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State-business relations as drivers of economic performance

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Abstract: Effective state-business relations (SBRs) have been lacking in industrial policy thinking despite the strong theoretical case for SBRs. The empirical study of state-business relations in developing countries has emerged only recently, with notable contributions starting in the mid-1990s, developing further in the 2000s and gaining more general acceptance in the 2010s. The evidence suggests that effective SBRs can matter for economic performance. The case studies suggest that SBRs can be effective (Mauritius) but also ineffective (Malawi). The quantitative evidence further suggests that high scores on SBRs measures are related to higher economic growth and firm level productivity.

Keywords: State-business relations, industrial policy, growth

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1 Introduction

Whilst there is a clear rationale for growth and industrial policies to support the market in promoting better economic outcomes (Stiglitz 1996), the effects of the same policy can vary greatly in different contexts. For example, Kingombe and te Velde (2014) argue that whilst Special Economic Zones (SEZs) were instrumental in diversifying and upgrading economic production structures in Malaysia, China and Mauritius, this was much less the case in countries such as Nigeria or Tanzania. A key question is why the practice of industrial policy differs so much across countries: why do some economic policies succeed and others fail?

This paper examines the theory and evidence on state-business relations (SBRs) and summarizes the results obtained from previous research on Asian and African countries, including the work on SBRs conducted by the Institutions and Pro-Poor Growth Research (IPPG) Consortium from 2005 to 2010 (see e.g. te Velde 2010; Sen 2013) and a recent DFID-ESRC Growth Research Programme (DEGRP) set of essays (te Velde 2013). The aim is to understand whether and how SBRs affect the quality of policy-making and result in better economic performance. The paper also discusses a set of (measurable) principles behind effective SBRs and provides an agenda for further research on effective SBRs.

The structure of this paper is as follows. Section 2 provides a brief history of industrial policy thinking, arguing that SBRs have been a key element that has been surprisingly lacking from this debate. Section 3 reviews the theoretical debates on SBRs. Section 4 reviews typologies behind successful SBRs. Section 5 discusses the empirical evidence, highlighting micro and macro-economic studies focused on SBRs, case studies in Africa and Asia on the economic outcomes of SBRs, how SBRs are used to resolve particular issues (i.e. budget setting), lessons at the sectoral level, and the indicators used to measure SBRs. Section 6 concludes and discusses possible next steps for research.

2 SBRs and a brief history of thinking on industrial policy – a missing ingredient?

The debate on industrial policy has evolved considerably in recent decades. From the 1950s to the 1980s, the structuralists (following e.g. Hans Singer and Raul Prebisch) suggested a policy of import substitution to promote heavy manufacturing and reduce commodity dependence. By the 1990s, it had become clear that the suggestions from the structuralists led to practical problems and the Latin American debt crisis followed. The Washington Consensus (John Williamson) emerged, which suggested a range of key market policies that did not foresee a role for industrial policies. Indeed, the World Banks's World Development Report 2005 on the Investment Climate did not mention the term industrial policy; instead, it contained a long list of investment climate reforms that would need to be undertaken, although the theoretical underpinning often remained weak. This consensus also ran into problems because some countries that followed these policies (several Latin American countries) grew unsatisfactorily, whilst others that did not follow these policies (China, Vietnam) grew rapidly.

The 2008 Growth Commission report marked some change. Its review of successful experiences of growth, mentioned, for example, the key role played by leadership in promoting economic growth, along four other key ingredients of growth. Hausmann et al. (2008) made a significant further step, by emphasizing that the binding constraints to growth are country specific. Using a growth diagnostic tree, the method identifies whether growth is held back either by high costs of financing or by low returns to a project. An interesting feature of this model is that appropriate policies to overcome binding constraints are almost by definition targeted at specific issues, often requiring specific industrial policies (whether it is to enhance skills, or place infrastructure) and political economy considerations.

Lin et al. (2011) discuss 'the role of the state in the dynamics of structural change' (pp. 3) and they provide a practical procedure to identify and facilitate growth through a six-step procedure for growth identification and facilitation. The process is based on Lin et al. 's work on structural economics (i.e. select industries in comparable countries, identify constraints to technological upgrading of existing domestic firms, attract new firm, scale up of the successful private innovations in new industries, build special economic zones or industrial parks, compensate pioneer firms). However, whilst the key ingredients of growth are known (as argued in the Growth Commission), and Lin et al. (2011) suggest that a recipe is close as well, there are severe challenges in finding good cooks: which individuals and organizations can support and engineer the growth process?

Recently a range of new policy insights have emerged on promoting growth, some of which are general in nature and others are more specific. Common to both types is the fact that they all seem to argue for a more pragmatic (between the extremes of free market and centrally led concepts of growth) and gradual approach. Page (2012) discusses three ways for promoting economic growth: tilting production towards exports, supporting agglomerations, and attracting and building firm capabilities. Sutton's enterprise maps (for the International Growth Centre) and follow up work suggest a pragmatic role for Investment Promotion Agencies in addressing specific problems in exiting firms. Bloom et al. (2012) argue that the quality of management is key for firm productivity suggesting management training is important. Woodruff (2014) argues that productivity differs across product lines and provides evidence that supervisor training increases performance.

Much of the literature thus points to the importance of policies to actively support the growth process. All of the approaches above require an institutional setting for policies to work properly, one where the state and business can interact to agree on the best direction for the economy. The question is no longer, whether industrial policy is important, but rather how to use such policies and to examine the institutional setting that determines the design and implementation of good policies. With some notable exemptions, this question of how the state and business interact to formulate good policies has been lacking from the literature on growth and industrial policies.

3 The theory of state-business relations

What are SBRs and what underpins its theoretical basis? State-business relations are relations between the public and private sectors. As they are shaped by the way states and businesses interact (Leftwich 2009), SBR forms can vary significantly, ranging from formal, regular co-ordination arrangements to informal, ad hoc interactions. They can cover the whole economy or target specific sectors, types of firms or policy processes. In some situations, they involve highly organized relationships in others they are loose relationships between the state and business. In some cases the formal aspects matter most (and the forms are highly visible, e.g. a well-known peak association), but in other informal arrangements, rules, norms, and agreements dominate all other institutions (Bardhan 2005).

Whilst the political science literature takes the existence of SBRs as given and analyses how they evolve and how they are shaped, the economics literature actively debates why SBRs might have a welfare-enhancing role. In neo-classical economic theory, where the price mechanism drives efficient allocations, there is no welfare-enhancing role for additional mechanisms such as SBRs.

For example in the invisible-hand model (Frye and Schleifer 1997), the role of the state is limited to providing public goods (e.g. contract enforcement), but leaves allocative decisions to the private sector. However, in a helping-hand model, organized bureaucrats actively promote private sector activity, 'support some firms and kill off others, pursue industrial policy, and often have close economic and family ties to entrepreneurs' (Frye and Shleifer, 1997 pp. 354). Taking this to a further extreme, in a grabbing-hand model, bureaucrats are less well organized and pursue their own (corrupt) agendas. The government is above the law and uses its power to extract rents. The rationale for an effective role of SBRs in the growth process is that the invisible-hand model provides sub-optimal outcomes, and the grabbing-hand model leads to inefficient outcomes in the long-run, but the helping-hand model can be an effective way in which state and business can interact.

Thus, te Velde (2010) argues that effective SBRs fulfil a helpful steering role in industrial development by overcoming two concerns: (1) there are market failures (the market alone cannot achieve an optimal allocation of resources (Stiglitz 1996); markets can fail in areas such as education, innovation, or climate change; and (2) there are government failures (state actors may not be able to address market failures on their own). Governments can fail, as they are unlikely to have perfect information and perfect foresight, suffer from moral hazard problems (Hausmann and Rodrik 2002), or are captured by elites. However, effective SBRs can address market, coordination, and government failures through effective communication and remove binding constraints to growth by improving the investment climate, providing market enhancing public investment, and reducing policy uncertainty.

The role of agencies and their effective interactions complement the price mechanism in allocating resources and promoting industrial development. Doner and Schneider (2000) discuss a number of market-complementing functions of business associations as key agents in the conduct of organized SBRs: macroeconomic stabilization, horizontal and vertical coordination, lowering costs of information, standard setting, and quality upgrading.

4 Typologies of effective SBRs

This section reviews a number of studies that examine characteristics or principles behind effective SBRs. For example, the World Bank (2012) suggests that lessons from past successes and failures of standard industrial policies are clear: governments should subject firms to competition, have clear sunset clauses, and focus on well-identified market failures, spill-over or latent comparative advantages.

Evans (1995) discussed 'embedded autonomy' in which the public and private sectors form a strategic relationship. Following the contributions by Evans (1995) and Maxfield and Schneider (1997), good SBRs tend to be based on benign collaboration between business and the state, with positive mechanisms that enable transparency, ensure the likelihood of reciprocity, increase credibility of the state among the capitalists, and establish high levels of trust between public and private agents.

Rodrik (2004) lists three key elements for an appropriate institutional architecture: (1) political leadership at the top, (2) coordination and deliberation councils, and (3) mechanisms of transparency and accountability. Rodrik (2008) has also argued that developing countries should be aiming for second best institutions, which means that developing countries should not be aiming for 'best-practice' institutions as used in developed countries but rather institutions that take into account both the local context as well as issues that cannot be quickly resolved.

More recently, Rodrik has developed (see McMillan and Rodrik 2013) these key elements into three prerequisites required to promote policy reform—embeddedness, discipline, and accountability. Of these, the principle of embeddedness is the one most relevant to the SBR discussion as it refers to the idea that policy makers must be close enough to the 'real' economy in order to have the right information and seize potential opportunities. Such close links require the right institutions that promote exchange between policy makers and the private sector (i.e. institutions that set up the groundwork for strategic collaborations between businesses and the state).

Buur and Whitfield (2013) argue that (1) mutual interests, (2) pockets of efficiency, and (3) learning for productivity are important characteristics for effectiveness of SBRs. Finally, Page (2013) argues that effective SBRs depend on commitment, focus, experimentation, and feedback.

5 The empirical evidence on state-business relations

We review four types of empirical evidence:

1. Econometric studies (macro and micro, e.g. Sen and te Velde 2009; Qureshi and te Velde 2012, 2013). This sets the scene, but the analytical insights from such studies remain limited to broad patterns rather than details on how SBRs can best work.
2. Case study evidence such as from IPPG and other case studies on Mauritius, Ghana, South Africa, Malawi, Egypt, or on Investor State Councils (Page 2013), as well and the more established literature on state-business relations in Asia. Much of these studies are case specific.
3. Evidence focusing on specific economic functions (i.e. effective SBR and the budget process in Zambia (Bwalya et al. 2009) or Mauritius (Rojid et al. 2010)).
4. Indicators that can be used to measure SBR (World Bank and OECD).

Most successful examples of SBRs come from outside Africa, but over the past decades, more research on SBRs and economic growth has been developed including in Africa.

5.1 Econometric studies

There are a number of statistical analyses of SBRs. Such analyses examine SBRs through various lenses—at the macroeconomic level (linking SBRs with economic growth) or at the microeconomic level (correlating SBRs with firm level total factor productivity). The section argues that SBRs seem to have a positive economic effect both at the macroeconomic level (by leading to greater economic growth) and at the microeconomic level (by increasing firm productivity), with evidence emerging from Asia and Africa,

Macro-studies

An analysis of SBRs in 20 different sub-Saharan African states was carried out for the period covering 1970 to 2005 (te Velde 2006). The analysis was based on a number of different factors governing relationships between the private sector and the government (see below for more details). These factors were used to provide a composite SBR scoring and correlated to economic growth with results suggesting that higher SBR scores lead to faster growth as well as to better governance and investment climate outcomes.

Sen and te Velde (2009) show that effective state-business relationships contributed significantly to economic growth in a panel of 19 sub-Saharan African countries over the period 1970-2004;

countries which have shown improvements in state-business relationships have witnessed higher economic growth and control over other determinants of economic growth, independent of other measures of institutional quality.

Macroeconomic evidence from the Mauritius (Rojid et al. 2010) measure SBRs (between 0 and 1) at the macro level (following te Velde 2006) and use this as a regressor in a number of equations based on a dynamic time series analysis in a VAR framework between 1970 and 2005. They show that there is a significant and positive effect (with an elasticity of 0.18) of SBRs on short and long term output in the country. Thus, quantitative findings from Mauritius suggest that effective SBRs in the country are an important contribution to economic growth. The main channels of impact from SBRs work through the amount of private capital, the openness of the economy and the quality of labour.

Cali (2010) provides evidence on the effects of SBRs (measured in 15 Indian states between 1985 and 2006) in India and shows that SBRs have improved across nearly all Indian states within the study period. The composite measure of SBRs across all states is also strongly correlated with economic growth thus, providing more evidence on the economic importance of SBRs.

Micro studies

In Ghana, a panel data analysis of 256 Ghanaian Firms (Ackah et al. 2010) covering the 1991 to 2002 period, focusing on the impacts of SBRs on total factor productivity (TFP) found that effective state-business relations positively correlated with better firm performance. The theory put forward was that effective SBRs (through social networking i.e. better connections between politicians and entrepreneurs) resulted in a more optimal allocation of resources in an economy, leading to better firm productivity.

Qureshi and te Velde (2013) analyse SBRs in relation to firm performance in Zambia using World Bank Enterprise Survey data for 200 firms (specifically on measures of firm productivity and institutional context and perceptions) and find that membership in a business organization increases firm productivity between 37 and 41 per cent. The analysis finds that business association effectiveness is based on their capacity to lobby governments and (to a lesser capacity) the ability to reduce market informational asymmetries and coordination failures. Additionally, the paper highlights the fact that foreign owned firms are more effective in lobbying governments than domestic counterparts are. Additional firm level research from the Zambia food processing sector (Hampwaye and Jeppesen 2014) does however highlight the fact that firm growth can occur in spite of unsupportive (and even hindering) institutional and SBR barriers.

Further research on microeconomic impacts of SBRs on productivity growth in Indian manufacturing firms (Kathuria et al. 2010) between 1994 and 2005 using firm level data for both formal and informal manufacturing firms in 15 Indian states shows that SBRs positively affect productivity growth in the Indian manufacturing sector, more so on the formal sector than in the informal sector.

5.2 Case study evidence

Whilst the previous section provided quantitative evidence, there is also a range of qualitative studies, which we review here.

The relationship between SBRs and pro-poor growth was examined in South Africa (Nattrass and Seekings 2010). The study found that policy incoherence between government ministries undermined post-apartheid employment growth. Whilst the South African Treasury promoted pro-business policies, the Ministry of Labour favoured policies promoting organised labour organizations, which may have undermined pro-poor growth (through pro-poor employment generation) in the country. The National Economic Development and Labour Council (Nedlac) did not represent a real consensus-seeking forum, owing to defections by key labour organizations and differences of approach and priorities among key state organizations (Treasury and Ministry of Labour), despite some early success in industrial policy.

Research on SBRs in Egypt (Abdel-Latif and Schmitz 2009) highlights how informal relationships between policy makers and business investors can play an important part in increasing business investments as well as contribute to economic growth, especially where there are common social roots and professional backgrounds between policy makers and investors. There are however two circumstances, which may dilute the effectiveness of these networks—if personal and professional relationships are blurred as may be the case in the Pacific region (Peiffer 2012a) or where there is limited institutional memory both in the public and private sector (due to high turnover rates) as was the case in Samoa (ADB 2008).

Of interest is the example of Morocco (Boussaid 2010), where the state (through the Moroccan monarchy) initially allowed business to push for economic reform through an umbrella association (the CGEM). This setup initially suited the government in order to promote its own liberalization policies but then reaffirmed tight control over the dominant private sector enterprises in the country by neutering the CGEM through a year-long anti-corruption campaign between 1995 and 1996. Although the move was mainly political in nature, it still highlights how SBRs can be used and controlled by either the state or businesses in order to promote their own agenda.

In Vietnam, the government actively sought to create a dialogue between the public and private sector where state actors would seek private sector inputs on economic reform policies whilst enterprises would lobby for responsive and effective government (Schmitz et al. 2012). Even though there was no formal public-private coalition, this proactive engagement meant that many domestic and foreign firms actively collaborated to reform provincial level policies.

More recent lessons from Vietnam (Vu-Thanh 2014) show that between 1986 and 2012, the success of Vietnam's industrial development was, in part, determined by the relationship between the state and the private sector. One of the preconditions of success, echoing Buur and Whitfield's (2013) observations, was that the ruling elite formed close ties with the productive forces (i.e. the capitalist firms) to build strong reform coalitions.

Similar lessons on the importance of leaders and elites working together to form 'organic' growth coalitions is provided by Sen (2010) citing the example of Andhra Pradesh in India where a change in state leadership spurred rapid improvement in SBRs and economic growth within the Indian state. The paper also highlights the importance of ongoing negotiations and discussions within the SBR process as a determinant of success using the example of West Bengal where the government wanted to kickstart positive SBRs but failed to do so due to decades of hostility from the local state towards the private sector. Complementary research from the region (Alivelu et al. 2010) also highlights the fact that business associations can play an important role, in facilitating SBRs, as knowledge disseminators, especially in regards to providing firms with information on changes in and applications of government regulations.

Lessons from South Korea show that when SBRs shifted from top down planning in the 1960s and 1970s, where the government laid down plans that the private sector needed to adhere to, to one in the 1980s where horizontal collaboration between the private and public sector became the norm, started (or at least contributed to) a process that eventually led to South Korean firms becoming major global players (Kim 2011). A partial component of Korea's successful globalization movement was the formation of the tripartite commission, involving the public sector (through state representation), the private sector, and labour unions. Between 1998 and 2011, more than 80 per cent of the deliberations made by the commission (Economic and Social Development Commission) had been implemented, thanks to the oversight of a specific implementation committee (Committee for Assessment of Implementation) set up to guarantee the effectiveness of the tripartite commission (Nicolas et al. 2013).

The example of Presidential Investor's Advisory Councils (PIAC) in Africa also provides important insights into formal SBR outcomes (and especially those put in place with external support). PIACs were set up by governments between 2001 and 2010 across the African continent spurred by a joint World Bank and IMF initiative launched in 2001. These councils acted as fora for SBRs where business representatives could directly interact with governments at the highest level. A review of the effectiveness of these councils (Page 2013) shows that in the early phases (between 2002 and 2005), these were deemed to be effective systems that could spur governments to fast track reforms and counteract government inertia. A subsequent (carried out in 2009) evaluation showed major discrepancies between council performances, with some not working well. Whilst these councils have evolved to take different characteristics, momentum in action determines their success in pushing reforms however these tend (except Ethiopia) to be mainly used as platforms for donors to push reforms that they are interested in.

The PIAC's echo the deliberation councils set-up in East and Southeast Asia (most notably in South Korea, Japan, Singapore, Malaysia, and Thailand), cited as critical components for economic growth (Campos and Root 1996). These councils included representatives of the public and private sector and were tasked with the formulation of policy aimed at enhancing growth, reducing transactional costs, informational asymmetries, and rent seeking within particular sectors. Some councils were granted legislative powers to implement policy reform. One example is Japan's Ministry of Trade and Industry (MITI – now Ministry of Economy, Trade and Industry - METI), which played an important role in the country's industrialization drive from the 1950s onwards based on strong SBRs. Other councils such as Singapore's National Wages Council (NWC) and Thailand's National Joint Public and Private Consultative Committee (JPPCC) were also based on the ideal of strong SBRs to enhance the pro-growth policy reform process. A major difference between PIAC's and deliberation councils is the extent to which the SBRs were institutionalized from within.

The Economic Report on Africa (2014) discusses the design of industrial policy on the basis of a dozen African case studies. They find that industrial policy coordination at higher levels is minimal—and in some countries completely missing. The private sector is often left out. In addition, industrial policy organizations suffer from organizational imperfections leading to institutional problems.

5.3 SBRs and specific functions

Whilst the previous sections provided micro and macro evidence of SBR impacts, it did not elaborate on the channels through which impacts occur or the determinants of success. Here we provide some examples.

There is research evidence on how non-state actors lobby government budget outcomes in Zambia (Bwalya et al. 2009) through successful changes in tax and expenditure policy following submissions to the Zambian tax policy and expenditure committees (which are allowed by both state and non-state actors) for 2008. The research found that submissions by companies and business and professional associations were the second most effective non-state submissions influencing policy (after civil society led submissions) when measuring percentage of submissions leading to successful changes, but were the most successful in terms of volume. However, the analysis cannot identify what the original source of submissions was; hence, the research posits that there may be a percentage of state-led submissions that were originally proposed either by the private sector or by civil society.

Buur and Whitfield (2013) observe the dynamics between SBRs and industrial policy and argue that for successful industrial policies, three simultaneous conditions need to be met by a country's SBR process:

1. Ruling elites (or factions) need to have an incentive in addressing productivity constraints in (interested) productive sectors and need to have a mutual interest with 'capitalist firms' who want such issues addressed.
2. Ruling elites looking to push reforms need to have enough control on other factions (or even internal factional demands) in order to create a 'pocket of efficiency' (i.e. provide strong political backing) within which state bureaucrats can work to implement reforms.
3. State bureaucrats need to condition capitalist firms towards increasing productivity and upgrading products through a process of 'learning for productivity' that hinges on bureaucrats knowing what productivity constraints firms face, can translate solutions into effective policy, and must be able to enforce any new policies.

An example of where these conditions have not been met is Malawi (Chingaipe and Leftwich 2007) where the institutional practices that were set up post-independence have continued to influence SBRs. Neither the government nor enterprises have accepted a private sector that is fully independent from the state (i.e. the government has decided not to relinquish full control of the private sector whilst private enterprises still operate on a clientelist basis with the government). The research highlights the fact that some SBRs can be based on maintaining the status quo with no push for change either from the ruling elite (i.e. the government) or from enterprises (i.e. capitalist firms).

Coalitions between capitalists and ruling elites can also potentially exist across borders as research from Hong Kong (Fong 2014) shows, where Hong Kong business leaders formed direct partnerships with the ruling elite in Beijing in order to put pressure on the Hong Kong local government to (successfully) alter proposed business enabling environment reforms. Although these links are facilitated by the particular relationship between Hong Kong and Beijing, it does still attest to the fact that international SBRs can be as important as national level SBRs. In a similar vein, the Japanese government has attempted to create stronger SBRs between Japanese multinationals and governments in the ASEAN region through the creation of the AMEICC as a way to increase Japanese multinational influence in policy reform processes in Southeast Asia (Natsuda 2008).

5.4 Indicators to measure SBRs

Te Velde (2006) identifies a set of key measurable factors behind effective SBRs. For example, to obtain credibility and reciprocity, both public and private sectors need to be organized or institutionalized. Positive mechanisms for transparency require that some rules or institutions bring the state and business together. Moreover, a set of principles is needed to restrain collusive behaviour. He suggests four factors make for effective SBRs, which can clearly be expanded and improved on in specific research contexts: (1) the way the private sector is organized vis-à-vis the public sector; (2) the way the public sector is organized vis-à-vis the private sector; (3) the practice and institutionalization of SBRs; (4) the avoidance of harmful collusive behaviour.

Sen and te Velde (2009) posit three different measures that can be used to analyse SBRs:

1. An average indicator measuring the presence and length of service of existing umbrella organizations (i.e. chambers of commerce or sectoral associations) that link enterprises with the government. The indicator would measure the membership period of firms within the organization as a proxy for the maturity and level of collaboration between businesses and government.
2. Measuring the number of businesses that are members of umbrella business organizations vis-à-vis the total number of firms within an economy. The idea is that higher membership rates give greater strength to umbrella organizations' discussions with the government (with the caveat that this would be an input indicator and that mature SBRs are more about dialogue than confrontation).
3. An output based indicator that looks at the economic function of SBRs. The indicator measures the effectiveness (in percentage) of umbrella organizations to have its demands met.

Macroeconomic and microeconomic systems can be used to measure the impact of SBRs on economic performance—the Mauritius case study (Rojid et al. 2010) uses a macroeconomic approach whilst the Ghana (Ackah et al. 2010) and Zambia (Qureshi and Te Velde, 2013) case studies take a microeconomic approach (firm panel data and World Bank Enterprise Survey data respectively). Macroeconomic measurement in the Mauritius case study is based on the indicators initially proposed (see above) by Sen and te Velde (2009).

An example, for the output-based indicator, can be seen in Table 1 below. The table shows what Mauritius Joint Economic Council (JEC) proposals were submitted to the government (between 2006 and 2007) and which were accepted. A score of 1 was given to fully implemented proposals, 0.5 for partly implemented proposals and 0 for not implemented proposals. The total for the table comes to 4 (i.e. 3 points for the 3 fully implemented proposals and 1 point for the 2 partly implemented proposals) out of 8 total proposals, thus the SBR score is 4/8 or 0.5 for Mauritius within the 2006-2007 timeframe.

Table 1: Implementation of budget proposals by the Mauritius JEC to the government

Budget Proposals of Mauritius JEC (2006/2007)	Fully Implemented	Partly Implemented	Not Implemented
Transformation of Mauritius into one seamless, integrated business platform		X	
Adoption of transparent, Simple, and minimum procedures to start and operate businesses	X		
Establishment of a competitive air access policy		X	
Introduction of competitive pricing policies for international bandwidth	X		
Establishment of an open policy to import high skills			X
Operationalizing of the Public Private Partnership (PPP) legislation; and mainstreaming of SMEs in the new economic model			X
Transforming the labour environment into a more flexible one	X		
Establishing the right balance between legislative control and 'space' for investment			X

Source: Rojid et al. (2010).

The OECD uses a toolkit to measure the Public-Private Dialogue (PPD) component of SBRs. The toolkit is a collection that uses the PPD Diamond and the PPD Wheel, both of which have been developed by the Public Private Dialogue organization as a joint collaboration between the OECD, the World Bank, and DFID (see box below for more details on the existing PPD Handbook). In addition, they are currently developing a more comprehensive toolkit that aims to assess the quality of public-private dialogue as a proxy for public-private cooperation as well as measure the level of private sector engagement in public policy-making (Herzberg and Sisombat 2013). The toolkit would measure various dimensions of public-private cooperation including the capacity and commitment of both the private and public sector, the presence of champions (on both sides), and the quality of instruments (i.e. mechanisms and programmes) that facilitates PPD.

Box 1: The OECD PPD Handbook

PPD Handbook

The OECD and the World Bank developed the Public Private Dialogue handbook in order to help PPD practitioners promote and evaluate public-private dialogue. The handbook includes methods to map PPD within a country aimed at diagnosing the current state of PPD, a PPD 'diamond', which is a conceptual framework used to map the strength of PPD through four variables (strength of public and private sector, champions of PPD, and PPD instruments), as well as the PPD evaluation wheel, which measures PPD organizational process and its effectiveness as well as the impact of the PPD reform process.

Source: http://www.publicprivatedialogue.org/tools/ANNEXES/evaluation_tool/

A note of caution on studies is in order. Economic studies are based on measures that describe only certain aspects but perhaps not the ones that matter, or those that are hard to measure. The detailed case studies may find it hard to uncover cause and effect (e.g. Peiffer 2012b), construct counterfactuals, describe the essence of state-business relations, or abstract from policy suggestions.

6 Conclusions and implications

In this final section, we discuss what we know and what we need to know. First, it is clear that the study of state-business relations has emerged only recently, starting seriously in the mid-1990s, developing further in the 2000s and gaining more general acceptance in the 2010s. Much of the earlier discussions on effective growth and industrial policies had ignored the pragmatic 'how' question and focused instead on the more ideological 'whether at all' question.

The evidence that exists suggests that effective SBRs can matter a lot. The case studies based on careful, qualitative analysis suggest that SBRs can be effective (Mauritius) but also ineffective (Malawi). The quantitative evidence further suggests that high scores on SBRs measures are related to higher economic growth and firm level productivity.

However, we need consider in more detail possible ways how to assess the effectiveness of SBRs in practice. Te Velde (2013) suggests several areas of further policy research. For example, we know little on which type of SBR principles matter most. Systematic analysis on the characteristics of effective SBRs across case studies in LICs (e.g. historical-institutionalist empirical studies on successful economic functions of SBRs) could examine how they affect economic policy-making. There is also surprisingly little quantification of SBRs. It is a difficult task but it needs to be done to understand how industrial policy (incl. SEZs as mentioned in the introduction) can work best. In undertaking this analysis, it is important (1) to be clear about the conceptual underpinning of SBR functions because without it we end up in a similar position as the investment climate indicators, which lacked a theoretical underpinning generally; (2) to separate objectively measurable attributes of SBRs, perceptions of SBRs, and its impact; and (3) use careful analysis separating out cause and effect.

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