Chapter 1

Middle-Income Countries and the Politics of Economic Change

Economic adjustment to international circumstances requires a "choice" by the state to follow a set of policies, a development strategy. As Gourevitch admitted: "This is an anthropomorphic way to put it."[1] Undeniably, a focus on policy choices and development strategies presupposes conscious, coherent decision making by state elites, as well as intelligible policy outcomes. This rarely occurs in reality. Haggard made a similar point:

> First, "strategy" implies a purposiveness of state action that may not exist; imputing a central design requires caution. Strategies emerge by default, trial-and-error, and compromise; take years to crystallize; and are often plagued by internal inconsistency. Second, strategies consist of *packages* of policies. It is useful to disaggregate "strategies" where possible, since different policies involve different political cleavages and conflicts.[2]

A framework for interpreting the politics of economic change in middle-income countries must include an examination of policy choices and outcomes. Thus, one must examine the nature of the constraints and determinants of policy choice on the state. Most importantly, the focus is on the state's key role as a mediating entity between the international and domestic realms and as a leader and planner of development strategy.[3]

Before discussing the impacts of the international economy and societal interests on domestic economic policy it is important, however, to try to be clear about what is meant by "the state."[4] The state is viewed here as the institutional entity that claims legitimacy for public authority within a given territory. It is, therefore, much more than the governmental institutions—elected assemblies, ministries, and bureaucracies—and the people within those institutions. It is also more than the parastatals, state-owned industries, and agricultural cooperatives that join in (and are identified with) the state's affairs. Accordingly, the idea of the state also must include (1) its fundamental ideological dimensions, (2) the sources and limits of state power and authority vis-à-vis society and the international system, and (3) the state's role in structuring property relations.

As many have noted, this broader conception is frustrating to empiricists because it resists "operationalization" and uncomplicated empirical identification. Similarly, it undermines a parsimonious delineation between state and "civil society."[5] It is essential, however, to deepen the concept of the state beyond its organizational/institutional aspects, while at the same time maintaining the notion of the state as a useful "tool of analysis."[6] Migdal's observation is valuable in this context:

> [T]here has been an unfortunate tendency in social science to treat the state as an organic, undifferentiated actor. Scholars have assigned the state an ontological status that has lifted it apart from the rest of society. As a result, the dynamics of the struggles for domination in societies, in which components of the state have played differing roles in various arenas, have been obfuscated.[7]

In the context of middle-income countries, the character of the state is a complex outgrowth of the historical forces of state formation and economic development, and the state itself is frequently empirically indistinct from "civil society." Moreover, border disputes throw into question the territorial integrity so important to the notion of a bureaucratic-territorial state. To cite a relevant example, Morocco's eastern border with Algeria is not clearly delineated, not to mention the territorial uncertainty evident in the ongoing Western Sahara conflict to the south and the dispute in the 1990s over Europe's access to Moroccan waters.[8]

In the end, therefore, it is important to examine the ideological orientations and backgrounds of state elites and the intricate relationships between state institutions, the international economy, and societal actors. This is essential to a proper analysis of middle-income countries. Thus, while one may use the state to refer to central policymakers—the state elites at the apex of governmental institutions—the deeper interrelationships must be kept in mind. As Putnam quipped, the state should be treated as a plural noun because of the various interests of central decision makers in various ministries: "Not the state 'it,' but the state, 'they.' "[9]

To understand fully the key role a state plays in a country's economy as a mediating entity between the international and domestic realms one must consider the theoretical contributions of two related approaches: the (1) international system and (2) "production profile" explanations. Attention to the state alone is not theoretically sufficient to explain policy choices.

International System Explanations

This first set of approaches emphasizes the external constraints the international political economy poses to economic development. In its strongest form in the dependency tradition, the "Third World" is locked in a system of capitalist domination that precludes industrial development and perpetuates *under*-development.[10] Several theorists have roundly criticized "vulgar" dependency theory for its tendency to reduce the "Third World" to a single, undifferentiated entity, as well as for its dismissal of the potential for independent action.[11]

The world systems and the new international division of labor approaches hold similar, but not identical, views to the dependency tradition. The first approach, the "world systems perspective," conceives of the contemporary world economy as divided between a core, periphery, and semiperiphery, with strong states in the core enforcing "unequal exchange" on the weak states of the periphery.[12] In this view, Northwest Europe emerged as the core of the world economy in the latter part of the 1500s, with Eastern Europe and the Western Hemisphere as the periphery and Mediterranean Europe as the semiperiphery. The semiperiphery functions as the political (and economic) intermediary of the system, a middle class—in Aristotelian terms—that moderates the polarization that would occur in its absence.[13]

Wallerstein contrasted his position with dependency theory's more extreme positions by emphasizing that potential does exist for "changes in position" within the system. He asserted, however, that upward mobility in the world class structure is unlikely because of the zero-sum character of the capitalist world economy.[14] Theoretically, countries can achieve a "shift" in position in three ways, the second of which is most significant for this book. The first way is by "seizing the chance," usually through a process of import substitution industrialization (ISI) designed to develop and strengthen the industrial sector behind high protective barriers. The third tactic is a policy of self-reliance, which Wallerstein stressed (after the Hungarian economist Béla Kádár) is not a very feasible path precisely because of the nature of the world capitalist economy.

The second tactic is the approach of "semiperipheral development by invitation." Middle-income countries must entice transnational corporations to invest in the domestic economy. "Underdeveloped countries" compete for foreign investment—and, to a certain extent, for development assistance in the forms of grants and loans—because, even with the loss of autonomy that external involvement implies, economic growth *is* possible.[15] The collaboration with external, core capital has its risks, however, since cooperation is jeopardized when core economies fall into recession. Also, cooperation is largely one-sided.[16] Consequently, domestic distortions arise in economies oriented toward external markets. As Evans noted in *Dependent Development,* economic "enclaves" undermine both linkages to other sectors and to the "multiplier effect" as firms in dependent contexts purchase capital goods from the core.[17] Economic growth, measured as gross domestic product (GDP), does not affect the peripheral economy as it would a core economy.

The second approach, the "new international division of labor approach," also emphasizes "development by invitation." This approach, most notably the work of Fröbel, Heinrichs, and Kreye, describes and explains the increasing tendency of investors and transnational corporations to invest in middle-income countries offering low labor costs for basic and semiskilled workers.[18] The *new* international division of labor has supplanted the old, classical international division of labor of European colonialism, wherein underdeveloped countries supplied raw materials and occasionally cheap, immigrant labor to the industrialized countries. By contrast, the approach emphasizes the increasing proliferation of export-oriented manufacturing sites in middle-income countries and the "growing fragmentation of the production process into a variety of partial operations performed at different production locations worldwide."[19] Significantly, Fröbel, Heinrichs, and Kreye's oft-cited analysis devoted specific attention to the Tunisian subsidiary of the West German company, *Mönchengladbach*.

In this view, international core capital has expanded in search of peripheral labor because of its wage "flexibility," as well as the decreasing need to have geographic proximity due to advances in transportation, communication, and information technologies. The disaggregation of production processes into rudimentary, simple elements has also expedited the use of unskilled and often female labor.[20] Some new international division of labor analysts examine the competition between different cores—Europe, North America, and Japan—in the world economy. This approach views the peripheries of the respective cores as what one might call "spheres of underdevelopment" in competition with one another.[21]

Despite their usefulness, the theoretical weaknesses of the two international systems level approaches are significant.[22] Specifically, international system explanations suffer from a tendency to offer wide-ranging, totalizing generalizations about the "Third World," frustrating careful empirical analyses about individual countries. For example, Fröbel, Heinrichs, and Kreye wrote:

> The world economy is not simply the sum total of national economies, each of which functions essentially according to its own laws of mo-

> tion, with only marginal interconnections, such as those established by external trade. *The national economies are, rather, organic elements of one all-embracing system, namely a world economy which is in fact a single world-wide capitalist system.*[23]

More fundamentally, the frameworks explicitly dismiss the importance of a specific country's policies. They argue that various development strategies are unimportant given the structural imperatives of capital.[24] It is one thing to note changing circumstances in foreign markets and the need for the state and domestic societal actors to take those changes into account.[25] It is shortsighted, however, to underestimate the role of the state and the importance of policy and domestic politics. Middle-income countries are not everywhere the same, and such theoretical and empirical flaws on this score are troubling given the vastly different development experiences of countries, even within the same region. Countries in the former Third World have each pursued different postindependence development strategies, owing to distinct colonial legacies, political regimes, and resource endowments.[26]

Finally, the lack of emphasis on the state and domestic politics within a given country undermines the approaches' explanatory power. By locating the dynamic in the international economy to developments in the core, any independent dynamic within middle-income countries is negated, and "local politics" is explained away as unimportant.[27]

Thus, these frameworks underestimate the possibilities of economic growth, even "if the rate and direction of accumulation are externally conditioned" to varying degrees by external actors.[28] Evans maintained that "dependent development" occurs when international and local capital form an "alliance" or "association" with each other to promote accumulation (and industrialization) in the periphery. The state plays a pivotal role as the third partner in a "triple alliance" by encouraging the association between internal and external capital. As Evans stressed:

> Dependent development is *not* . . . the negation of dependence. It is rather dependence combined with development. . . . Nor does dependent development eradicate contradictions between center and periphery.[29]

The issue of dependent development is discussed in the next section, but, for now, it is important to stress that despite such substantial theoretical shortcomings, international system explanations are useful because they locate middle-income countries within a complex and unequal international economy.[30] These preceding criticisms anticipate the societal-based, "production profile" approach to explaining domestic economic policy.

Production Profile and Societal Explanations

A societal-based approach regards economic policy as the outgrowth (or absence) of pressures from principal societal actors—classes, sectors, and interests.[31] Because of the distributional outcomes of official policy, societal actors will pursue their interests regarding state policy, pressuring the government to secure favorable policy results. Furthermore, societal actors base their preferences on their position in the domestic economy and—if they are aware of it—their changing situation in the external, international economy. Based upon preferences, therefore, these actors apply pressure on the state by molding coalitions, bargaining with other actors, and organizing consent.[32]

Thus, to understand state policy one must assess the "situation" of given societal actors in the international (and domestic) political economy, the impact of external and endogenous shocks on those actors' political and economic power and preferences, and the changing economic policies that emerge from the influence of that power. By locating the role and position of various societal actors in the international political economy, one can discern more accurately the nature of "domestic political cleavages."[33] *Intra*-sectoral cleavages—differing power resources for *subsectors*—are meaningful as well.[34] For example, rather than portraying the cleavage between town and country—between urban and rural sectors—as a dichotomous division, it is crucial to examine the nature of intrarural divisions.[35] This requires, in Gourevitch's terms, a *mapping* of the country's economy:

> [T]o explain a country's policy choice requires us to do some mapping of the country's production profile: the situation of the societal actors in the international economy, the actors' policy preferences, their potential bases of alliance or conflict with other forces, and the coalitions that emerge. When countries converge (or diverge) on economic policy, they are likely to do so because of the similarity (or difference) in the pattern of preferences among societal actors.[36]

This approach also promotes an understanding of conflict (and, perhaps, cooperation) between societal actors in different countries.[37] For example, the interests of farmers in advanced-industrialized countries—ostensibly in confrontation during the ongoing "trade wars" between the European Union (EU) and the United States—are in a much deeper conflict with farmers in middle-income countries. Specifically, in this context, as discussed in chapter 3, Italian and French farm lobbies influence EU member countries in the implementation of the Common Agricultural Policy (CAP), a policy package that continues to affect negatively their Maghribi counterparts.[38]

Of course, there are problems in analyzing the connections between coalitions and state policy. Most significantly, it is very difficult to ascribe a favorable policy outcome for a given class or coalition to that entity's dominance, and it is virtually impossible to empirically demonstrate that it engineered or controlled the change. In addition, the boundaries between entities are rarely distinct, and the entities themselves are not homogenous. Lastly, social coalitions, groups, and classes are mutable, not static, categories. They are subject to historical forces that they shape and that, in turn, shape them.[39]

These concerns, however, need not be debilitating. The problem of theoretical circularity concerning power relations does exist. As Gourevitch acknowledged: "Power is linked to economic situation; it *is* empirically circular."[40] Nonetheless, by identifying groups that *should* benefit from a given policy—as well *as* specific instances of leverage exercised by a group or coalition at the state level—one can discern the respective power standing of societal coalitions.[41] Moreover, an emphasis on the state's interrelationship with society renders more sophisticated the investigation of a given country's political economy, the resources available to the state, and other, perhaps competing, loci of authority. This facilitates an understanding of why some states are more effective than others in implementing policy.[42]

In his study of "embedded autonomy," for example, Evans argues that a state must be "insulated," in Weber's terms, to be able to conduct a development strategy. At the same time, it must also be "embedded" in society—that is, possess close ties with societal actors—to be effective in ensuring cooperation. Without the "contradictory balance of embedded autonomy," excessive clientalism could result, on the one hand, or "an inability to construct joint projects with potential industrial elites, on the other."[43]

COMBINING "STATE-IN-SOCIETY" AND "STATE-IN-THE-INTERNATIONAL ECONOMY"

An understanding of economic policy choices in middle-income countries must be situated, therefore, at the intersection of the "external" international political economy and the "internal" domestic economy and society.[44] This analysis locates the state at this junction and, therefore, focuses on the character of the state's relationship with the external and internal dimensions. In other words, to employ Migdal's formulation, the state is found "in society" as well as "in the international economy."

One must be wary, however, of the Janus metaphor.[45] Although the Janus-faced image is helpful as an initial metaphor, the state is much less purposive, unitary, and omniscient than a single-headed, two-faced godlike conception conveys. Moreover, the sharp state-society distinction under which such an approach operates presents severe empirical problems. For example, it depreciates the ties that state elites have with key societal interests, as well as with the social background of the elites.

Nonetheless, it is still important to locate the state at this intersection because it helps in determining the particular manner in which a given country is dependent on the external economy. The state's relationship to society and to the international economy illuminates is prospects for industrialization and democracy. A concentration on the range and limits of policy choices in middle-income countries also promotes a comprehension of the changing nature of the international political economy. Different middle-income countries have responded in distinct ways to similar external constraints. Only by examining domestic policy making within a given country can we begin to understand its politics. In the end, "state-in-society" and "state-in-the-international-economy" require a focus on the state and on decision makers.

Middle-Income Countries in a Comparative Context

Generally, because of the comparatively lesser degree of economic development, middle-income countries are more vulnerable to external shocks such as changes in geostrategic configurations or external market conditions.[46] This vulnerability is especially salient in small middle-income countries. Given this study's attention to Tunisia, the following observations focus on the plight of small middle-income countries.

Katzenstein's *Small States in World Markets* treats small European countries and is exceptionally insightful. In it, he details their vulnerabilities to the external economy. For their part, small middle-income countries experience even greater vulnerability to the external international political economy for three reasons. First, smaller industrializing countries tend to have open economies. Because of the manner in which colonial powers integrated their territories into the international economy, small economies are heavily dependent on external trade—usually, of course, with the former metropole. Small internal markets exacerbate this external orientation because they do not promote the development of economies of scale, causing a reliance on imports. In addition, because of small markets, countries that do try to develop export markets open the economy still further. The ratio of exports (and imports) to GDP, therefore, is greater than in larger, more industrialized economies.[47] As a result, such countries are much more exposed to fluctuations in world prices, inflation, and protectionism. As Katzenstein notes, small economies "import inflation from world markets," which has devastating effects on the balance of trade, balance of payments, and domestic price distortions.[48]

Second, former colonies tend to be less diversified economically, thereby intensifying vulnerability. The economies rely on nascent export industries and on the traditional export of a few primary commodities. In Bates's terms, developing countries have traditionally been, "almost by definition," agrarian societies.[49] Although this is true in Morocco, the reliance on agricultural exports and incipient export industries is especially evident in a small country such as Tunisia because of its small internal market and the concomitant incapacity to widen the economic base.

Third, and finally, economic sectors in middle-income countries are usually tied preponderantly to particular external markets.[50] In part, this is a result of the legacy of colonialism.[51] In addition, geostrategic concerns have been important factors. For example, Costa Rica's export-promotion strategy in the 1980s (oriented toward the United States) was closely tied to the Reagan administration's foreign policy efforts in Central America and the country's historic ties to the United States. Like their counterparts in small advanced-industrial countries, small middle-income countries specialize in the manufacture of a few products and concentrate the export of those products to a limited set of countries. Therefore, it is essential to determine the country or bloc of countries with which the country trades.

To be sure, small middle-income countries share key similarities with their counterparts in the advanced-industrialized world, but there are notable differences. Katzenstein's depiction of the challenges facing small European countries is, in many ways, fitting for small countries in the former Third World:

> Economic change is a fact of life [for small states]. They have not chosen it; it is thrust upon them. These states, because of their small size, are very dependent on world markets, and protectionism is therefore not a viable option for them. Similarly, their economic openness and domestic politics do not permit the luxury of long-term plans for sectoral transformation.[52]

Small countries in Western Europe, however, in contrast to small middle-income countries, do have advanced industrial economies that depend on the processing and reexport of imported materials and high-technology, capital-intensive production. Moreover, and of profound significance, middle-income countries—of any size—frequently lack the liberal corporatist structures evident in many advanced-industrialized countries. These arrangements in Europe, for example, enable elites to compensate for changing external circumstances by shifting economic and social policies more readily, thereby reducing the potential of "political eruptions."[53]

The absence, however, of liberal corporatist patterns in middle-income countries does not mean that a given country is completely unable to adjust. To the contrary, the presence of disorderly corporatist structures—in Bianchi's phrase "unruly corporatism"—and single-party structures go far to equip middle-income countries with the capability to manage distinct factions within and outside state institutions.[54] Bianchi defined "unruly corporatism" as a "persistently heterogeneous system of interest representation in which both pluralist and corporatist structures have played enduring roles, but in which neither mode of representation has attained anything approaching universal or permanent hegemony." In other words, the lack of rigid categories and, thus, their fluidity enables the state to maintain its autonomy against "potential opponents" and "ambitious allies" by promoting "a shared sense of weakness and disorganization among groups isolated in differentially structured compartments" and by affording the state with "an important measure of flexibility and adaptiveness in reordering its relations with dominant and subordinate social groups."[55] This is especially possible if the state contains an ideologically coherent elite and can obstruct the development of alternative sources of opposition.

On a related note, a middle-income country's bias toward enhanced internal security capabilities enables the state to forestall domestic opposition to official development strategy and to its effects. As Evans noted, the "rationale of exclusion" prompts repression to (1) maintain the country's attractiveness as a site of export-oriented industrialization and (2) contend with the discontent and alienation stemming from the concentration of wealth and income.[56] Opposition can be particularly problematic, especially if domestic rivals criticize the internal, domestic sources of dependency, rather than scapegoating external actors. Moreover, domestic criticism can prove to be intractable if focused on the perceived complacency of state elites and on squandered opportunities to invest wisely a country's foreign exchange earnings. For example, Bianchi analyzed criticism of the Egyptian government during the *infitah* boom of the 1970s, when the earning of foreign exchange increased in external sectors such as foreign aid, petroleum exports, Suez Canal revenues, and remittances from workers in the Gulf states. The state, critics charged, squandered these windfall earnings and did not move the country from an *infitah istihlaki* (a consumerist opening directed toward imports, construction, and banking) to an *infitah intaji* (the pursuit of a long-term investment in production, manufacturing, and agriculture).[57]

As we will see with Tunisia's deepening repression in the 1990s, the state in middle-income countries must be doubly prudent in its attempts to craft development strategies and to adjust to exogenous changes in a proximate country or bloc of countries upon which it depends. State elites need to navigate between the problems posed by an open economy vulnerable to exogenous shocks and the challenges posed by societal interests affected by changes in development strategy. State elites in middle-income countries craft policy choices in this context. Thus, the analyst needs to clarify the "structural constraints" facing the state—that is, the domestic and international circumstances that remain consistent over time and that limit policy choices. In his study of advanced-industrialized countries, Ikenberry offered an observation that is particularly salient for a small country such as Tunisia:

> Structure may be different for different states: *a small state . . . will find structures at the international level more inflexible than a larger state with resources capable of changing international regimes and arrangements.*[58]

To facilitate an analysis of middle-income countries—regardless of relative size—one must conduct a qualitative and quantitative determination of several factors. First, on the economic front, the analyst must pay heed to changes in several indicators. These include (1) the trade dependence of a given country, measured as trade as a percentage of GDP; (2) the direction and geographic concentration of exports and imports with trade partners; and (3) the composition of trade.

Second, economic ties and exposure to a dominant industrial bloc may also comprise a larger web of close diplomatic, cultural, and social ties. Thus, not only is it important to examine the character of diplomatic relations between the middle-income country and the bloc—and the degree of foreign support for development strategy—but the nature of broader economic, political, and social ties becomes especially meaningful. For example, Tunisian and Moroccan elites have been affected in profound ways—culturally and educationally—by the close relationship with Europe, most notably France. Educational and military training ties with the larger bloc, extending back to the colonial era, may continue to have a bearing on the country's collaboration with (or opposition toward) the larger bloc. In addition, emigration and return-migration flows to (and from) the larger bloc have profound implications for a country's political economy in such areas as remittances, consumption patterns, social mobility, transnational family ties, and the status of women.[59] Finally, the larger country or group of countries may exert a profound hegemony on the middle-income country which, again, influences the degree to which that country aligns itself with (or opposes) the larger entity and the domestic political economy. As Stallings observed:

> The "network of interests" of substantial sectors of the middle class comes mainly through consumption and life-style ambitions. Through the media, imported products become known and the perceived necessity to purchase them provides a powerful link with counterparts in the industrial countries. For the wealthier, ownership of goods is supplemented by travel and perhaps education abroad. For the very wealthy, ownership of assets abroad, whether a condominium in

> Miami or a bank account in Geneva, provides a safety net as well as a tangible stake in the industrial world.[60]

Because of complex ties to advanced-industrialized countries, elites in middle-income countries become supportive of foreign perspectives and interests.

SUMMARY AND PROPOSITIONS

This book focuses on the character of change within middle-income countries. In other words, an analysis of the transformations in development strategy—perhaps arising from a change in leadership as well as from the effects of economic policy—reveals underlying patterns of power relationships such as the character of state politics and the degree of insulation from societal interests.[61] As noted in the discussion of "state-in-society"—and as Herbst instructed in his study of Zimbabwe—assessing the degree to which a state is insulated from societal interests is crucial in perceiving the nature of state-society relations.[62] In addition, setting this in a dynamic context—that is, focusing on changes at the domestic level—allows the analyst to discern changes in state autonomy vis-à-vis emerging groups. Paradoxically, state elites gain greater insularity from societal interests because of the dependent character of the country's relationship to the external economy. Governments can "deflect" criticism because of the purported limitations placed on a country by the external arena. Thus, official declarations of external relationships are, simultaneously, proud declarations of a country's future and the profound challenges facing the country because of the relationship with the external realm.

Before turning to a consideration of Tunisia and Morocco's relationships to the European Union, it is useful to review the preceding framework by articulating a set of propositions. The following four propositions concern the explanation of policy choices and their outcomes for middle-income countries on the immediate periphery of an advanced-industrialized bloc.

Economic Policy Reform

First, changes in development strategy are rarely momentous, instantaneous transformations. Instead, a change in overall development strategy can take place over the course of several years.[63] Nonetheless, it is usually possible to identify the start of significant changes in domestic economic policy.

In middle-income countries, in particular, two circumstances expedite changes in development strategy: (1) a change in domestic regime and/or government and (2) political and economic changes in the nearby advanced-industrialized country or bloc of countries. These changes provide the constraints and opportunities for domestic policy changes. Of course, former policy environments and political circumstances—for example, the previous government—furnish the initial context.

Consolidation of Reforms

Second, development strategy reforms are "consolidated" and enduring if they survive later regime/government changes.[64] The existence of a well-unified, ideologically coherent elite promotes reform longevity, especially if the elite maintains tight linkages with key societal interests. In this way, the state need not be "strong," at least in its ability to command, secure compliance, and circumvent the preferences of even the strongest social actors.[65] Indeed, a weak state can manage reform if it has internal elite consensus and if its actions are in concert with key societal actors.

Consolidating and sustaining economic reform requires support from international actors. This includes transnational investors, international financial institutions, other governments, and even ideas.[66] Most significantly for a middle-income country, support for the development strategy from the international community is essential to the strategy's ongoing maintenance. Thus, the state can better sustain reforms that alter distributional patterns if international actors support the adjustments and if the state can claim a role as a grudging "interlocutor" between domestic prosperity and the external economy.[67]

Institutional Adaptations

Third, institutional innovations and adaptations associated with reform in development strategy reflect the nature of the strategy pursued. Thus, in a turn toward export-oriented industrialization the state creates agencies, offices, and parastatals that reveal the underlying character of the economic growth achieved. Legislation typically endows such agencies with insulation from democratic pressures. "Parastatals" are virtually outside the state and are potentially less accountable. Most significantly, economic sectors oriented toward export growth—for example, light manufacturing such as textiles and shoes—exhibit extroverted parastatals designed to promote linkages with the external economy. By contrast, institutional innovations for nonexport sectors are introverted; for example, domestically oriented institutions direct agricultural policy if agriculture is increasingly impractical as an earner of foreign exchange.

Domestic Politics

Fourth, and finally, a turn to export-oriented growth may intensify social divisions and requires the state to engage in "social contract" rhetoric and, at times, actual agreements with key actors in society.[68] Within the context of "unruly corporatism," the state also seeks to identify and empower collaborative elements within opposition camps. In addition, *potential* lower-class opposition—not always actual, coherent, or organized resistance—can provide key impetus for social contract rhetoric, as well as for policies that anticipate resistance. Nelson's theoretical discussion of this dynamic employed the example of Tunisia:

> When the government of Tunisia announced increases of 115 percent in previously heavily subsidized prices for wheat products in January 1984 . . . the government was trying to deal in timely fashion with real difficulties to prevent their becoming a crisis.[69]

As discussed in subsequent chapters, this effort failed to work, and violent riots resulted from the removal of bread subsidies.

On a related note, coherent and powerful social coalitions can be politically effective because of social access to (or formal affiliation with) state elites. As societal interests benefit (or decline) in the aftermath of policy reforms, their political and economic power changes vis-à-vis the state.

Lastly, the character of economic growth affects long-term economic health. To be precise, a reliance on export sectors oriented to the market of the larger country or group of countries may generate growth. In fact, this growth may be "successful" and vindicate the policy choice. It is a growth, however, that is vulnerable, susceptible to the maintenance of economic enclaves and, therefore, resistant to forward and backward linkages. Even during high growth years or periods, the growth may mask deeper, structural flaws in the economy.

These four propositions set the stage for an understanding of Tunisia and Morocco's political economies and the changes they have undergone in the late twentieth century. The analysis now turns to the two cases.