CHAPTER 5

Personalized Competition in Action

It was monsoon season when I visited Dhaka in 2005, and the city's drainage didn't work. Everywhere was hot and humid and often flooded as well. One of the perks of working in the World Bank's Bangladesh office was an air-conditioned car pool, complete with driver, giving staffers the opportunity to chat, catch up with work, or snatch a few moments of calm during the interminable downtown traffic jam. We were a target for traffic in human suffering: the deformed, the filthy street children, the abandoned aged, the emaciated mothers and their hungry children; wet, sweaty, dressed in rags, crowding around the stationary vehicle (still stuck in traffic), oblivious of the pouring rain, challenging us to respond. But we also were a target for traffic in street commerce: cigarettes, fruit, individual household items, books, and magazines, including $3 knock-off paperback versions of the latest Harry Potter saga, available on the Dhaka streets just two days after the global hardcover launch of this children's book phenomenon.

Bangladesh boggles the mind and confounds development orthodoxies. Its population of over 150 million people is crowded into an area the size of the American states of Maryland and Virginia. The country is a floodplain, directly on the path taken by some of the world's major rivers—the Ganges, the Brahmaputra, and the Meghna—as they wend their way from the Himalayan mountains to the Bay of Bengal. A normal year is one where 20 percent of the country is underwater during the wet season; a drought year is one where only 10 percent of the country becomes waterlogged.

Dhaka's overwhelming, endless flood of human suffering is, of course, a classic Bangladesh stereotype. Economic vibrancy is not part of the stereotype, but commerce was everywhere; not just on the street but also in the enthusiasm with which the country's nascent industry of computer software entrepreneurs shared their experiences, plans, and dreams with me. Indeed, Bangladesh has the best of records and the worst of development records.

Consider the best: Over the past few decades, Bangladesh has grown rapidly and has done so in a way that has yielded major gains in poverty reduction:[1]

- Between 1995 and 2008, real GDP grew at an average annual rate of 5.5 percent.
- Gross primary school enrollment rates rose from 72 percent in 1970 to 77 percent in 1980 and 98 percent by 2001.
- The mortality rate of children under five has fallen by over three-quarters—from 235 per thousand in 1970, to 151 in 1990, 100 in 2000, and 52 per thousand by 2009. Infant mortality declines have been almost as dramatic—from 145 per thousand in 1970, to 92 in 1990, and 46 per thousand in 2003.

But then there is the worst of records. This is not so much the fact of continuing poverty; poverty reduction, even at Bangladesh's exceptionally rapid rate, takes time. What is difficult to stomach is the impunity that pervades parts of the society. Indeed, impunity helped account in small part for some of the worst flooding I saw during my trip to the country. Blocking up drainage worsens flooding, and when the flooding gets too bad, even people with nowhere to go must leave. That creates the opportunity for property development: for fencing off the land, reopening the drainage, and selling off parcels to the rapidly growing middle class, ever on the lookout for relief from relentless overcrowding. One especially unscrupulous property developer had gone further. To signal that he had no intent of easing the flooding until the poor had permanently left, he had ostentatiously established a fish farm on some abandoned land. He was connected, had money to bribe and access to thugs to back him up. He'd wait them out, then cash in.

This was no isolated example: In 2001 and 2005, Bangladesh had the dubious distinction of being rated by Transparency International as the most corrupt of all 150 + countries surveyed. Though its rating has improved, it continues to be ranked within the bottom quarter of all countries in perceptions of corruption.

Bangladeshi democracy also reflects the best and the worst of records. On the one hand, the country has met a crucial test of democracy: Power has alternated three times between rival parties; in 1996, 2001, and 2008. But on the other hand, as the aborted election of 2006 underscored, the country's electoral system is crisis-prone.

This combination of solid economic performance and repeated disappointment on the governance front is hardly unique to Bangladesh. The 1990s saw a surge of democratization worldwide: across the post-Soviet bloc, from Eastern European countries seeking to align themselves with the

European Union, to Mongolia, and to the Kyrgyz Republic that aspired to become the Switzerland of Central Asia; across Latin America where military governments were decisively on the retreat; and across Africa, where a wave of political opening lifted the number of democracies from single figures to upward of forty.

Many of these countries have enjoyed rapid economic growth, as we saw in Table 3.1. In the decade since 2000, for example, the average growth performance across sub-Saharan Africa has exceeded 5 percent annually, second globally only to emerging Asia. Even so, the early democratic euphoria is long gone, as wave after wave of corruption crisis and electoral scandal threatens to wash away the earlier gains. (The US invasion of Iraq, and the enormous difficulties of consolidating democratic stability in Afghanistan, have not helped buttress the reputation of democracy; but that's another story.)

Chapter 7 summarizes the patterns of governance and growth between 2000 and 2010 for twenty competitive and intermediate countries that enjoyed decadal growth in excess of 50 percent, plus an additional three with decadal growth in the 30 to 50 percent range. As those data underscore, the combination of political openness, rapid growth, and weak formal governance institutions is quite ubiquitous.

How does this combination of continuing growth and open but seemingly dysfunctional governance hang together? It's not only puzzling when viewed through the lens of a "good governance" template; it's also puzzling from the perspective of a private, market-led view of how growth happens. A thriving private economy is built on a platform of confidence, of entrepreneurial energy evoked by the conviction that the future offers opportunity rather than threat. Viewed through a conventional development lens, it is difficult to understand where confidence can come from in the midst of seeming chaos.

But the combination is less puzzling when considered through the lens of the analytic framework laid out in chapter 3. Viewed through that lens, the seemingly chaotic patterns of governance—a combination of political competition, personalized bargaining among elites, and clientelism—are precisely what one would expect in the early stages of the competitive trajectory. What is intriguing and encouraging about the experience of Bangladesh and other countries is the possibility that personalized competition can, sometimes, provide a platform for economic development.

This chapter uses the experiences of two countries, Bangladesh and Zambia, to explore how this platform might work. Bangladesh is a natural case to consider; it's the poster child of the phenomenon. Zambia stands out among African countries, not only for being the first on the continent to participate in the 1990s wave of democratization and for having stayed the democratic course over the subsequent two decades but also for having long been a bastion of peace and political stability in conflict-ridden central and southern Africa. In addition to being competitive and personalized, both countries have also been enjoying quite rapid economic growth (Bangladesh more so, and for longer, than Zambia).

Of course, the fact that these two countries have grown should not be taken to suggest that all countries characterized by personalized competition do so. As Annex Tables A5.1 and A5.2 underscore with data from sixty-eight competitive and intermediate countries, there are large cross-country variations in growth rates, per capita incomes, and the quality of the rule-of-law. What we are looking to understand here is how and why, sometimes (not always), personalized political competition on the one hand, and growth on the other, can come together.

But the goal is more ambitious than simply to understand. A central aim throughout the book is to offer pointers for development practitioners, and the early stage of the competitive trajectory offers some especially large challenges. With so much seemingly unsatisfying, especially on the governance front, what are the risks to the stability of the development platform? How can they be managed? What room is there for improvement? What changes can help accelerate development, and what changes might risk killing the goose that is laying if not gold then silver eggs? Both countries offer some powerful and cautionary answers to these questions.

Governance and Growth Along the Competitive Trajectory

While it takes a certain arrogance to write a book like this one, it is arrogance of an unusual type: it's not the arrogance of certainty in a fixed view but rather the arrogance of determination to puncture fixed views. It's the arrogance of certainty that a fixed view, whatever it is—and the triumphalism that often accompanies it—is surely wrong.

As democrats, we can easily see how triumphalism is a trap when it comes to dictators. The self-parodying farce of their strutting power is an especially ghoulish form of black humor. We chill at the knowledge of the destruction they can wreak, but we also take a modicum of cold comfort in the knowledge that, in time, they will self-destruct.

But we democrats have our own triumphalist trap. It comes when we confuse our visions of what is good, noble, just, and true with what is actually real. This confusion can lead to a willful unwillingness to see, not only the glory and potential of our vision but also its limits. So when we are finally confronted with these limits, we recoil. Instead of recognizing the reality, the necessity of the long, difficult journey ahead, we overreach and set perfection as our standard. Even if we do not destroy, through our overreach, all that we have worked for, we end up succumbing to disappointment, to cynicism. Bangladesh and Zambia, our two examples of personalized competition, bring this lesson into sharp relief. As this chapter details, both countries have combined some seemingly dysfunctional governance practices with gains on the economic front.

Figure 5.1 delineates a development sequence that is compatible with this ambiguous personalized competitive trajectory. The focus is directly on growth and, consistent with the incentives and constraints of governments in personalized competitive settings, the reform agenda is incremental: do "just enough" to sustain it.

The dotted lines in the figure illustrate how a "just enough" development strategy might work. As growth proceeds, one or another constraint might threaten to short-circuit expansion: perhaps weaknesses in the delivery of infrastructure or public services to the most dynamic parts of the economy; perhaps a rise in corruption as public officials seek their share of the growing economic pie; perhaps rising social alienation with a growing sense on the part of citizens that government doesn't care about their everyday problems; perhaps, as the change process deepens, the need for more sophisticated laws and institutions to underpin an increasingly sophisticated economy.

With a "just enough" strategy, the goal is not to anticipate and address in advance all possible institutional constraints. Rather, as chapter 3 suggested and the figure highlights, the emphasis is on addressing specific capacity and institutional constraints as and when they become binding. Sustaining growth thus becomes something of a "high-wire" act—continual crisis management, endlessly putting out fires in a seemingly dysfunctional environment, but one that defies the odds by sustaining continuing dynamism—which brings us back to Bangladesh.

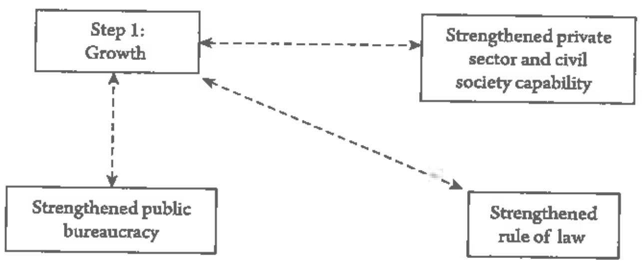

Figure 5.1 **Growth Along the Competitive Trajectory**

Explaining the Bangladesh Paradox[2]

Bangladesh's development track record since independence illustrates vividly both sides of the personalized competitive coin: weak formal institutions on one side and islands of effectiveness that can move the economy forward on the other. How did these come to coexist?

Institutional improvisation. The first quarter century of existence of the Bangladeshi state saw repeated institutional improvisation. This improvisation was necessitated by the unusual way in which the country came into being and the near vacuum of state institutions that resulted.

In 1947, its territory (then East Pakistan) was separated from India as part of the partition that accompanied the subcontinent's independence from Britain. Though East Pakistan comprised a majority of the population of Pakistan as a whole, prior to 1971 the country was governed from West Pakistan. Rule was top-down, reflecting both the feudal character of West Pakistani society and the fact that a disproportionate share of the rulers were outsiders: champions of the Muslim League, who left India at the time of partition and took political power in Pakistan. The precipitate exodus in 1971 of the (West) Pakistani ruling class following war, and the break-up of Pakistan, resulted in an institutional, organizational, and political vacuum.[3]

In the two decades following independence, Bangladesh struggled to shape a political order capable of containing conflicts among the country's many aspirants to power and resources, none of whom enjoyed clear dominance. In the first decade, the country lurched from independence to populist authoritarian rule to military control, with the process punctuated by the assassinations of both the civilian and military founding leaders of the country. Over time, though, a more inclusive equilibrium began to emerge. This inclusive equilibrium blurred the boundaries between insiders and outsiders, in a way that gave outsiders hope that a path was available through which they could, in time, become insiders themselves.

The inclusive model initially was constructed under the umbrella of military rule, but in 1991 the military was overthrown by a popular uprising, leaving a political vacuum. In an ad hoc improvisation, the chief justice was installed to head a caretaker government and to organize a free and fair election. Two parties, which have dominated Bangladeshi politics ever since, contested the election. Each of the parties is led by a charismatic daughter of a charismatic founder of the Bangladeshi nation: The Awami League is led by Sheikh Hasina, daughter of Sheikh Mujib Rahman, the politician who led the country to its independence; and the Bangladesh National Party (BNP) is led by Khaleda Zia, daughter of General Zia, the national hero who stabilized the country and provided a platform for the subsequent decades of growth and prosperity. Both parties are powerful electoral machines, and both are quite unrestrained in their use of the "street" to whip up support. The elections have something of a "winner take all" feel, so the stakes always are high.

The 1991 election was won by the BNP and, thanks to the impartial job done by the caretaker government, the result was accepted by all as fair. But this did not bring sustained political stability. In the run-up to the next election, there was again rising confrontation, partly as a reaction to efforts by the ruling party to use its incumbency to manipulate the elections and widespread civic resistance. To restore order, a constitutional amendment was passed that institutionalized the caretaker government arrangement used in 1991: ninety days before each election, the ruling party would step down in favor of the chief justice who guaranteed the impartiality of the electoral process. The system worked, at least for a while. The 1996 elections were won by the opposition Awami League; in 2001 the Awami League, in turn, ceded power back to the BNP. But it came unglued again in 2006 when the party in power (the BNP) found new ways to stack the deck. In the face of rising polarization and street violence, and with the prospect of a credible election diminishing by the day, the military stepped in and took power. We pick up the story of what happened next at the end of the chapter.

At first glance, the seeming excess of chaos of Bangladesh's improvised and personalized political competition could not be more different than the excess of order associated with Korea's development along the dominant trajectory. But there is a striking parallel: an underpinning of equity and associated civic engagement.

Perhaps the most deeply rooted basis for equity is the fact that Bangladesh, almost entirely Bengali, is unified ethnically, religiously, and linguistically; and Bengali culture is vibrant, deeply rooted, and egalitarian. Equity was further fostered in the aftermath of the 1947 partition of the subcontinent. The period following partition witnessed a gradual exodus to India of East Pakistan's Hindu population (the process was far more sudden, and far more turbulent, on the western border); since most of East Pakistan's large-scale landowners were Hindu, this exodus further reinforced the area's nonhierarchical character. A final contribution to an egalitarian ethos came via the manner of Bangladesh's independence from Pakistan. The resulting institutional vacuum was filled rapidly by Bangladesh's civil society, leading to the continuing expansion over time of an unusually powerful network of nongovernmental organizations (NGOs; precursors to the Grameen Foundation, BRAC, and other Bangladeshi NGOs that have been leaders in the NGO movement worldwide). These organizations became a powerful countervailing force to any propensity for top-down hierarchical control.

Inclusive economic development at the edge of chaos. In Bangladesh, a political order that was personalized, competitive, and clientelistic provided not only a political roller coaster but also a surprisingly strong platform for broad-based economic development—both the provision of services to the poor and broad-based economic growth. How were these achieved?

Consider first how Bangladesh has met the challenge of service provision. A crucial contribution came from NGOs.[4] Bangladesh has a long history of civic engagement, rooted in local village-level institutions and Bengali traditions of religious charity and philanthropy. This spirit of voluntarism proved crucial in the devastating aftermath of the country's 1971 war of independence and a typhoon that same year.

Those experiences provided the platform for the emergence of an extraordinarily strong set of NGOs. Bangladesh's NGOs are best known for their successful promotion of microfinance: As of the early 2000s, the four largest microfinance NGOs (Grameen Bank, BRAC, ASA, and Proshika) were working with over 12 million active borrowers. But the role of NGOs goes way beyond the best known organizations, and way beyond microfinance. As of 2004, there were approximately 2,000 formalized, developmental NGOs in the country, plus tens of thousands smaller and less formal organizations. Eight percent of all primary schoolchildren (and one-fifth of children from the bottom quintiles of the income distribution) were enrolled in NGO-run schools. And NGOs accounted for approximately one-third of combined NGO-government spending on health (with NGO spending much better targeted toward the poorest quintiles). Evidence suggests that NGOs are more cost-efficient and achieve better results than their government counterparts. And increased collaboration with governmental providers has expanded their role in improving service provision beyond the reach of their frontline programs.

Now consider economic growth: Bangladeshi growth is a story of "islands"—of the emergence, and rapid expansion, of enclaves of dynamism within a broader sea of policy and institutional dysfunction. The garments sector comprises the best-known example.[5] The value of garments exports rose from nothing in 1980 to \$2.5 billion in 1996, to \$7.9 billion by 2006. As of that year, there were over 3,500 garment-exporting firms in the country, employing over 2 million people and accounting for 70 percent of the value of all Bangladeshi exports. The way in which this happened provides a powerful example of cumulative causation in action.

In 1979, the Korean *chaebol*, Daewoo, in an effort to find a way around import quotas on its garments production, initiated a partnership with a retired Bangladeshi civil servant, Nurul Quader, to establish a manufacturing company in Bangladesh, Desh Garments (the partnership had the explicit support of General Zia, then Bangladesh's president). While the role of Desh itself quickly receded into the background, the consequences of the initial effort were far-reaching. It provided the initial platform of skills: to kick-start its venture, Daewoo brought 130 workers for intensive training in its Korean factories. As important, drawing on the Korean experience, the Bangladeshi authorities put in place a series of targeted policy measures to work around obstacles to exporting: special purpose arrangements to enable garment exporters to finance inputs needed to meet confirmed export orders, plus bonded warehouses and duty drawback arrangements that enabled them to access imported inputs duty free. Within a few years almost all the 130 workers who had trained in Korea—having learned the business and figured out how to link with the global market—left Desh garments to start their own companies. Growth was explosive.

Though garments is the best-known example, there have also been other "islands" of market development that helped spur Bangladesh's growth:[6]

- Exports of shrimp grew at an annual average of over 10 percent per annum in the 1990s, with the sector's share of GDP rising over the period from 3 to 5 percent. Though shrimp exports subsequently stagnated as a result of phyto-sanitary challenges, aquaculture has continued to expand (e.g., via growth in exports of frozen fish).
- In agriculture, the liberalization of imports of diesel engines set in motion a large volume of investment in tubewell irrigation. The result was the trebling of a winter rice crop from 4,100 tons in the 1980s to upward of 12,500 tons by 2005, the major contributor to a doubling of rice production (which accounts for two-thirds of agricultural value added) over the period.
- Streamlining of the processes for temporary outward migration and financial transfers resulted in a surge in the number of Bangladeshis working abroad (up to 3 million, the equivalent of 6.5 percent of the country's workforce) and a trebling of the value of worker remittances from $1.5 billion in 1998 to $4.8 billion by 2006.[7]

One reason this "islands" route to growth succeeded is that it requires only narrow, focused institutional and policy reforms. In personalized-competitive settings such as Bangladesh, the overall political environment is too fragmented and contested for any effort at broad-based policy reforms to be effective. But "islands" do not need broad-based reforms. As long as the overall macroeconomic environment is in reasonable balance (no runaway inflation, no overvalued exchange rates), special purpose initiatives capable of alleviating key sectoral constraints can be sufficient to set the growth process in motion, even while broader dysfunctions in the business environment continue.

A second reason for the success of the strategy is more directly governance-centric. As chapter 8 explores conceptually, in personalized-competitive settings the emergence of a new arena for profit becomes also an invitation for predation, as outsiders to the activity look to shake down a share of these new rents for themselves. For islands to thrive, this threat of predation must be forestalled. How? The remedies of open access won't work. In personalized-competitive settings, there is no impartial and impersonal justice system on which to rely; on the contrary, rent capture and allocation is integral to the political process.

One source of protection from predation is the business process itself: Insofar as production, financing, and marketing call for specialized skills, the effort to predate would almost immediately kill the goose laying the golden eggs. A second source of protection is more political. Bangladesh's garments' entrepreneurs organized collectively into sectoral associations and leveraged their collective power to ensure that rules of the game supportive of the sector remained in place.[8] What made this especially effective was that the number of firms rapidly became large, with the major entrepreneurs varying in their affiliations across the two dominant political parties. Because the firms were overwhelmingly export-oriented, all had an incentive to assure that the country sustained a good reputation as a manufactures platform for the global market. Entrepreneurs connected to the government of the day had no incentive to use these connections to undercut other producers. So who was in power didn't really matter; either way, the channels to protect the interests of the sector were strong.

Yet for all of Bangladesh's striking successes, the country's experience also signals the limits of growth under a personalized-competitive umbrella. Bangladesh's institutional arrangements have been strong enough to support a thriving garments export industry, but the capital investments required for garments production are modest, and positive returns can be realized in very few years. The institutional arrangements have *not* been strong enough to support larger investments involving much longer time horizons.

Electricity shortfalls comprise one of the most binding constraints in the Bangladeshi business environment. For well over a decade, the Bangladeshi authorities have worked to attract private investment in electricity generation. Yet these efforts have consistently failed, undermined by the interaction of political rivalry, the large rent opportunities associated with these investments, and the resulting uncertainty confronted by putative investors.

A further limitation of personalized, competitive, and clientelistic growth is the fragility of the platform itself. Bangladesh's political arrangements are volatile and continually threaten to derail. They may be good enough to lift the country from low- to low-middle income, but they are unlikely to be good enough to take the next steps. Indeed, volatility risks reversal of the gains that have been achieved. Bangladeshi development is thus in something of a race between on the one hand the risk of reversal and, on the other, the emergence of a middle class with sufficient critical mass to help push Bangladeshi politics and institutions to a next level. The crisis of 2006/2007 (more on that at the end of this chapter) serves as a stark reminder of this fragility.

Zambia—Eking Out Gains from the Jaws of Disillusion

Zambia is the second example of personalized competition that we examine in depth.[9] For a country of only 12 million people, it has enjoyed a strikingly high profile in the development community, partly because as of independence in 1964, its strong copper mining sector made it one of the wealthiest and most urbanized countries in Africa, partly because it has consistently been an island of peace and stability in a Southern African sub-region beset by conflict, and partly because it was a pioneer in Africa's embrace of democratization and economic liberalization in the early 1990s.

My first engagement with the country came in the mid-1990s, when I was co-leader of a World Bank team tasked with exploring what might be the opportunities for diversification of the country's overwhelmingly copper-dependent economy. At that time, it already was becoming apparent that a seemingly comprehensive embrace of the "Washington Consensus" formulae was not yielding the hoped-for economic turnaround; we were asked to suggest new ways forward. My second engagement was a decade later: Though growth had finally picked up, the Zambian experience remained a disquieting one: I was asked to explore, from a governance and political economy perspective, the puzzle that I introduced in chapter 2, namely the continuing gap between the ambitious programs that were negotiated and agreed between government and donors, and weak implementation. Wrestling with Zambia's combination of accelerating growth and disappointing governance was, for me, a key step in coming to grips with the logic of personalized competition.

Zambia's track record over the past two decades lays bare a difficult truth that Bangladesh's successes obscure: Though an elite bargain forged under an umbrella of personalized competition may work as a system of political order, it lacks a positive, inspirational vision. As a result, countries growing along a personalized-competitive trajectory often are viewed, not as perhaps having managed to assemble "just enough" of a platform for economic development to proceed, but rather, as with Zambia, as disappointments. The experience thus brings into sharp relief the questions raised at the outset of this chapter: Is the combination of growth plus personalized competition (often underpinned also by vertical links between patrons and clients) to be welcomed as a viable way forward or, given its governance limitations, is it an avoidable failure? And, insofar as it is viable, what might be the possibilities for doing better, even if only incrementally?

The search for a viable institutional platform. The first three decades of Zambian independence witnessed a sequence of three far-reaching institutional experiments. Each was welcomed at its outset with huge optimism, only for inflated expectations to be dashed against the rocks of seeming failure.

The first failed experiment—"failure," that is, when viewed through the eyes of the former colonial power—came within the first decade of independence. When the British left in 1964, and the flag of an independent Zambia was first unfurled, the erstwhile colonial power likely looked on its handiwork with some satisfaction. There had been a successful first democratic election, which resulted in a legitimate elected parliament and president; there was a strong independent judiciary; property rights were protected. As a country with a per capita income in 1964 of $2,700 (in calendar year 2000 dollars), among the highest on the African continent, and a thriving copper mining sector, development prospects seemed good.

But this optimistic perspective did not reckon with some fundamental disconnects that underlay the institutional façade. Though political power had transferred to the African majority, ownership, control, and access to income opportunities continued to reflect the now-ended colonial order. The best paid and most senior jobs in both the public and private sectors were almost all held by Europeans; 60 to 70 percent of all marketed agricultural goods were produced by white settler farmers on large commercial farms; the copper mines, which dominated the nonagricultural part of the economy, were wholly owned by South African, British, and American interests.[10] Inequality pervaded Zambian society, with startling poverty at the bottom: only one-third of adults were literate; average life expectancy at birth was 40 years; and 230 of every 1,000 children died by the age of five.

Along with these economic inequities, there was also an underlying tendency toward fragmentation in a "new" country that had no natural national identity of its own. Zambia (then Northern Rhodesia) had been cobbled together as part of the European scramble for Africa in the late nineteenth century.[11] Its land area was vast, inhabited by multiple scattered indigenous populations that had little in common other than their colonial overlord. Notwithstanding the collective euphoria over the end of colonial rule, any sense of collective national interest was fragile, and once independence was won, entropy began to set in. Between 1964 and 1966, the number of person hours lost due to labor disruptions led by the powerful copper mineworkers union rose five-fold. Regional, and sometimes ethnically based opposition emerged from among the many factions that had come together under the umbrella of the nationalist struggle for independence.

The result of these disconnects was a progressive unraveling of the institutional arrangements inherited at independence. On the economic front, President Kaunda declared his intent in the 1968 Mulungushi Declaration to "Zambianize" the economy; the government subsequently took a majority equity share in both mining and industry. On the political front, in 1970 a breakaway faction threatened to pose a serious electoral threat to United National Independence Party's (UNIP) hegemony; 100 members of the faction were detained. In 1972, all political parties except UNIP were banned. The following year, a new constitution was passed initiating a "one party participatory democracy," under the aegis of UNIP.

Early-stage dominance thus became the second of Zambia's far-reaching institutional experiments. Kenneth Kaunda, leader of UNIP, sought to govern in an inclusive way, coopting aspirant elites and potential rivals into the governing coalition via the distribution of rents to powerful urban and ethnic constituencies, represented by key elites who were awarded positions in the cabinet, carefully balanced ethnically. This dominant model proved economically unsustainable; in part because political considerations repeatedly trumped the economic dimensions of development policymaking, but also because of a sustained collapse of the price of copper from 1973 onwards (copper mining was the dominant industry and accounted for over 90 percent of export revenues). As economic conditions worsened, political discontent rose.

Then came the third institutional experiment: the embrace of political competition. In response to political discontent President Kaunda decided to mount multiparty elections in 1990. To his surprise, they were won by the opposition party. To his credit he left office peacefully (an early pioneer of Africa's sweeping democratic transition of the 1990s). Zambia's democratic transition in 1991 was greeted with euphoria, as a leading edge of an African (and global) wave of democratization in the wake of the fall of the Berlin wall and the collapse of the Soviet Union. Almost immediately after the new Movement for Multi-Party Democracy (MMD) government, led by the former trade union leader, Frederick Chiluba, took power, it won further kudos from the development mainstream by aggressively embracing the Washington Consensus package of macroeconomic stabilization, exchange rate and market liberalization, and privatization. Hitherto far-reaching price controls were eliminated entirely; radically overvalued exchange rates became market determined; privatization, especially of commercial enterprises, proceeded rapidly and, for the most part, transparently, accelerated by the establishment of the Zambia stock exchange. In support of these far-reaching reforms, aid flows increased rapidly, reaching a peak of 27 percent of total government spending in 2002.[12]

But, again, the euphoria turned to disillusion, this time among protagonists of democratization and economic liberalization.[13] The MMD split less than two years after it came to power, with some of the most committed reformers leaving office. Consistent with the logic of personalized competition (though not the hopes and dreams of democracy's champions), top-down presidentialism and political management via the allocation of rents became the order of the day, both during President Chiluba's period in office, and during the presidencies of his successors, Levy Mwanawasa and Rupiah Banda. Indeed, in 1999 President Chiluba sought to reverse some of the democratic gains by pushing for a constitutional amendment that would allow him to run for a third term in office. But disillusion had not descended that far; he was forced to back down in the face of sustained civic opposition.

Patronage remained the order of the day, however. For ambitious individuals, the path to individual gain and opportunities for patronage was via success in the never-ending game of winning access to the president's (revolving door) inner circle through the continual forming, unforming, and reforming of political coalitions under the MMD umbrella. With the ending of a leadership code during the Kaunda era that had (not always successfully) prohibited senior public officials from owning businesses, the opportunities for extracting rents were many.[14] Over time, insiders found ways of circumventing the rules governing privatizing and acquired former parastatals, including tourist lodges, manufacturing firms, and trade enterprises for little or no compensation. Procurement contracts were directed to businesses owned by public officials (with many documented cases of overinvoicing and of payment for work not done). President Chiluba had direct control of a Presidential Discretionary Fund and the resources of a Presidential Housing Initiative.

Poor economic performance contributed further to the general disillusion. Notwithstanding the ambitious reform agenda, for the first decade following the democratic elections the economy failed to recover; with no growth between 1991 and 1996 and a paltry annual average of only 1.7 percent between 1996 and 2000. But perhaps the low point of governance by personalized competition and patronage was the process of privatization of Zambia's copper mines and its aftermath.

Following pressure from donors, the government began the process of privatizing the Konkola Deep mine in 1996 and initiated a transparent, competitive bidding process. By the end of 1997 bidding had been completed, and negotiations with the winning bidder (a consortium comprising South Africa's Anglovaal Mining, the Canadian company Noranda, Phelps Dodge, and the Commonwealth Development Corporation) were completed, with finalization of the agreement scheduled for March 1998. Initially, independent observers considered the process and its (seeming) outcome a success, but in a surprising move the government turned it down at the last minute. Two years later, the company was sold to the Anglo American Corporation (its original owner and longstanding participant via management contract) for a significantly lower price: $60 million up-front (versus $150 million earlier) and a commitment to $300 million in follow-up investment (versus $1 billion earlier).

The turnaround. If the story of Zambia's experience under personalized competition were to end in 2002, the conclusion would be clear: that, at least in the Zambia case, the vision of growth via democratization was a chimera; that the combination of competition, personalized elite bargaining and difficult economic circumstances proved too noxious to yield any positive development result. But the story does not end in 2002.

Over the course of the subsequent decade, growth accelerated from less than 2 percent per annum between 1996 and 2000, to upward of 6 percent between 2006 and 2009, barely slowing in the wake of the global financial crisis. Urban poverty fell, from 45 percent of city residents in the early 2000s, to 28 percent by 2010. Zambia also had successfully further consolidated its democracy in 2011, with a peaceful transfer of power following an electoral victory by the opposition Patriotic Front.

It would be a mistake to interpret these gains too glibly as delayed evidence that liberalization and democratization were, after all, the right remedies. Copper remained king, and rising copper prices comprised a key driver of Zambia's growth acceleration; prices were up from $2,000 per ton in 2002, to $4,000 per ton in 2005, reaching $8,000 per ton by 2007. But Zambia's growth was not by copper alone.

One of my most pleasant surprises when I returned to the country in 2007, a decade after my initial foray, was that the economy was in the process of diversifying. The mining sector was diversifying, with products other than copper accounting for 15 percent of metals and minerals exports. But what was especially gratifying was to learn that nonminerals exports had also accelerated, reaching 20 percent of total export value by 2009.

Our mid-1990s study of the economy had highlighted smallholder cash crop agriculture as a promising area, with cotton growing especially attractive. The country's cotton ginneries had recently been privatized. We highlighted what seemed to be a promising new-style partnership, with the ginneries providing support services to small farmers, and the World Bank and other donors participating as financiers of roads, irrigation, and other infrastructure. Though the process was messier than the initial vision, the headline story seemed to be that what we had hoped for: Exports of seed cotton had become Zambia's leading nonminerals export, with the total volume of Zambian production up four-fold, from 50,000 tons per annum in the early 1990s to close to 200,000 tons by 2005.[15]

That, in classic personalized-competitive fashion, is the good news. The more difficult news concerns the way in which this growth was achieved. For cotton, the headline numbers gloss over what has been a roller coaster of booms and busts, including a bust in 2007 when production fell back to close to 100,000 tons. As chapter 10 details, underlying these cycles are institutional weaknesses of a kind that are endemic to personalized competition.

When one looks behind the headline of rapid recovery, at least as troubling a story emerges for copper mining. Investors drawn to personalized-competitive environments walk clear-eyed into settings replete with political uncertainties and do so in search of returns that are commensurate with the risks involved. Managing these risks often takes the form of a willingness to deal, to share the rents with key local political elites. This presumably helps explain what happened between 1997 and 1999, when Zambia ended up with terms for the privatization of Konkola Deep that were only one-third as favorable as what was on the table just two years earlier. But 1997–1999 turns out to be just the beginning of the saga.

In 2002, for reasons that remain obscure (or, taken at face value, reflect what in retrospect must have been one of the world's worst business decisions), the Anglo American Corporation decided to walk away from a mine that, just three years previously it had purchased at a fire-sale price. Suddenly, there was a risk that the mine could close, at enormous risk to the industry more broadly. But this is not what happened. Instead, rapid-fire negotiations produced a new agreement with the Indian-owned (and London Stock Exchange quoted) Vedanta Corporation.

Vedanta purchased the mine for $25 million cash, plus an additional $23 million over the subsequent three years. Even though Vedanta inherited none of the earlier obligations of the mine, it was granted the right to carry forward all past losses against future tax obligations. Then copper prices boomed. Vedanta's sweetheart deal meant that it was able to clear over $1 billion in profit before having to pay a penny in income tax to the Zambian fiscus.[16] In 2006 alone, Vedanta earned $300 million of profits, tax free, from its Zambia venture.

Unsurprisingly, these arrangements provoked an outcry, both within Zambia and internationally. So in April 2008 (too late for the now waning copper boom), the Zambian parliament passed a new mining taxation regime, which introduced a new windfall tax and tightened up on write-off allowances.

I allowed myself a sigh of relief when I learned of this arrangement; perhaps Martin Luther King's adage that "the arc of the moral universe is long, but it bends toward justice" applied after all, even in personalized-competitive settings. But I did not reckon with what came next. In early 2009, parliament repealed the windfall tax that it had promulgated just a year earlier and also restored the right to write-off the full amount of capital invested against future profits. Barring another unexpected turnaround, Zambians thus look set to miss out again when the next commodity cycle comes around; the details about how local actors benefited personally from the various copper deals remain obscure but are surely relevant to the outcomes described above.

Personalized Competition and its Discontents

The Bangladesh and Zambia examples show that personalized competition can indeed be compatible with growth but that the combination can be a discomfiting one. Moreover, as chapter 7 shows, this mixed pattern seems to be quite widespread. Between 2000 and 2010, many countries combined pluralistic politics, rapid growth, weak (and often worsening) formal institutions, and high corruption. Some of the emerging lessons from the Bangladesh and Zambia case studies may thus be of quite general interest.

In both countries, politics is organized around factions; the factions can be more individualized (as in Zambia), or more group-oriented (as in Bangladesh). Political parties compete for the loyalty of these factions, with the terms of this competition having more to do with the benefits that may be available than with specific ideas. As Mushtaq Khan puts it for Bangladesh:

> *Leaders want to incorporate the largest number of the most important organizers into the party at the lowest price in terms of the rents they demand.*[17]

Political competition thus takes the form of a bidding war, as leaders work to assemble a winning coalition in advance of upcoming elections. The importance of bidding wars implies that loyalty to a specific party or individual leaders within that party is fluid.

The systems are stable, not because of the de jure institutions, which are weak, but because the de facto institutional arrangements are aligned with the incentives of the participants. This could be because (as with Bangladesh's garment sector) the institutions are set up in ways that make the costs of reneging higher than the potential benefits, or it could be because (as with Zambia's fluid membership of political parties) reneging now might set a "bad" precedent for the future, when current losers could become winners, and vice versa.[18]

This stability can (and did for both Bangladesh and Zambia) provide a sufficient platform for economic growth to accelerate. But it does not provide a sufficient platform for public service provision via standard, top-down approaches. The reason is that in personalized-competitive settings, control over public resources is at least as much about access to spoils as it is the provision of services to citizens. At the limit, the result could be complete impunity with respect to how political actors use their authority, although in both Bangladesh and Zambia there are restraints on that impunity: In Bangladesh, a vibrant nongovernmental sector offered an alternative channel for service provision; in Zambia, though there was little incentive for effective service provision (except to elite constituencies), formal checks and balances arrangements created enough space for citizens that impunity was not unbounded—but this bounded impunity created an extreme tilt to the status quo, which repeatedly short-circuited efforts at reform.

Is there no alternative other than to settle for this type of discomfiting reality? Surely democracies, even early stage democracies, can do better?

Transformational alternatives? Pressure to change a status quo of personalized competition could come from the bottom up, spurred by the inequities of a system where the game is stacked in favor of the powerful. It could also be catalyzed from the top down, with incumbents seeking to use their authority to stack the deck in favor of their holding on to power and provoking, in turn, a powerful reaction from the opposition. Where might such disruption lead? Zambia and, especially, Bangladesh, offer some potentially sobering insights.

Consider, first, pressure that comes from the bottom up. In a personalized-competitive setting, creating an organization that will act on behalf of the poor is no easy challenge. It's much easier to imagine elite actors using populist tactics, built around promises that subsequently prove empty, to advance their narrow interests. Zambian citizens currently are in the process of finding out how much room for transformation electoral remedies offer in practice. The opposition Patriotic Front led by veteran politician (and one-time MMD cabinet minister) Michael Sata won the 2011 on the basis of promises that the Front would, finally, act on behalf of the broad majority of the population, rather than a narrow group of elites. Time will tell whether the Front's election represented a new departure for Zambia or another in a long round of empty promises.

Now consider disruption coming from the top down. Here Bangladesh offers a potent cautionary tale. The country repeatedly has had to reckon with incumbents seeking to use their authority to stack the deck in favor of their retaining power, and provoking, in turn, a powerful reaction from the opposition. It was precisely to address this vulnerability that the institutional innovation of a caretaker government was introduced. Though the arrangement worked for a while, it came unglued in 2006 when the party in power (the BNP) found new ways to stack the deck, and the military stepped in. What happened next sheds powerful, and sobering, light on the extent to which countries with open, but weak, institutions can lift themselves out of the seeming institutional mire of personalized, clientelistic competition.

When Bangladesh's military took power in early 2007, it had to decide how to move forward. Should it simply clear the decks so that a fair election could take place within months? Or should it try to "drain the swamp," and clean up the corrupt environment? It chose the latter, setting up a new caretaker government and appointing Fakhruddin Ahmed, a former World Bank official, as its leader.

The next few months witnessed an extraordinary effort to transform the country's political game. The caretaker leadership took on virtually the entire political elite of the country. The leaders of the two political parties, Khaleda Zia and Sheikh Hasina, were arrested and charged with corruption. Up to 100,000 people from across the political spectrum were jailed, many on corruption charges.

Meanwhile, the government geared up a radical program of institutional reform. A blueprint for change had been written a few years earlier by World Bank staff and issued publicly in 2002. The document, titled *Taming Leviathan: Reforming Governance in Bangladesh, an Institutional Review*,[19] is extraordinary both for its forthrightness and the sweep of its proposals. Its dozens of recommendations included:

- Strengthen accountability by reinforcing the role of parliament, tightening public
- financial accountability, and protecting the independence of the media.
- Energize administrative reform by fostering merit based recruitment and promotion, increasing pay for senior staff, delegating more authority to lower levels, and exploiting the potential of e-government; and
- Decentralize to local levels by delegating control over finances and personnel to local governments and strengthening the voice of poor, local communities.

Caretaker leader Ahmed was well aware of the document; he had been thanked in its acknowledgements for his valuable comments. Enjoying the backing of the military, and with seemingly unrestrained authority, he set about the task of building institutions of good governance. He invited new actors to step forward and encouraged Mohammed Yunus, Bangladesh's Nobel Prize winning pioneer of microfinance, to set up a new political party.

Almost none of the efforts worked. After some reflection, Mohammed Yunus prudently declined the offer to establish a new political party. The task of prosecuting those arrested for corruption bogged down. And the task of building new governance institutions from scratch turned out to require more time and more commitment at all levels than was available. Meanwhile, street protests began to build against any entrenchment of military rule. And in the face of rising uncertainty, economic growth itself started to slow, threatening the continuing viability of the Bangladeshi model of poverty reduction.

With options narrowing, and with their reputations and earnings as valued United Nations peacekeepers under threat (the Bangladeshi army provides more troops to UN peacekeeping operations than any other country on Earth), the military concluded that the only viable course of action was to try and unscramble the egg: They backed off efforts at far-reaching institutional reform, dropped corruption charges against the political leaders, and invited the Awami League and BNP to compete in a new election. This they duly did, with the Awami League emerging as the victor and proceeding to govern in a familiar personalized and clientelistic fashion.

If that had been the end of the story, one might have been able to conclude that the events of 2006–2008 had, at least, a silver lining: that they served both as a brake on the worst extremes of impunity, and as a reminder of the crucial importance for Bangladeshi stability of the constitutional commitment to put in place an impartial caretaker government in advance of national elections. But there was more to come.

In 2011, Sheikh Hasina and her Awami League, notwithstanding its long history as champions and beneficiaries of the arrangements, used its large parliamentary majority to revoke the provision in the Bangladeshi constitution that mandated the establishment of caretaker governments.[20] As of the time of writing, what this portended for the run-up to upcoming elections remained to be seen, although another "edge of chaos" moment seemed distressingly likely to unfold.

Incremental ways forward. At the outset of this chapter, I cautioned that democratic triumphalism can all too easily give birth to its opposite—that when we finally are confronted with the practical limits of our vision of what is good, noble, just and true, we recoil and succumb to cynical disappointment. But cynicism and disappointment are just as false as triumphalism. They change nothing and especially not the reality that the caravan, personalized-competitive or otherwise, keeps moving on.

With easy transformational options seemingly unavailable, the challenge is to find creative ways of moving forward. Given the way things are, what is to be done? Here, to conclude this chapter, are some guideposts for engaging creatively within personalized-competitive settings.

First, do no harm. A close look at countries in the early stages along the competitive trajectory rarely reveals an edifying spectacle. What looms large are personalized power, greed, careless impunity in the face of endemic, grinding poverty, and the ever-present risk of things falling apart. The temptation to reshuffle the institutional deck will naturally be strong. But a close look can also reveal that, from a dismal starting point, and in a very messy way, things are getting better, that a growing number of people are being lifted out of poverty, that a middle class with the desire and interest for society to function differently is beginning to emerge. In such an environment, pressing for far-reaching change, if it has any effect at all, might do as much harm as good.

Second, focus on concrete results, not on processes. Why? Because, as chapters 8 through 10 explore, a focus on results provides a potentially potent entry point for engaging stakeholders with high-powered incentives to see the outcomes achieved, and these stakeholders may, in turn, help lock-in commitments from political leaders. Inclusive coalitions can be built around results, and results are potentially readily monitorable and so can provide a basis for holding leaders to account for follow through. By contrast, Manichean campaigns to root out corruption polarize; instead of bringing people together, they demonize potential allies who may have had little alternative other than to operate within a personalized and clientelistic system's rule of the game and, as influential stakeholders, may turn out to be key parts of any effective change effort. Obviously, the achievement of results is going to require some changes in processes too, but there are limits as to how much can be achieved. Contra much of the governance discourse it is important not to put the process cart ahead of the results horse.

Third, focus more on microlevel interventions than on systemic changes. As chapters 9 and 10 show, islands of effectiveness can be organized around self-standing, narrowly focused institutions. And the cumulative consequences of an islands approach can be powerful: Individual islands can grow exponentially, pulling a wide variety of related activities in their wake; many localized island-based interventions can over time add up into far-reaching social change, as a vibrant middle class takes hold. Dynamism from many, seemingly haphazard islands is what has propelled Bangladesh forward. Getting a few islands to work can be difficult enough; pressing for more broad-ranging change in an unpropitious environment will almost surely be a misdirection of energy.

Fourth, learn more as to which are the crucial pillars of stability, which all parties can agree are untouchable. Bangladesh's strong track record of macroeconomic stability, and the common observation that, in many countries, central banks work better than other institutions, may offer one set of clues. Mushtaq Khan offers a different kind of pointer when he highlights the rules surrounding the caretaker government as the critical choke point for Bangladesh. In practice, we currently know all too little to distinguish clearly between what is urgent, and what is merely desirable; the overheated rhetoric of good governance has short-circuited a process of learning. Less triumphalism and more humility could perhaps yield some more robust, practical lessons.

Finally, even as we recognize that personalized competition may indeed sometimes provide "just enough" of a platform for development to proceed, we need to remind ourselves that not all binding constraints to development can necessarily be eased through incremental measures. There are many countries where the economic environment is too dysfunctional, and institutions are too weak, for incremental reforms to be enough to kick-start growth. Moreover, even in those countries (such as Bangladesh and Zambia) where a "just enough" approach can be sufficient to provide a spark, as growth proceeds society changes profoundly, with new pressures, and new opportunities building up. At some point, as chapter 6 explores in depth, countries that have managed to sustain a "just enough" high-wire act will need either to more systematically strengthen institutions and foster inclusion, or risk losing their hard-won, but still fragile, development gains.