strategy of high leveraging, are also reported to owe billions of birr to the state banks. Some critics even go so far as to suggest that most of the EFFORT companies would not survive without government subsidy and protection. Abebe Gelaw (2010, p. 5), a well-known journalist, sums it up this way: "Out of the total outlay disbursed in four decades, it was learned that the bank [Development Bank of Ethiopia] loaned nearly 8.5 billion birr since the fall of the Derg, which was 19 year ago. That makes TPLF the biggest beneficiary of the 'loan' bonanza taking the lion's share, i.e., nearly 40 per cent of loans, from the struggling bank."[24]

The menu of policy instruments for tilting the playing field by providing a soft-budget constraint for politically linked enterprises is quite expansive (Anonymous, 2006: 115): directing business toward Parbus, preferential allocation of public tenders and contracts (including supplies during inter-state conflicts), preferential access to government credit facilities, preferential treatment in obtaining licenses and customs clearances, manipulation of privatization and other state property sales, tailoring public sector infrastructural investment to the needs of the Parbus, directing aid-generated business to them, and targeting high-profit and easy to enter private-sector activities in order to displace the latter.

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[24] Additionally, EFFORT is said to benefit from transfer of funds from government accounts, often under unsubstantiated claims of services that the Parbus had provided to the state. It permits free flow of goods in the name of EFFORT, without customs and taxes. EFFORT is said to have made extensive use of the credit opportunities offered by the state-owned Commercial Bank of Ethiopia (CBE) and other financial institutions controlled by the government. EFFORT-owned rural credit agencies are also accused of exercising monopsonistic powers. In the early 2000s, credit-constrained farmers were identified, registered, and forced to make a down payment of 25% on the price for fertilizer purchases. A credit agreement was written with each farmer, and after six months, the credit agency collected the debt from the farmers with 15 percent interest (Gelaw, 2010; Mersha, 2010).

Judging from the Taiwanese experience and the Ethiopian trajectory, the networks of mature party-state capitalism resembles Figure 3. The interface between market concentration and political manipulation creates a policy complexity that requires agility in balancing rent seeking and profit seeking.

In this delicate ecology, a small but growing number of studies suggest the existence of significant structural barriers to the emergence of a competitive economy in Ethiopia. A survey of 14 markets (Zavatta and Feyissa, 2009), for example, paints a grim picture of highly concentrated markets, dominated by government- or party-owned enterprises with virtual monopoly by the latter in such markets as fertilizers, sugar, and microfinance; highly concentrated markets with a predominant presence of politically-connected (especially government-owned) firms especially in banking, insurance, and cement; and highly concentrated markets dominated by private firms for beer, soft drinks, mineral water, cut flower exports, and gold mining.

The most recent investment climate assessment by the World Bank (World Bank, 2009a: iii) characterizes the policy stance more delicately using a definition of petty 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 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 self-imposed straitjacket. 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.

Box 1

A Snapshot of Seven EFFORT Companies

EFFORT views its strategic mission as one of establishing agro-processing, commercial and service industries that focus on Tigray Regional State. Mekelle has seen a spike in the establishment of commercial and industrial enterprises. Today, it boasts an international airport, two institutions of higher education, a relatively good road infrastructure, a modern industrial zone, and the largest microfinance institution (Dedebit).

Almeda Textile

Almeda Textile, located in Adwa, is the biggest textile manufacturing company in the country. It has annual sales revenue in excess of US$10 million with a national market share of over two-thirds. Almeda employs modern production equipment imported from Europe and Japan, and takes advantage of the abundance of top quality local cotton and skilled workforce.

Sheba Leather

Established in 1993 with initial capital of close to US$2.2 million, Sheba began operation in Wukro. With the completion of the expansion phase that raising the total capital to US$50, the firm is currently ready to produce 1.8 million pairs of shoes (domestic) and 1.8 million gloves (export) per year. The 60% EFFORT owned company will soon have 1,750 employees including technicians, supervisors, chemists, and designers.

Guna Trading House

Guna is a trading company established as an import/export concern. It has an asset of US$48 million and an annual turnover of US$80 million. Guna exports of coffee, oilseeds (leading exporter), natural gum, pulses, spices, khat, special stones and minerals. It also imports construction materials and agricultural inputs (fertilizers and pesticide chemicals) for domestic wholesale as well as retail distribution.

SUR Construction

SUR is engaged mainly in road and building constructions, with interests in terminals and dams. Its annual turnover is US$50 million and net assets of US$20. SUR has a permanent labor force of 1,700 and some 15,000 contract/casual employees. Its supply and marketing chain is closely linked to EFFORT owned companies.

Messebo Building Materials

Messebo, the largest EFFORT corporation located in Tigray, was established in 1996 with initial capital of US$154 million. Using the latest pre-Kalciner technology, it produces quality cement that meets and competes effectively with the larger Mugher—a Govbus. Messebo currently has the capacity to produce about two million tons per year, but actually produces half as much (or one-third of national cement output). About half of its 700 employees have at least a high school diploma.

Addis Pharmaceutical Factory

APF, established in 1992 with US$30 million, is located in Adigrat, Tigray. One of the largest and most technically advanced manufactures in the industry, APF produces 96 product types including tablets, syrups, ointments and vials. Its current annual revenue is about US$20 million.

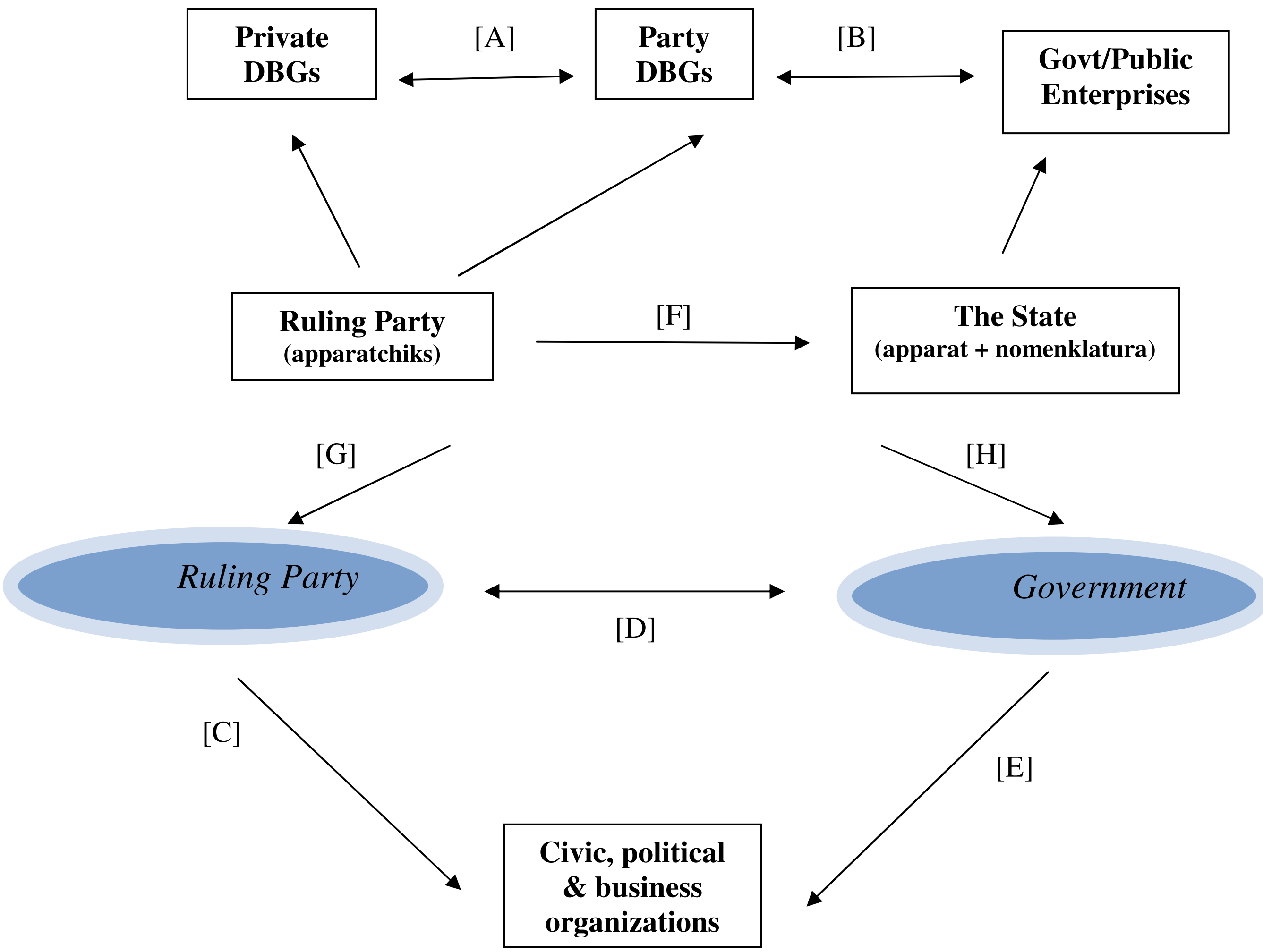
Trans Ethiopia

Trans Ethiopia was established in April 1993 with an authorized capital of US $20 million. It is a trucking company established to provide dry and liquid cargo transportation service. It is also involved in other business activities such as importing and distribution of tires, selling fuel, vehicle maintenance, and worker training.

Sources: *http://www.effortgroup.org/)* Sheba Tannery, http://www.telecom.net.et/~shebatan; Cannon (2009: 33; 48; 53); Anonymous (2006); Sutton and Kellow (2010).

Figure 3

Networks of State Capitalism in the Periphery



Key:

[A]: Formal affiliations; informal networks [Oligarchy; Kleptocracy]
[B]: Regulation; coordination; insider information; rigged contracts [Neo-Patrimonial]
[C]: Patronage; control of localities by cadres and bureaucrats [Patrimonial]
[D]: Cadres and commissars [Nomenklatura]
[E]: State ownership (land, enterprises); regulation; taxation; public services
[F]: State consists of the ruling party and the government
[G]: Democratic centralism (Revolutionary Democracy)
[H]: Non-meritocratic: Party loyalty and minimal competence

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?

4.1. Impact on Economic and Political Competition

Let us begin with the credit side of the ledger. Party enterprises, much like many state enterprises, can be growth-enhancing in a low-income economy under some circumstances. Political security for the ruling regime (through a skillful combination of threats and patronage) and enlightened self-interest may allow for shared growth with some room for rent seeking. Furthermore, if public-sector investment is significantly underwritten by foreign aid and remittances, pro-poor growth can be undertaken to earn legitimacy while engaged in the shifting of some fungible funds toward core constituencies. Diversion is likely to be limited if external agents of restraint are vigilant.

Party-linked enterprises accomplish win-win outcomes by reducing coordination failures in investment, training, marketing; raising investible resources via rent seeking (government contracts, state policy, differential enforcement of laws and regulations); and entering into high-risk, high-return sunrise industries. One can also argue for a virtuous spiral whereby steady party income from Parbus lowers dependency (stealing) from the state Treasury which subsequently boosts public investment. As KMT officials are fond of arguing, following the introduction of multiparty elections, Parbus income has effectively provided the elusive soft landing for an authoritarian party thereby facilitating the transition to a democratic order.

Many of these concerns are recognized by the often ambivalent donors (see World Bank economists soft pedaling the issue in Box 2). The large sizes, selective sectoral orientation and strategic integration of Parbus capital accumulation have all been

Box 2

World Bank: Ethiopia's Politically-Affiliated Holding Companies

The phenomenon of business endowments, or holding companies controlled by political parties, is a controversial feature of the Ethiopian investment climate...

Competition with the private sector. The endowments have focused on a number of business areas which are consistent with the Government's ADLI policy direction, including input supply to agriculture, storage of agricultural goods, investments in irrigation dams, agricultural processing facilities such as coffee washing stations, transport, banking and rural microfinance. Several of these areas are ones in which the private sector had limited access, due to their limited ability to achieve collateral requirements. Over time, the private sector has entered, or has been in a position to enter, most business areas where endowment firms operate. In some instances, direct competition between endowment and private firms has resulted in the closure and exit of the private firm. However, some observers have noted that as the private sector has begun to enter some of the basic business areas, endowments have shifted to newer innovative areas such as tissue culture.

Performance. Some of the endowment firms have been very successful. In cement, for many years a party-owned firm and an SOE have been the only major domestic suppliers, each enjoying rapid increases in demand. In the financial sector, a bank affiliated with an endowment currently has the highest return on equity among private banks, and the microfinance institution partly owned by an endowment has grown to one of the largest in Africa. However, the endowment-owned firms are by no means uniformly profitable. Rather, many of the firms appear to suffer from the types of inefficiencies typically associated with state-owned enterprises, including non-commercial objectives that weaken commercial sustainability. It is widely understood that a significant share of the non-performing loan portfolio of state-owned banks represents what were originally loans to endowment-owned firms.

Issues. Is the existence of party-affiliated enterprises problematic? There are broadly two types of issues raised by these endowments: issues of economic governance and issues of political governance. The private sector argues that the holding companies affiliated with the ruling party, EFFORT in particular, is usually managed by a former government official which creates a conflict of interest. Similar linkages exist at the regional level. The private sector argues that these links with the state create advantages which are unavailable to firms owned by private investors, and thus act as a disincentive to domestic and foreign investment. Such advantages include access to information on policies and programs which influence profitability of firms; advantages in raising capital in an environment with noformal equity market; and access to bank credit.

Officials argue that the endowment firms (a) operate with no particular advantage from their affiliation with the state or ruling party; (b) continue to play a crucial role in providing basic goods and services to the economy when private investment is limited; and (c) are more useful as investments for Ethiopia than holding the funds as cash. The question around political governance is related. By being affiliated with the government, the allegation is that endowments gain economic advantage which translates to political advantage, or can be used by the government not to raise money but to influence voters directly. The microfinance holdings alone impact hundreds of thousands of potential voters. At another level, a write-off the debt owed by party-affiliated enterprises to state-owned banks would constitute a transfer of wealth from the state to the endowments (by eliminating a financial obligation of the defaulting enterprises).

Source: World Bank (2007), vol. 2, Box 3.3. ADLI = agriculture-development-led industrialization.

emphasized by its proponents to make the case for additionality rather than displacement of the private investment.

On the negative side of the ledger, it can be argued that politically sheltered businesses undermine security of property, blur the boundary between the legal and the illegal, divert entrepreneurial energy toward wealth redistribution rather than wealth creation, undermine confidence in the integrity public enterprises (especially pertaining to privatization and government contracts, stripping away government revenue sources, and denting regulatory reputation and capacity).

Parbus can, according to its strident critics, pose significant risks to a country's fledgling modern economy. Access to discretionary benefits provides a politically linked enterprise a significant competitive advantage, especially in industries that rely on heavy government intervention or the tendering of contracts (as in the resource extraction and defense sectors). Favorable treatment distorts the market and can allow less efficient companies to dominate more efficient ones. On the political end of the spectrum, a successful Parbus can seriously ramp up the campaign war chest of the incumbent political party. This stunts the development of democratic institutions, including the primacy of the rule of law and the sovereignty of the citizen (O'Donnell, 2010).

The issue of distorted competition is especially important. Despite the steady pace of privatization of Govbus, private entrepreneurs complain incessantly that their access to the most lucrative sectors is severely limited, and party companies not only limit competition but also cause prices for critical supplies and services to remain artificially high. Parbus in effect corrupt the emergent democratic system by obliterating the boundary between state and party, rigging electoral and political financing, over-politicizing the government, and regimenting and co-opting civic society organizations.

The most telling illustration of the differences between a market-nurturing party (KMT) and a market-supplanting party (EPRDF) is graphically illustrated in Boxes 3 and 4. The contrasting tales of the treatments of two private companies by the owners of the world's largest party business empires betray the gulf between East Asian pragmatism and African patrimonial idealism. But the nuances are just as important. The case of Formosa

Plastics is far from being one of a paternalistic regime unconditionally nurturing a promising private entrepreneur. It is an apocryphal story of how two senior technocrats (Yin Zhongrong and Yan Yancun), arguably under a somewhat permissive party head, fought a predominantly statist IDC bureaucracy to give a private firm a chance. It is also a story of how technical, managerial and financial support is crucial for converting merchant capital into the more patient industrial capital. Political uncertainty and little room of maneuver for independent-minded technocrats in Ethiopia to sidestep the self-defeating official dogma have unfortunately hampered the marshaling of judicious support for the short-term oriented commercial class to enter the riskier, long-maturing and technically demanding agro-industrial sector.

4.2. Pathways of Transition to an Open Political Economy

The basic principle for judging the capacity-building role of hegemonic parties to switch the conversion from wealth redistribution (predation) to wealth creation (developmental) is the expansion of freedom. These include freedom for entrepreneurs to shift resources to more productive uses, and for citizens to shift delegated governance authority to the most accountable political actors (COM, 2008).

Unfortunately, the cumulative effect of a multiplicity of channels through which a legacy of politically-induced inequality lowers shared and rapid economic growth in Africa can be devastating. These channels include unproductive rent seeking activities that are often associated with the various controls created by dirigiste institutions and policies, political polarization that leads to instability especially common under ethnocentric regimes that are bent on redistributing income to their kin constituencies, imperfect capital markets that exclude those households and microenterprises with inadequate collaterals, and too small an income share for middle income households due to high fertility and the difficulties of growing small enterprises into larger ones in an environment where essential markets are failing and missing (Thorbecke, 2009).

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 manage these conflicting goals, it pursued 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, for example, 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 which made all the difference.

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

The hostility of Ethiopia's past two regimes toward the private sector has been deep-seated as this case study illustrates. 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 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), two privately-owned firms (EAL and Fertiline), and three EPRDF-owned 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 affiliated 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 from state-owned 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 preempt the emergence of competitive 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.

At least in theory, dynamism is driven by the inherent tensions between (unproductive) rent-seeking proclivities and (productive) development-seeking tendencies of hegemonic regimes. There may, in fact, exist a sequential evolution of party states beginning with embeddedness of party and state, then moving to connectedness as the party builds self confidence and more indirect instruments for managing the competing interests of powerful elites, and ending in political autonomy for bona fide private businesses and political parties.

We identify three trajectories which are dubbed: 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 affirmative action for and by a disadvantaged political class), are great examples of this outcome. The preconditions for the Paragonist path include the willingness and the capability (discipline) of the ruling party to comply with a division of labor (among private, party, and state actors) that is based on comparative advantage. The preconditions for the Paragonist path may 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. As the Taiwanese experience suggests, market competition that emanated from a maturing private sector ironically led the professionalization (and eventual demise) of Parbus, the progressive privatization of Govbus, and the eventual liberalization of politics.

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 being little more than the institutionalization 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 whereby the new normal is an endless rotation among 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.

If tilted toward parasitism (antagonistic), the Party will increasingly rely on "management by crisis"—an old strategy which calls for stoking conflict among competitors as necessary while ensuring that conflict does not get out of hand. Such a regime will sooner or later invite coup d'etats from within as it settles on an autocratic-technocratic mode of governance (Collier, 2009). The stop-go approach to managing political and economic space for non-state actors inevitably produces an economy that is likely to experience alternating episodes of rapid growth and stagnation. The legitimacy that rests on the tradeoffs between political freedom and economic growth is precarious enough to fall victim to rising and unfulfilled expectations.

Tilting toward a symbiotic relationship, on the other hand, requires decisive action to demonstrate that party-owned and other politically-connected firms are timely weaned away from special privileges. It requires anti-diversion policies through the enforcement of internationally-conforming standards of transparency, including clarity of ownership rights and disclosure of activities for politically-owned holding companies.

Ethiopia today finds itself at the cross-roads of the parasitic and mutualist paths[25]. 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 dominance in the absence of a domestic economic engine that is 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. Otherwise, attempts at a democratic transition as such regimes collapse is likely to trigger inter-communal violence against market-dominant (and politically-dominant) minorities by a previously disempowered majority along the lines suggested by Amy Chua (2002) and others (World Bank, 2011).

Whether the balance between rent-seeking political entrepreneurship and wealth-creating economic entrepreneurship will, over time, will favor the latter (paragonic path) is ultimately an empirical question. It would, for example, depend on the progressive emergence of countervailing forces (the bona fide business class, opposition parties, and civic groups) that are capable of mounting effective restraint, and the willingness of international actors to insist that such regimes are weaned away with deliberate speed from addictive business empires.

V. Concluding Observations

The phenomenon of party-owned for-profit business (Parbus) is ultimately about "the power to create new powers" that arises from a total capture, by a vanguard party, of

[25] 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."

key state and societal institutions. 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 identified 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. The limited evidence suggests 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 (EPRDF's Ethiopia) of coexistence among state, party, and private actors.

Political security and organizational capability are probably the most decisive determinants of a transition from a grabber-friendly system to a producer-friendly system. If secure and capable, the nouveau state bourgeoisie can deliver rapid, inclusive growth as in Taiwan where the Kuomintang succeeded in disciplining its cadres to ensure managerial efficiency and to contain corrosive distributional contests among factions. Moreover, security emboldens the party to progressively open space for a non-threatening private sector to grow in parallel thereby attenuating the trade-off between development and democracy. Where deep-seated insecurity is coupled with limited or degraded organizational capacity, rigged competition and predation will triumph over wealth creation for all. Parbus will continue to socialize economic losses and privatize economic gains.

Two lines of further research will likely 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 seek to reconcile self-serving political dogma with the imperatives of economic globalization.

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Appendix 1.1

A List of the Major KMT-invested Companies, circa 1995

Company	Year	HC (1992)	25% KMT	Industry and Products	Assets bill. NT
Central Investment Holding Co. Zhongyang touzi gongsi	1971	Central	100	investment holding company: financial services, petrochem.	41
Kuang Hua Investment Holding Guanghua touzi gongsi	1979	Kuang Hua	100	investment holding company: gas, technology, finance groups	
Hua Hsia Investmnt Holding Co. Huaxia touzi gonsi	1975	Hua Hsia	100	investment holding company: media, communications	7
Chi Sheng Industrial Holding Co. Qisheng shiye	1988	Chi Sheng	100	investment holding company: construction, land development	
Jen Hwa Investment Holding Co. Jianhua touzi gonsi		Jen Hwa	100	investment holding company: Grand Cathay Securities	
King Dom Investment Holding Co. Jingde touzi gongsi		King Dom	100	investment holding company: insurance	
Asia Pacific Holding Co. Yueshengchang touzi gongsi	1991	Yue Sheng	100	investment holding company	1
Central Daily News Zhongyang rbaoshe	1928	Hua Hsia	100	newspaper publishing	
Chen Chung BookCo. Zhengzhong shuju	1931	Hua Hsia	100	book publishing	
Broadcasting Corp. of China Zhongguo guangbo	1928	Hua Hsia	100	radio broadcasting	
China Culture Service Co. Zhongyang wenwu	1950	Hus Hsia	1100	stationery supplies, gifts, souvenirs	
Hua Hsia Int'l Investment Co. Huazia guoji touzi gongsi	1975	Hua Hsia	100	manages Hua Hsia Building (Hong Kong)	
Yu Tai Industrial Co. Yutai qiye	1951	Central	100	import/export	0.3
Chiloo Enterprise/Qilu qiye	1951		100	explosives, rubber products	
Hong Kong&Taiwan Trding Co. Xianggang taewan maoyi	1966		95	import/export	
Da Shing Co. /Daxing	1969		910	import/export (Singapore)	
Kingdom Pharmaceutical Co. Jingde zhiyao	1965	King Dom	87	medicine, chemicals, health supplies	
Feng Shui Construction Co. Fengshui Construction Co.	1982		85	civil engineering, interior design	
Central Trading & Dev. Corp. Zhongyang maoyikaifa	1989		75	import/export and investment arm of Central Investment	0.7

Shin Fe Life Insurance Co. Xinfu renshou baozian	1993	King Dom	70	insurance (joint venture with London Life of Canada)	
China Television Co. Zhongguo dianshi shiye	1968	Hua Hsia	68	television broadcasting and programming	4
China Daily News Taiwan zhonghua rbaoshe	1946	Hua Hsia	67	newspaper publishing	
China Investmnt and Dev. Corp. Huaxin zhengquantouzi guwen	1991		67	securities investment consulting	
Central Motion Picture Co. Zhongyang dianying shiye	1954	Hua Hsia	62	motion picture production	
Ming Hsing Enterprises Minxing shiye	1996		60	importing liquefied petroleum products	
Taiwan Trade Developmnt Co. Taiwan maoyikaifa zhushi huishe			60	marketing Taiwan products in Japan	
Central Insurance Co. Zhongyang chanwu baoxian	1962	Central	59	property insurance	5
Taiwan Chien Yeh Construction Taiwan jianye	1967	Central	56	land development(JV with Yutai and Taiwan Sugar)	
Datum Real Estate Mgmt. Co. Datong jianzhu jingli	1986		53	construction management	
Global Entech Co. Weiyu huanbao	1990	Central	50	environmental protection engineering consulting	
United China Trust Co. Zhonglian xintuo			50	trust operations	81
Yung Chia Chemical Industries Yongjua huaxue gongye	1980	Central	49	Petrochemical importing and processing	
Central Link Investment Consult. Zhongjia touzifazhan	1988		45	investment and investment consulting	
Shing Yeh Construction Company Xingye jianshe	1989	Chi Sheng	45	construction design, management and investment	2
Join Engineering Consultants Co. Jauling gongchengguwen	1976		45	architectural and structural design	
King Tay King Construcl & Dev. Jintai jianshe	1987		45	construction	
Han Ku Dev. Engineering co. Hangu kaifaguewen	1990		45	land development, architectural design, urban planning	
Chung Hsing Bills Finance Zhongxing piaoquan jinrong	1976		44	short-term securities finance	19
Shin Chia Gas Co. Xinjia shiyouqi	1980s	Kuang Hua	44	propane gas provision and supply	
Fu Hwa Securities Finance Co. Fuhua zhengquan jinrong	1980	Kuang Hua	42	securities finance and margin lending	123
Chung Hsin Electric & Machinery	1956	Central	40	public works design and	11

zhongxing diangong jixie				engineering	
Environmental Wastes Mgmt. Co. Qingyu huanbao	991	Central	40	waste processing	0.6
Taiwan Telcom. Network Co. Taiwan dianxun ganglu	1989		38	computer networking	0.4
Po-Hsin Multimedia, Inc. Boxin Duomeiti	1993	Kuang Hua	35	satellite cable television broadcasting and leasing	
Grand Cathay Venture Capital Co. Dahua Chuangye touzi	1992	Central	33	high-tech venture capitalist investment	1.5
World Trade Center Building Co. Shisjie maoyi zhongxin	1988	Central	31	property management, conference services, catering	
Guardforce Security Co./ Weifeng baoquan	1987		30	security services, security accessories, armored transport	
Shin Ping Gas Co./Xinpin shiryouqi	1980s	Kuang Hua	30	propane gas provision and supply	
Fuhe Plastics/Fuhe gongcheng suojiao			30	plastic composite materials	
Shin Ying Gas Co./Xinying shiyouqi	1980s	Kuang Hua	28	propane gas provision	
Shin Yun Gas Co./Xinyun shiyouqi	1980s	Kuang Hua	29	propane gas provision	
Shin Nan Gas Co./Xinnan shiyouqi	1980s	Kuang Hua	28	propane gas provision	
Shin Kao Gas Co./Xiingao shiyouqi	1980s	Kuang Hua	28	propane gas	
Shin Tai Gas Co./Xintai shiyouqi	1980s	Kuang Hua	28	propane gas provision	
Shin Hsiung Gas Co./Xinxiong shiyouqi	1980s	Kuang Hua	28	propane gas provision	
World Wiser Electron./Xinxing dianzi	1990		28	semiconductors	
Hwa Tech Indust. /Huayu shiye	1978		26	anti-pollution equipment	
Taiwan Styrene Monomer Corp. Taiwan benyixi gongye	1982		25	petrochemical processing	4
Ruen Fu New Life Corp. Runfu shenghuo shiye	1991		25	retirement centers	
China-American Petrochemical Zhongmeihe shiyouhuaxue	1976	Chi Sheng	25	petrochemical processing	
Han Yang Construction co. Hanyang jianshe	1992		25	construction (public housing)	

Sources: Fields (2002) and Xu (1997). Besides the4 61 cos. Listed above, the KMT was held less than 25% share in 34 other companies. HC = holding company. Exchange rate ca 1998: NT$25 = US$1.

Companies whose leaders sit in the BMC (which replaced CFC in 1993) in 2000: China Development Industrial Bank, Fuh Hwa Securities Finance Co., Chii Sheng Industrial Co., Kuang Hwa Investment Holding Co., Hua Hsia Investment Holding Co., Central Investment Holding Co., Asia Pacific Holding Corp., Jen Hwa Investment Holding Co., King Dom Investment Holding Co., Taiwan International Securities Group, Ruentex Group, Maywufa Co., Ever Fortune Group, Yuen Foong Yu Group, Nice Group, Core Pacific Group, Hung Kuo Construction Co., Ta Chong Bank, Kaohsiung Business Bank, and Yulon Group.

Appendix 1.2

A List of the Major EPRDF-invested Companies

Company Name	Est. year	Initial K[a], mill Etb [initial;2010, mill US$][c]	Initially Registered[b]	Notes: Major Businesses
A. EFFORT Companies:				
Addis Pharmaceuticals	1992	53 [$30/?]	EFFORT, M. Guade	Drug manufacturing
Afar Salt	2001	60	EFFORT, Govbus	Salt products
Africa Insurance	1994	15	EFFORT	Insurance and investment
Almeda Textile Factory	1993	180	EFFORT	Textiles (factory in Adwa)
Beruh Chemicals	1994	25	EFFORT	Various chemicals
Dedebit Credits and Savings	1997	60	REST, Tigray RGS, para-NGOs	Micro-credit evolving into a bank
Dessalegn Vet Drug	1995	5	EFFORT	Vet medicines and inputs
Ethio Rental	1996	72	EFFORT	Real estate and brokerage services
Experience Ethiopia Travel	1993	3	EFFORT	Travel services and hotels
Guna Coffee Export	1999	11	EFFORT	Coffee processing and sales
Guna Trading House	1992	10 [$23/$48]	EFFORT	Import/export and construction
Hiwot Agri Mechanization	1995	25	EFFORT	Food- and cash-crop production and sale
Mega Net Corporation	1993	10	EFFORT	Printing and publishing
Mesfin Industrial Engineering	1993	100 [?/$25]	EFFORT	Metal and steel products
Meskerem Investment	1995	20	EFFORT	Diversified activities
Mesobo Building Materials	1995	240 [$154/$83]	EFFORT	Cement/construction (factory in Mesobo)
Saba Marble Manufacturing	1998	77	EFFORT	Mining and marketing marble products
Sheba Tannery	1993	94	EFFORT	Processing hides and skins
Sur Construction	1992	100 [$25/$20]	EFFORT	Heavy construction
Tesfa Livestock	1995	20	EFFORT	Meat and dairy products
Trans Ethiopia	1995	100	EFFORT	Freight, cargo, and passenger transport

a. Mostly paid-up capital (in Etb = US$0.23 in the early 1990s), but subscribed capital otherwise.
b. Endowment (established): EFFORT (1995), Endeavour (1995), and Tumsa (subsumed Dinsho, 2001).
c. [Initial capital; 2010 assets], both in US$ (Sutton and Kellow, 2010).

Appendix1.2 cond.	**Est. year**	**Initial K[a], mill Etb [initial;2010, mill US$][c]**	**Initially Registered**	**Notes: Major Businesses**
B. ANDM Companies:				
Ambassel Trading House	1993	25	Front-persons/cadres	Agro-industrial and trade
Amhara Credit and Savings	1997	2	Endeavour, para-NGOs	Micro credit to rural banking
Blue Nile Transport	1992	4	Front-persons/cadres	Transport-related services
Dashen Brewery	1995	325	Endeavour, BGI (France)	Brewery (near Gondar)
Sheba Industries	2003	19	Endeavour, Israeli cos.	Sesame and products
Zeleke Agri Mechanization	1996	27	Endeavour	Agricultural production
C. OPDO Companies:				
Biftu Plc	1993	3	Front-persons/cadres	Trading in khat and pulses
Biftu Dinsho	1994	8	Dinsho group cos	Trading in agricultural products
Bishoftu Medicinal Plants	1998	5	Dinsho group, Italian cos.	Aromatic and medicinal plants
Dinsho Agro-Industry	1998	16	Dinsho group cos.	Agro-processing and trading
Dinsho Plc	1992	3	Front-persons/cadres	Diversified, mainly agricultural
Dinsho Trading	1992	4	Dinsho group cos.	Wholesale trade
Dinsho Transport	NA	4	Dinsho group cos.	Transport services
Ethiopian Highland Roses	2000	7	Dinsho group, Israeli cos.	Cut flower growing and exports
Humbna Chercher	2005	10	Farmer coops, Biftu Dinsho	Export of khat
Oromoyia Credit and Savings	1997	5	Coops, para-NGOs, Dinsho	Micro credit and rural banking
SEPDM Companies:				
Wendo Trading	1994	11	Front-persons/cadres	Trading
Highland Coffee	2003	161	Esir (Swiss), Wendo	Coffee processing
D. EPRDF Joint Ventures:				
Walta Information Centre	2002	3	EPRDF endowments	News service
Wegagen Bank	1997	111	EPRDF endowments	Commercial banking

Other EPRDF enterprises that either small or information is lacking include:

- ANDM (Tikur Abay Transport, Gondar Malt Industries, and Tana Communications),
- TPLF (Adwa Flour Factory, Berhan Building Construction, Martha Poultry, Segel Construction, Fana Democracy, Hitech Park, Ethio Rental, Dilate Brewery, Addis Consultancy, Tana Trading House, Africa Insurance, Global Auto Spareparts, Addis Engineering, Rahwa Export, Star Pharmaceutical Importers, Computer Networking Tech., Alage Forest Products, Dima Honey Processing, Aberdele Animal Export, Maichew Particle Board, Ezana Mining).

Sources: Anonymous (2006); Sutton and Kellow (2010); various others mentioned in the text.