

How Do State–Business Relations Shape Sustainable Development?

The achievement of the UN Sustainable Development Goals (SDGs) will depend on the ways in which states and businesses engage with one another. While state–business interactions can take many forms, they inherently involve processes of negotiation through which actors in both camps pursue their own interests. Successfully accelerating sustainability, generating inclusion or reducing inequalities will depend on whether such negotiations build on and support interdependencies, create trust, and develop shared ideas about challenges and potential solutions. But the factors that determine the nature and outcomes of state–business relations are not yet well-enough understood, particularly in relation to goals beyond economic growth, where trade-offs are often more apparent.

The SDGs call on businesses of all types and sizes ‘to apply their creativity and innovation’ to address the challenges of ending poverty and hunger and reducing inequality. At the same time, ‘governments are expected to take ownership and establish national frameworks for the achievement of the 17 Goals’.

Statements such as ‘how business does business, and where it does [it], will have a significant impact on whether the Sustainable Development Goals are achieved’, said by Helen Clark (UNDP) speaking at the UN Private Sector Forum in September 2015, focus attention on the business sector acting alone. Yet how and where ‘business does business’ depends profoundly on its interaction with the state. These interactions take many forms, involving regulation, partnership, conflict or collusion – and sometimes more than one of these simultaneously.

What are state–business relations?

In this context, the definition of the state extends beyond governments and can be said to describe a compulsory political organisation which remains in place even after various rulers, governments or administrations have come and gone. While the focus is often on the national

level, the state also importantly consists of actors and agencies at municipal, sub-national, regional and supra-national levels. State actors have varying degrees of autonomy and interests, including attaining and maintaining power.

Similarly, the term ‘business’ includes multinational enterprises, small and medium-sized firms, business associations, and extends all the way down to individual entrepreneurs. They may operate in the formal or informal sectors, range across one or more sectors from agriculture to industry and services, and trade domestically and across national borders. While all businesses are interested in profits, profit orientation is not the only factor which determines business behaviour.

One way to understand how states and businesses interact is by thinking of an ongoing negotiation; not necessarily in the literal sense of different parties sitting around a table to reach an agreement – although these types of negotiation do occur – but rather in the ongoing give and take between states and businesses in pursuit of their respective interests. This negotiation reflects structural features, shaped by power and interests and processes, affected by the spaces in which interaction takes place and

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What can be learnt from existing research and theory?

1. State–business relations reflect a balance of power between different negotiating interests, be this between state and business authority, entrepreneurs and government, or capital and labour. But there are unresolved questions around how the interests of different individuals are aggregated, and which (or whose) interests are reflected.
2. Research on ‘developmental states’ (a term coined for state-led economic planning referring particularly to East Asian countries), and on what is described as ‘effective’ state–business relations, tends to highlight the importance of formal mechanisms for coordinating state policy with businesses’ objectives. It frequently stresses the need for states to have a close engagement with businesses while maintaining their independence, and there is some evidence that such coordination through formal institutions has led to growth successes. But the notion has also become something of a buzzword, often being applied to any country where the state takes an active role in shaping development. Additionally, it eclipses issues of social injustice, where the power and interests of state and business have often superseded civil rights.
3. The diversity of existing state–business relations cautions against the idea that good relations could simply be implanted from one context to another. Analysts of different ‘varieties of capitalism’ suggest that institutional arrangements in different areas of the economy (industrial relations or corporate governance, for example) only make sense when they fit together, and that these arrangements diverge between groups of countries with different varieties of capitalism.
4. While it’s important to understand the structures or institutions of state–business relations, many such interactions actually take place through informal relationships that have not been well understood. These gaps need to be addressed through more in-depth case studies looking at processes, context and agency, rather than grand theory.
5. Viewing the outcomes of state–business interactions more broadly than economic growth also calls for a re-examination of what kind of state–business relations may qualify as good. Currently, there is little research and evidence on how state–business relations and growth lead to broader development outcomes, such as reductions in inequality and poverty, or sustainable development.

the capacity of individuals to influence the outcomes. It can create win-win outcomes through collective sense-making and problem solving, as opposed to situations with rigid forms of engagement, but there are also known perils: good faith may be abused, negotiators may lose accountability to their constituents, or interactions may become increasingly pursued for their own sake.

Two case studies on state–business relations: Chile and Ethiopia

These two case studies explore the interplay between states and businesses, and demonstrate how many of the important interactions are negotiations which profoundly affect development outcomes, including but going beyond growth.

Export-oriented growth and democratic transition in Chile

Chile is not the stereotypical developmental state. If anything, given its recent economic history as a neoliberal poster-child, a minimalistic hands-off state engagement with business would be expected. However, state–business

relations in Chile over its export strategy in the 1990s were marked by strong coordination. Following Chile’s return to democracy, relations were at first uneasy and trust was low between government and businesses. But a mutual fear of economic and political instability opened the door to dialogue. The government’s main trade agency invited peak business associations and labour unions to be indirectly involved in trade policy discussions, through regular briefings and allowing them to provide advice. These interactions created shared knowledge, preferences and technical expertise, as well as personal relationships of trust. Chile’s state agencies also actively engaged small firms in the agro-food industry to coordinate groups of firms and reorganise production, improve standards, and upgrade their productive capabilities.

Collectively, these relations led to greater export competitiveness, a number of new free trade agreements, and exports growing from 23 per cent of GDP (early 1980s) to 42 per cent (2006). However, over time labour saw its influence in these processes wane, as businesses’ and labour unions’ interests

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significantly differed, leading ultimately to labour unions and businesses being consulted separately. The changes in agriculture saw more low-quality, seasonal and non-unionised jobs emerge, and losses for rural smallholders. Chile thus shows how negotiations can create trust and shared gains over time, alongside losses for those without a seat at the table.

Private commercial farms and public land in Ethiopia

At first sight, Ethiopia comes with many hallmarks of a developmental state: a strong government exerting active control over the development agenda, creating formal institutions, and using these to enlist organised business into longer-term strategies for national economic growth. But the case of agricultural commercialisation also shows how the developmental state can be aspiration more than reality, where ineffective state–business relationships failed to achieve government policy goals. The government’s strategy to rework a largely subsistence-oriented agricultural sector into an export-oriented powerhouse included the state engaging in international business diplomacy, offering subsidised access to land and various tax incentives in exchange for investment, technology and expertise.

In promoting cut flower exports, both the government and businesses each set up dedicated negotiation agencies. In contrast, in other areas of commercial farming, individual businesses negotiated with government for access to land, rather than through an apex body. The results in cut flowers included more than 100 new farms, which generated over US\$1bn in export revenues and 50,000 jobs, especially for women. However, many of the 400-plus individual large-scale businesses licenced to produce food and biofuel crops either did not start, or operated at a much smaller scale than planned. Civil society organisations contested many of the policies and deals, as some farms displaced communities and rendered them landless, and have been accused of contributing to deforestation.

These cases illuminate the interdependence between business and state actors, which often is a catalyst for negotiation, leading them to exchange resources in pursuit of a common solution. But to the extent that states and businesses engage one another constructively, it is often hard to say where collaboration ends and collusion begins.

Two recurring patterns of negotiation: networked negotiation and policy-directed concession-exchange

- **Integrative or networked negotiation:** Through repeat interactions, networks of business and state actors coordinate, share

information and technical expertise, develop collective learning and consensus about preferences, and negotiate shared policy proposals over time. In Chile’s trade policy network, for example, although relationships started on shaky ground, they were consolidated over time through the process of trade negotiations. The importance of networked policy dialogue and agenda-setting suggests paying closer attention to ‘who knows whom’, and where and how they interact. Such informal institutions are an important, but little-studied, factor in state–business relations. The notion of networked interaction should, however, not distract from issues of relative power where information flow and collaboration are also part of a competition for dominance.

- **Policy-directed concession-exchange:**

Not all state–business relations involve a blending of the state’s and business’ interests. Coordination can also be more of a reciprocal concession-exchange. In the case of cut flower farming in Ethiopia, government and business negotiated agreements on land leases and investment through their representative bodies. The government aimed at attracting capital, technology and expertise, to transform agriculture; the cut flower sector successfully pressed for a five-year sector strategy, access to land and credit, and better transportation for export. But concession-exchange does not always lead to the desired outcome (e.g. investment) that is driving the negotiation being achieved. Incidences of land speculation in Ethiopia are a case in point.

The case studies demonstrate how ideas and ideologies have the power to shape and reshape state–business relations. In Ethiopia, for instance, the idea of developmentalism and emulating successful developmental states deeply shaped the state–business relations, even proving malleable enough to accommodate an agriculture-based (rather than industry-based) development strategy.

Although ideas alone cannot explain or create functional state–business relations, they have powerful effects in being able to move relations along the axis between conflict and collaboration. The case of Chile illustrates how what, structurally, should have been a conflictual relationship instead led to stable negotiations. Given the country’s troubled history, the idea (or ideology) of maintaining stability above all else was crucial. Over time, through growing trust and a shared interest in competitiveness, state–business relations in Chile moved gradually closer toward true collaboration, albeit not involving all actors.

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Policy recommendations

Based on our findings, we suggest that the development sector needs:

- 1. More sophisticated information on state–business relations:** State–business relations are crucial in market economies, profoundly affecting development outcomes, including growth. Understanding these relations, how they are structured, and how they work in practice will support more informed and effective development programming. This is easier said than done, however, particularly because many interactions that matter are not the formal ones that take place through official institutions. Nevertheless, more robust information and analysis can be generated.
- 2. An understanding of different spaces where exchange takes place:** The current research bias towards formal institutions, such as public–private fora and regularised dialogues, is more likely to reflect data availability than an understanding of what really matters for development. More nuanced analysis is needed of the networks of informal relationships that also link business and political leaders through clubs, alma mater and social ties, or the circulation of personnel between public and private sectors. Even if good information on them remains elusive, these informal institutions are often very important, in potentially negative and positive ways.
- 3. A focus on agenda-setting, not only negotiations:** Policy is not only set through formal dialogues, but is also shaped by how the agenda is set, even before this engagement begins. Where informal networks are strong, for example, they create a shared frame of reference and shared definitions of economic or social problems, as well as potential solutions. Recognising the hidden power relations that set agendas is as important as analysing the process and outcomes of more visible negotiations.
- 4. To consider how state–business relations impact development outcomes beyond growth:** Informed by the ideas of the developmental state, much recent interest in state–business relations in development focuses on how states can incentivise growth-oriented investments in manufacturing, while managing to avoid capture by rent-seeking actors. However, the experience of many developing countries which face rising inequality, premature deindustrialisation and high levels of joblessness, calls for a widening of the analytical lens. How are state–business relations shaping development outcomes beyond growth? How states and businesses engage one another will shape progress on the SDGs and the potential trade-offs and interactions between pursuing different development goals.
- 5. A more nuanced analysis of business:** It is obvious, yet important, to point out that successful outcomes require engaging the right actors for given objectives. For example, the role of business associations as either key contributors to effective state–business relations or as an overly-powerful lobby protecting vested interests can be overstated. In some areas, large firms or industrial conglomerates may be more influential. In other policy domains, such as health, nutrition or energy, smaller firms that reach remote areas or urban slums may be more relevant to development, but are usually not organised. New models for engagement (including, and going beyond, association) are needed.

Further reading

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Credits

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