ABSTRACT  Most current theoretical treatments view business associations as rent-seeking, special interest groups. Yet, empirical research in a wide range of developing countries reveals a broad range of functions and activities undertaken by business associations, many of which promote efficiency. These positive functions address crucial development issues (emphasized in the New Institutional Economics) such as strengthening property rights, facilitating vertical and horizontal coordination, reducing information costs, and upgrading worker training. The associations that engage in these developmental activities tend to be well organized and staffed. This institutional strength depends in turn on high member density, valuable selective benefits (often delegated by governments), and effective internal mediation of member interests. In addition external factors, especially competitive markets and government pressure, encourage associations to use their institutional strength for productive ends.

1. Introduction: associations in theory and practice

Research on the role of institutions in economic growth has begun to highlight the activities of business associations. Empirical studies of rapid growth in East Asia have gone ‘beyond the developmental state’ by illustrating the important role of extensive collective action by the private sector; and an expanding literature on economic governance in industrialized countries has demonstrated the ways in which various kinds of networks, including business associations, have helped to enlarge the ‘repertoire of policy alternatives …’ and to develop ‘comparative institutional advantages’ in particular kinds of product market and innovation strategies.

Yet our understanding of whether, how, and under what conditions these business associations affect growth in the developing world remains unsystematic at best and distorted at worst. This is in part the result of relative scholarly neglect of such institutions, at least with in the context of developing countries. But this neglect itself reflects paradigmatic negative presumptions against
‘special interest’ groups in Mancur Olson’s theories of collective action and their extensions in the New Institutional Economics (NIE). Most NIE theorists have assumed the worst about business associations, and with few exceptions paid little systematic attention to them. This skepticism draws on Adam Smith’s admonition to reach for your wallet whenever two businessmen get together and is most systematically developed in Olson’s later work on collective action and economic growth. In *The Rise and Decline of Nations*, Olson emphasized that interest groups, like business associations, always pursued distributive objectives, seeking unproductive rents rather than the common or public interest.

Were the developing world devoid of positive contributions by associations, these negative theoretical presumptions might not pose a problem. However, empirical studies from a variety of disciplinary and theoretical perspectives have shown ways in which associations in a wide variety of contexts have improved economic performance in developing countries. These studies do not disconfirm Olsonian arguments that business associations are naturally tempted to seek rents, but, at a minimum, do demonstrate that existing theoretical perspectives cannot account for the conditions under which associations might make more positive contributions. Distributional objectives may coexist or even alternate with more productive goals. In some cases the very pursuit of distributional rents may, as several empirical studies have shown, also result in the ‘joint production’ of both private and public goods. Thus, as an association lobbies for rents, it may also provide a range of services that reduce information and coordination costs. The objective of this article is the development of a framework through which to identify the international external factors that influence variations in associational contributions to economic growth.

We proceed in three steps. The first, in Section 2, is to review empirical studies of associational activities. The empirical literature offers numerous, isolated examples of productive activities by business associations, but there are no analytic frameworks for comparing associations across countries and regions. Our framework first categorizes these contributions in terms of positive responses to state failures and market failures. The ‘market-supporting’ activities of associations are instances where associations push underperforming states to provide the public goods only states can provide: property rights, uncorrupt administration, and infrastructure. The ‘market-complementing’ activities of associations are functions that overcome market failures of various sorts including imperfect and costly information, low investment in training, and the lack of coordination in investments in upgrading. Ironically, core components in the New Institutional Economics—especially analyses of information and transaction costs—are quite useful in understanding these failures of states and markets and, by extension, identifying the potential contributions of business associations.

How then do we square extensive empirical findings on the positive contributions of associations with the predominant, negative theoretical presumptions against them? Sections 3 and 4 analyze two necessary conditions for productive activities by associations, one having to do with internal associational capacities, the other involving external pressures to make productive use of that capacity. Poor, unrepresentative, and understaffed associations are rarely capable of
redressing state and market failures, so associations first need institutional strength or capacity to perform positive economic functions. Section 3 argues that the underlying causes of institutional strength in associations include high member density, valuable selective incentives, and effective internal procedures for mediating member interests. Selective incentives (usually delegated by the state to the associations) such as export and import quotas, training programs, and institutionalized access to policy deliberations in the government are pivotal. Such benefits attract most potential members and give the association a high density of membership and significant material resources. Effective internal intermediation—through adequate member representation, deliberation, and transparency—resolves other internal obstacles to collective action and lowers internal transaction costs, thus facilitating other activities by the association and binding commitments by member firms.

However, associations with solid internal capacities may use their strength for more or less productive ends. Productive benefits, whether intended or not, do not typically occur absent some sort of external pressure. Section 4 takes a step back and explores two factors influencing the use of institutional capacity. In our survey, economic vulnerability, especially to competitive international markets, and state enforcement are the most common external factors that push associations toward more productive activities.11

2. Contributions of business associations to economic performance

Associational contributions to economic performance can be divided into market-supporting and market-complementing activities. The former are most relevant in periods of creating and consolidating emerging capitalist economies. We consider them briefly before turning to market-complementing functions. The context in which many associations operate in developing countries is one of extensive state and market failures, and many association activities are designed to improve the functioning of both states and markets (rather than using their lobbying strength to distort well-functioning markets).12

Through market-supporting activities, associations can strengthen the overall functioning of markets by supporting the provision of basic public goods that are both available to other firms and essential to the operation of capitalist economies. Two such public goods—strong property rights and effective public administration (or the rule of law more generally)—are provided by the state, so that the contributions of associations come indirectly through pressure on public officials. The provision of a third, infrastructure, can occur through direct associational actions as well as through indirect pressure on government officials.

In incipient capitalist economies, enterprises may face basic problems of expropriation and other threats to property rights.13 Pressing for stronger property rights is one of the basic functions of most associations, in part because it is an issue that crosses all cleavages among members. Not surprisingly, then, the defense of property rights undertaken for narrow sectoral or local interests, as in Nigeria,14 or in defense of specific ethnic groups as by ethnic Chinese in Thailand,15 benefited other property holders. Related to efforts at reducing
government predation, associations in several developing countries have also been active in pressing for clean and effective government administration. In Nigeria, the primary impact of some associations may be to force an improvement in the state’s basic operating procedures through opposition to ‘corrupt behavior, inefficiency, and the politicization of administration.’\textsuperscript{16} The Kuwait Chamber of Commerce and Industry (KCCI) was active in customs reforms during that country’s 1980s debt crisis.\textsuperscript{17} And Thai associations, both encompassing and sectoral associations such as the association of gem producers, successfully pressed the government to reduce corruption in customs operations in the late 1970s.\textsuperscript{18}

Finally, associations have also played important roles in lobbying for and, in some cases, providing various types of infrastructure. In Pakistan, pressure from inter-industry associations moved the Punjab state government to solve the problem of severe power shortages.\textsuperscript{19} The Surgical Instrument Manufacturers’ Association (SIMA) cooperates with the local port authority to improve customs, handling, storage, and other facilities critical to members’ capacity to export.\textsuperscript{20} The Colombian coffee association, Federacafe, offers an exceptional case in infrastructural development. The government granted it the right to collect an export tax that Federacafe was then contractually obliged to spend on benefits for producers, especially transportation infrastructure, port facilities, and warehouses.\textsuperscript{21}

We now turn to a wide range of market-complementing activities—more club than public goods—undertaken by a diverse set of business associations that attempted to overcome various types of market imperfections. Market-complementing activities involve direct coordination among firms to reconcile interdependent production and investment decisions.\textsuperscript{22} Table 1 lists market-complementing functions and offers examples of associations that provided them. To simplify the following discussion we focus primarily on a subset of the associations noted in the table and provide references to the others. The range of diversity in Table 1 is wide and striking, both geographically across regions and sectorally across industry and agriculture as well as within industry.

A broad but basic area of associational contributions involves macroeconomic stability and reform. Reducing inflation involves basic dilemmas of collective action: everyone is better off reducing prices simultaneously, but no one wants to go first. Here markets, through orthodox stabilization measures, ultimately coordinate price behavior but usually at the cost of sustained recession. Income policies, or negotiated prices among business, labor, and government, have the advantage of reducing the social costs of stabilization, but they require strong unions and associations capable of making and enforcing commitments. National-level agreements on wages and prices involving business associations are much less common in developing countries than has been the case in Western Europe, in large part owing to the scarcity of strong peak associations.\textsuperscript{23} But where encompassing business associations do exist, they can be harnessed to reduce the economic and social cost of stabilization and economic adjustment.

In Mexico in late 1987, as many macro indicators spun out of control, representatives of business, government, and labor met and signed the first of a series of agreements on wages, prices (public and private), exchange rates, and
## TABLE 1. Market-complementing functions of business associations

<table>
<thead>
<tr>
<th>Functions</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Macroeconomic stabilization and reform</td>
<td>Business Coordinating Council (CCE, Mexico); Confederation for Production and Commerce (CPC, Chile); Federation of Thai Industries (FTI); Kuwait Chamber of Commerce and Industry (KCCI)</td>
</tr>
<tr>
<td>2. Horizontal coordination (quota allocation, capacity reduction)</td>
<td>Turkish Clothing Manufacturers’ Association (TGSD); Taiwan Plastic Shoe Exporters’ (TPSEA)/Taiwan Footwear Manufacturers’ Association (TFMA); Thai Rice Exporters’ Association (TREA); Thai Garment Manufacturers’ Association (TGMA); Taiwan Cotton Spinners’ Association (TCSA); Korean Federation of Textile Industries (KOFOTI)</td>
</tr>
<tr>
<td>3. Vertical coordination (upstream–downstream)</td>
<td>TCSA, TPSEA, and TFMA (shoes and cotton, Taiwan); Taiwan Electrical Appliances Manufacturers’ Association (TEAMA); Thai Sugar Associations; Sindipecas (auto parts, Brazil); Nigerian groundnuts; Business Coordinator for International Trade (COECE, Mexico); Commercial Farmers’ Union (CFU, Zimbabwe)</td>
</tr>
<tr>
<td>4. Lowering the costs of information</td>
<td>Chinese Chamber of Commerce (Penang); Korean Trade Promotion Association; Federacafé (coffee, Colombia); TGMA (textiles, Thailand); TEAMA (electronics, Taiwan); Peruvian footwear; Colombian bankers; KOFOTI (textiles, Korea); Mexican footwear; Brazilian footwear</td>
</tr>
<tr>
<td>5. Setting standards</td>
<td>Thailand Board of Trade (rice), Federacafé (coffee, Colombia), TEAMA (electronics, Taiwan); Taiwanese Transportation Vehicle Manufacturers’ Association; Aruaru Association of Furniture Makers (AAFM, Brazil)</td>
</tr>
<tr>
<td>6. Quality upgrading</td>
<td>All Japan Cotton Spinners’ Association (Boren), TEAMA and TFMA (electronics and shoes, Taiwan), AAFM (furniture, Brazil), Colombian Rice Association; footwear manufacturers (Mexico, Peru and Brazil); KOFOTI (textiles, Korea); SIMA (surgical instruments, Pakistan)</td>
</tr>
</tbody>
</table>

Government spending that brought inflation rapidly down from over 100 percent to manageable levels within a year. Two specific associational activities were especially important to stabilization: coordination of intra-sectoral or intra-industry price differences, and monitoring and enforcement by the retailers’ association of the prices of member firms. Similarly, Chile was the leader in Latin America in the late 1980s and 1990s in terms of growth and macrostability with poverty reduction. Key to the country’s successful management of macroeconomic crisis in the mid-1980s was a shift, led by the country’s peak associations, to what Chileans called ‘pragmatic neoliberalism.’ Sectoral associations did participate ‘in the formulation and implementation stages of the policy process in close contact with the industries in charge of their sector,’ but the key actor was the Confederation for Production and Commerce (CPC), Chile’s encompassing peak association. The CPC maintained close contact with government policymakers in the managing of neoliberal reforms in the 1980s, the transition to democracy in 1990, and the introduction of higher taxes and social spending in the 1990s.

Associations regularly work to control markets crucial to the profits of their members. Through such horizontal coordination, capitalists have always at-
tempted to prevent ‘ruinous competition’ in product and factor markets. The potential costs of such collusion are well known. But market coordination can prove productive if firms are pressured to make efficient use of rents obtained. For example, although the power over the allocation of export quotas holds great potential for mischief, such control can be beneficial where quota rents are distributed in exchange for market performance and/or used to promote productivity. The Turkish Clothing Manufacturers’ Association (TGSD), for example, was created to provide leverage for smaller firms in quota distribution. This association not only managed the quota system but policed the distribution of these rents and linked quota privileges to performance. The Korean Federation of Textile Industries (KOFOTI) linked quota operations to its management of a Fund for Textile Industry Modernization. Taiwan’s footwear industry offers a striking case of such functions. When the United States imposed an Orderly Market Agreement in 1976–1977, seven footwear-related associations joined to form the Taiwan Footwear Manufacturers’ Association (TFMA). The TFMA’s overall objective was to restructure the industry into ‘upgrade-driven’ competition. Under association management, the sale of quotas led to market diversification and specialization. The association used its management of quotas to set floor prices and to finance teams of quality control experts who conducted on-site firm visits to assess firms’ quality according to a four-grade scale in cooperation with the semiofficial China Productivity Center.

Associations have also played important roles in addressing market downturns through capacity reduction or rationalization. Rationalization can alleviate the inefficiencies resulting from the underutilization of capacity and, as illustrated by European and Japanese rationalization cartels, can also enforce more efficient patterns of specialization. Weeding out the weaker firms solely through market forces may result in a costly war of attrition. No firm wants to exit first because it will benefit by staying if others exit. This can lead to a protracted price war that leaves all producers worse off than they would have been with timely exits. Business associations have on occasion overcome these problems of collective action. Korea’s KOFOTI combined its influence over sectoral capacity with authority to develop a modernization program for the textile industry. The Taiwan Cotton Spinners’ Association (TCSA) adopted a Contract of Cooperation that obliged all members to reduce total production, to export 60 percent of production, and to purchase cotton at set prices. Similarly, the Thai Textile Manufacturers’ Association responded to overcapacity and what it termed ‘ruinous competition’ during domestic market slumps in the 1960s and 1970s by forging association-wide agreements combining capacity reduction with export incentives, including export rebates and bank credits. In Colombia, Federacafe used inventory management to soften international price fluctuations, stockpiling coffee when prices were low and selling off reserves when prices were high. As discussed further in Section 4, these successful efforts at capacity reduction usually occurred in the context of external market pressure, often export promotion, that precluded monopolistic practices made possible by rationalization.

Associations have facilitated supply, price, and quality coordination between upstream and downstream firms. Sometimes this vertical coordination is import-
Business Associations and Economic Development

ant mainly for static efficiency through preserving a supply base and/or smoothing export volumes. In Nigeria, an association took over the function of disbanded state commodity boards to ensure that groundnut farmers would not be wiped out by unstable prices offered by millers. In Thailand, sugar millers and growers fought over the price of raw sugar for years before the associations, prompted by state officials, helped to broker an arrangement acceptable to both and avoid disruptions of critical sugar exports.

In other cases, the stabilization of upstream–downstream relations helps to promote dynamic efficiency by encouraging investment in new capacities and adoption of new standards and technologies. Improving linkages among firms at different points in a value chain can reduce the investment risks incurred by all. In stabilizing relations with downstream auto assemblers, Brazil’s auto parts association (Sindicap) created a stronger basis for long-term investment, and thus upgrading, by the suppliers themselves. In Taiwan’s highly successful athletic shoe industry, downstream footwear producers recognized that their continued export growth depended on a reliable supply of high-quality plastic components. The Taiwan Plastic Shoe Exporters’ Association (TPSEA) helped downstream shoe firms to transmit their concerns to upstream plastic suppliers; the latter in turn gained ‘an institutional channel to get information about (and also influence) the development of an important downstream industry.’

Upstream–downstream tensions frequently involve the trade regime: upstream firms often prefer protection whereas their downstream consumers want access to imported inputs. Inter-sectoral negotiations by business associations—often brokered by governments—can facilitate managed liberalization that accommodates major concerns of industries along productive chains. In Taiwan, the ‘weaving industry supported the liberalization of yarn imports, while the spinning industry resisted it.’ Encouraged by state officials, the associations worked out a compromise by which the Taiwan Cotton Spinners’ Association (TCSA) agreed to lower the price and stabilize the supply of yarn in exchange for the weavers abandoning the liberalization proposal. Similarly, Taiwan electronics firms in The Taiwan Electrical Appliances Manufacturer Association (TEAMA) successfully pressed for a coordinated tariff policy that protected its members while keeping them on their toes. This involved a policy of lowering the tariffs on raw materials if tariffs on parts were to be lowered, and lowering the tariff on parts if the government wanted to reduce tariffs on final products. During the (NAFTA) negotiations Mexican businesses organized themselves by production chains of upstream and downstream firms, through the umbrella organization of Business Coordinator of International Trade (COECE), in order to work out a common position before meeting with government negotiators. The intense pressure of the treaty negotiations gave upstream and downstream producers a strong incentive to iron out disputes before entering discussions with the government.

Reducing information costs is one of the simplest and clearest cases where collective action is pareto optimal; all members gain from the provision of the information yet the cost is frequently beyond the capacity of any one member. In a rural area of one of Brazil’s poorest states, the Aruaru Association of Furniture Makers ‘formed a permanent committee for group purchase of timber
and other materials (with correspondingly increased bargaining power vis-à-vis suppliers); organized the sharing of equipment among members ... [and] shared information about opportunities to purchase secondhand equipment. Some associations collect and disseminate information about downstream buyers. Associations of footwear manufacturers in Mexico played a crucial role in collecting and diffusing information about retailers’ payment history and willingness to accept orders when delivered. One of the most critical information-related functions of associations has to do with new markets, both domestic and export. Here we present simply a few of the cases noted in the empirical literature:

- Schmitz has shown that trade fairs organized by Brazilian footwear associations were ‘critical’ to the firms’ ‘ability to conquer distant national markets’ and eventually to connect local firms to the North American market.
- During a market decline in the mid-1970s, the Thai Textile Manufacturers’ Association (TTMA) promoted exhibitions, informed members about shifts in European demand, and urged members to increase exports to the EU prior to the establishment of baseline quotas.
- From its inception in the 1920s through the persistent international marketing campaigns of Juan Valdés, Colombia’s Federacafe has consistently brokered information between coffee exporters and importers. Federacafe even paid an employee in the Colombian consulate in Brazil to spy on its competitors.
- Korean associations reduced the costs of information about export markets, which not only reduced the entry barriers to volatile export markets but also helped to ‘nationalize’ exports by circumventing Japanese trading companies. Indeed, at one point, the export associations of each industry were ‘the nodes for all information flows on exports.’

Setting standards is another way that associations reduce information costs for buyers. In export markets for basic commodities such as rice and coffee, the failure of one supplier to meet minimum standards can undermine the reputation of all the country’s producers. To address this problem in the 1950s, Thailand’s Board of Trade, a peak association of agricultural export merchants, organized its rice-exporting members to develop and adhere to product standards. The Thai government granted export licenses only to those firms belonging to the associations and complying with these standards. Coffee exporters in Colombia prior to the 1930s had devised various labeling protocols to distinguish the diverse types of coffees they exported. Not surprisingly voluntary practices suffered from growers who used high-quality labels for their low-quality products. It was not until the growers’ association, Federacafé, took over labeling and was granted the power to sanction miscreants that labeling standards became effective. Coffee importers were very pleased.

More recently, other studies document the roles associations have played in setting standards for more sophisticated manufactured exports. Taiwan’s TEAMA, with the state acting as arbitrator, developed a quality-control agreement among producers of specific electrical products to ‘protect their reputation in the international market.’ Similarly, as part of Taiwan’s efforts to develop auto parts exports, the Taiwanese Transportation Vehicle Manufacturers’ Associa-
ation coordinated member investments in U.S. and German quality standards and communicated these to foreign customers formerly unaware of Taiwanese parts producers. In response to the stricter environmental standards adopted by the EU, some associations, such as the Thai Dyers and Printers, became active in promulgating practices that would help their members’ products qualify for ‘green’ labels.

Quality upgrading is a related function that moves beyond providing members with information to using association incentives to change member behavior by improving their technologies and the skills of their workforces. Sectoral associations in East Asia offer several more recent examples of this function. We have already noted that the TFMA (shoes, Taiwan) financed the diffusion of quality-control methods through quota rents. In electrical appliances, after an association survey showed that its members lacked the capacity to supply multinational clients, TEAMA asked for and received state help in establishing inspection agencies to ensure quality-control systems in member factories. TEAMA also offered a series of seminars on technology and management, and inspection trips to Korea and Japan.

Such activities are not limited to associations in high-technology or export sectors in East Asia. In the 1960s the Colombian government promoted an association of rice producers with the same exchange used in coffee: the government granted the rice association the proceeds of an export tax which the association then used to promote the dissemination of need seed varieties. In the late 1960s and early 1970s Colombian producers converted to new varieties much more quickly than other major exporters. In Peru the national footwear-makers association ‘coordinated a process of mutually compatible technological upgrading within the footwear sector through joint investment, purchasing and information management’, and an association of capital goods producers promoted similar collaboration in technology. The collective effort to prevent sawmill accidents through common safety standards, as practiced by Brazil’s Aruaru Association of Furniture Makers, also qualifies as a form of technological development. In Brazil’s Sinos Valley, local footwear producers and suppliers cooperated in an industry-wide association to set up technical training institutions and a technology center that enhanced the local industry’s capacity to respond to export opportunities in the early 1970s.

Such initiatives will, we believe, become increasingly important as trade liberalization forces firms in developing countries to confront developed economies’ quality-assurance standards in a range of areas, including the environment, food preparation, and general production practices. A striking instance of this involves the efforts of SIMA, the association of Pakistani surgical instrument producers. In 1994, after Pakistani-made surgical instruments failed to meet internationally accepted standards of good manufacturing practices, the U.S. Food and Drug Administration restricted imports of Pakistani-made surgical instruments. SIMA’s response included successful pressure on the Pakistani government to finance an industry-wide consultancy service on quality upgrading, organized by SIMA; management of a government-financed metal testing lab and technical training facility; and management of a government-approved revolving credit line to serve as short-term loans to local producers.
Several general lessons emerge from the empirical review in this section. One is simply that collective action for economic growth among private agents is widespread. Despite the significant obstacles to collective action, many groups of competing firms in diverse economic, cultural, and political contexts participated in associations that helped to address a range of economic challenges ranging from simple defense of property rights to the provision of market information to the diffusion of new standards and technologies. In terms of broader theoretical issues, our empirical survey reveals many associations that resolved some of the core dilemmas in the New Institutional Economics. Associations lowered several key transaction and information costs and overcame numerous obstacles to collective action (beyond the initial obstacles to forming associations in the first place), especially among smaller firms.

We do not claim that these successes constitute a majority of associational activities, but they are too numerous to be written off as aberrations and flukes. How then do we account for associational ‘successes’? In the next section we emphasize internal characteristics by arguing that the associations in Table 1 differ from most associations in that they have significant institutional strength. In Section 4 we turn to the factors that encourage productive use of such strength.

3. Organizational features and institutional strength

Claus Offe argued that organizations of employers and investors ‘do not generate power that does not already exist, nor do they formulate ends that do not derive directly from the ends already defined and consciously pursued at the level of the individual member firms.’\(^{64}\) Were Offe right, the study of business associations would be misguided and dispensable, as in some cases it is. In fact, associations like those identified in the preceding sections are more than the sum of their parts. They have significant power in the conventional sense of getting member firms to do things they would not otherwise do, by changing either their preferences or their behavior. Such associations are economic and political institutions—they shape incentives, payoffs, and strategies. Our definition of strength thus emphasizes an association’s institutional capacity to induce members to commit resources and abide by association rules and decisions designed to further collective goals.\(^{65}\)

Significant institutional strength is rare among the tens of thousands of organizations that fall under the label of business association, but it is evident among the associations discussed in Section 2, especially those engaged in market-complementing activities.\(^{66}\) For example, Federacafé forced members to adhere to labeling and quality standards for their coffee exports. Taiwanese and Korean associations obliged members to comply with export quotas and capacity reduction. Associations that promoted the diffusion of new technologies did not necessarily pressure members to adopt new technologies but, by offering information and technical assistance, they influenced decisions in member firms to invest in new technologies.

What internal organizational dimensions affect institutional strength? It is surprising how little information is available on basic organizational attributes of
business associations in developing countries, even in studies of their contributions. Our empirical review suggests three essential and interrelated factors: high membership density, extensive selective benefits, and effective internal interest mediation (especially for the largest members). Associations with one of these three attributes may be somewhat stronger than those with none, but it is the synergy between the three that builds real capacity. Staff and material resources would seem to be a fourth factor. Most of the associations discussed in Section 2 had many highly trained and respected professional staffers as well as good offices and computer equipment. However, resource levels are in fact a function of the other factors, especially selective incentives and density.

Density is measured by the proportion of the sector (or potential group) output produced by members. Very dense associations have a near monopoly on production. This, of course, is where corporatism, by licensing specific associations as sole representatives of a particular group, assures high association density. Many of the associations discussed in Section 2 had near monopolies of representation, with the Korean and Taiwan groups especially strong in this regard. In the Korean case, for example, the government granted associations a monopoly of representation in the industries it regarded as vital to the country’s health and security. Compulsory membership, typically the case for business associations in the Arab world, also strengthened the Kuwait Chamber of Commerce and the Amman Chamber of Commerce and Industry.

Conversely, in more clientelist or pluralist arrangements, rival associations and particularistic linkages organize subsets of the potential membership base. This has, for example, been a problem in Thailand: the Thai Auto Parts Manufacturers’ Association has to contend with another, assembler-backed association, several large textile firms commonly abstain from participation in the Spinners’ Association, and several key firms operate largely outside of the auspices of the officially designated peak association, the Federation of Thai Industries. The constant threat of exit has significantly reduced Thai associations’ capacity to influence member behavior and has often left them, as it has elsewhere, with no ability to develop and act on majority positions. However, the strength of that threat is in part a function of the selective benefits available to association members.

The source of extensive collective action (and high density), Olson taught us, is the provision of selective incentives. When associations have crucial benefits that they can offer to members only, membership is valuable and exit becomes costly. As seen in Table 2, the type of selective benefit varies from association to association, ranging from marketing, to export quotas, to export licenses and import controls, to export market information, to upgrading support, to a privileged role as the exclusive intermediary with state actors, especially negotiators for trade agreements. In Taiwan, the electrical appliance producers’ association, TEAMA, not only provided technical assistance, but also had the power to issue export licenses and to control imports of certain products. Korea’s KOFOTI had significant power over member firms by virtue of its control of quotas, imports, and capacity utilization, as well as its operation of a Fund for Textile Industry Modernization. Federacafé has massive resources that it spends primarily on selective benefits like infrastructure (warehousing,
### TABLE 2. Selective incentives in some strong business associations

<table>
<thead>
<tr>
<th>Association</th>
<th>Selective incentives offered by associations to members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federacafé (coffee, Colombia)</td>
<td>Infrastructure; marketing; information; access to government</td>
</tr>
<tr>
<td>TGSD (clothing, Turkey)</td>
<td>Distribution of export quotas</td>
</tr>
<tr>
<td>CPC (encompassing, Chile)</td>
<td>Access to government</td>
</tr>
<tr>
<td>CCE (encompassing, Mexico)</td>
<td>Tripartite bargaining; access to government</td>
</tr>
<tr>
<td>COECE (multisectoral, Mexico)</td>
<td>Access to government trade negotiators</td>
</tr>
<tr>
<td>AAFM (furniture, Brazil)</td>
<td>Exclusive purchasing contracts; product warranties</td>
</tr>
<tr>
<td>TGMA (clothing, Thailand)</td>
<td>Export quotas, training; access to government</td>
</tr>
<tr>
<td>Thai Rice Exporters’ Association</td>
<td>Export licenses; government-to-government rice sales</td>
</tr>
<tr>
<td>TPSEA/TFMA (shoes, Taiwan)</td>
<td>Price floor; export licenses; participation in trade negotiations; quality monitoring and upgrading</td>
</tr>
<tr>
<td>SIMA (surgical instruments, Pakistan)</td>
<td>Access to government negotiators; soft loans; foreign quality upgrading consultants</td>
</tr>
<tr>
<td>TEAMA (electronics, Taiwan)</td>
<td>Export licenses; import controls; state procurement contracts</td>
</tr>
<tr>
<td>Sofofa (industrialists, Chile)</td>
<td>Access to trade negotiations; certification of input origins; administering health plans, vocational schools</td>
</tr>
<tr>
<td>KOFOTI (textiles, Korea)</td>
<td>Export quotas; funds for industry modernization; access to government</td>
</tr>
<tr>
<td>KCCI (encompassing, Kuwait)</td>
<td>Distribution of import licenses; participation in government contracts</td>
</tr>
</tbody>
</table>

*Note: By ‘access’ we mean arrangements, either informal but enduring or formal, where representatives of business associations meet with state officials to deliberate on policy.*

...ports, transportation, etc.) and marketing. Exit is very costly, so that Federacafé has potentially enormous power over individual members. Indeed it is precisely this power that allows it to enforce sanctions and guarantee standards and thereby the reputation of Colombian coffee.

What are the sources of selective benefits? In many cases of institutional strength identified in our survey of associations, the state was a key source of major selective incentives, either negative (sanctioning non affiliation) or positive (making membership more valuable). On the negative side, state-mandated membership and dues are common in many regions of the developing world. On the positive side states grant associations the right to allocate public resources such as tax revenues, export and import quotas, funds for training programs, access to government contracts, and or the public right to set standards, norms, or production quotas. The Aruaru Association of Furniture Makers has substantial institutional strength—it sets product standards, guarantees member sales, and metes out rewards and sanctions—all because the government agency that buys school desks from members will sign contracts only with the association. \[77\] Membership in the Kuwait Chamber of Commerce is required to obtain licenses necessary for most imports and for participation in government contracts. \[78\] And membership in the Thai Rice Exporters’ Association, for which firms had to meet certain product standards, was required to obtain export licenses.
In addition state actors can also grant associations a major selective benefit of institutionalizing exclusive channels of access to economic policymakers. This can take various forms ranging from informal yet regular consultation to statutory representation of associations on public boards or policy councils. Historically this representation often came through representation in public entities responsible for industrial policies. More recently, after the dismantling of many of these entities, states have granted associations representation on new boards, such as committees responsible for negotiating trade agreements, as in Mexico, Chile, Korea, and Taiwan. The Chilean government, for example, not only granted the industry association Sofofa privileged access to trade negotiations, but also delegated to Sofofa the task of certifying the origins of inputs for exports in accordance with the various trade agreements the government had signed.\textsuperscript{79} And in the case of Pakistan’s SIMA, a key benefit for member firms was access to negotiations with the U.S. FDA.\textsuperscript{80} In all these guises, institutionalized access by associations raises the value of membership.\textsuperscript{81}

In addition, prior or parallel networks may strengthen associations, sometimes in ways that resemble or reinforce Olsonian selective incentives. First, ascriptive or ethnic linkages can make the potential group more homogeneous and hence, following Olson’s original logic, easier to organize. Second, trust existing outside the association may make members more willing to accede to association demands because they expect that other members will also comply. Lastly, ascriptive linkages provide a strong negative incentive to comply with association decisions because defection from the association may be punished in the broader social context. Among the associations in Table 2, such ties were important for Thai and Taiwanese associations, as they have been for other parts of East Asia, but less so elsewhere.\textsuperscript{82}

In our empirical survey we did not encounter any developmentally-oriented associations that did not offer potential members significant selective benefits. In some cases the benefits offered were the same as the developmental functions. For instance, associations that offer members the selective benefit of information at the same time reduce information and transaction costs for members. In other, more complex, instances the selective benefit of, say, access allows the association to develop efficiency-enhancing activities in other areas. These instances are reminiscent of Mancur Olson’s byproduct argument: powerful lobbying capacities (subject of course to free riding) were usually byproducts of association strength that derived primarily from selective benefits in other areas.\textsuperscript{83} The American Medical Association, one of Olson’s main examples, grew strong by offering discounted malpractice insurance and later developed, as a byproduct, its notorious lobbying wing. In our cases the byproducts included other efficiency-enhancing functions.

Empirically, decision rules and structures of representation vary so widely that it is difficult to identify optimal structures and procedures of internal mediation. The more developmentally-oriented associations we surveyed were characterized by most or all of the following four features of internal organization: (1) voting weighted by size; (2) flexibility in adjusting internal rules and representation to changes in membership or association tasks; (3) transparency in allocation decisions; and (4) opportunities for extensive deliberation among members.
These features were common among the associations listed in Tables 1 and 2; their importance, though, is often best illustrated by negative example.

The first challenge—proportional voting—is well illustrated by problems encountered by industry associations in Brazil (that are not included in Table 2). Both Federacão e Centro das Índústrias de Estado de São Paulo (FIESP, representing the major industrial state of São Paulo) and the national industry confederation, Confederação Nacional da Indústria (CNI), have near complete density due to compulsory membership, and control hundreds of millions of dollars spent largely on worker training programs, in principle a major selective benefit. However, internal representation is highly distorted. In FIESP, each of the over one hundred member sectoral associations has an equal vote, regardless of size, so in essence small member associations, like those representing the hat or umbrella sectors, dominate. Representation in the CNI is by state, so again tiny states with very little industry hold sway. Leadership in both associations is dominated by marginal capitalists, and major firms often abstain from active participation and do not receive significant selective benefits from the associations. These kinds of associations have huge bureaucracies and dozens of well-paid positions that provide attractive career alternatives for small businessmen. In the extreme case, lack of effective representation of large firms leads to their defection, reduced density, and even hijacking of the associational agenda by minorities of members and/or the association’s staff.

Internal flexibility in adjusting representation to changing conditions among members and reorienting institutional capacities to new tasks is another characteristic common among more developmental associations. Mexican and Chilean associations have been remarkably creative in responding to new challenges, especially through their participation in negotiations for, respectively, NAFTA and Mercosur. In Mexico, the peak encompassing association, CCE created a new association, COECE, for the express purpose of participating in NAFTA. COECE in turn had a flexible, decentralized structure that adapted easily and quickly when the negotiations shifted from sectoral to thematic issues (like rules of origin). In Chile, the industrialist association Sofofa thoroughly reorganized its staff in the 1990s and over the decade the trade department grew from one professional staffer to fifteen. Moreover, once they had shifted so forcefully to offering help with trade issues, other non-industrial associations sought and were granted membership.

Two additional aspects of internal mediation—transparency and deliberation—seem to enhance institutional capacity, largely by resolving internal problems with collective action and transaction costs. Transparency, especially in the distribution of benefits, reduces monitoring costs, limits the temptation for members to cut side deals with government officials, and thus enhances the willingness of members to comply with association rules. Transparency in the allocation of export quotas in TGSD (clothing, Turkey) convinced members that the allocation was fair.

Intensive deliberation affects strength in different ways. The frequency of interaction among members seems key in promoting a deliberative mode of consensus building and preference change. Olson took homogeneity among members as a static quality that facilitated collective action; but deliberation is
itself a dynamic process that can promote the emergence of more homogeneous preferences among a diverse membership. The ability to reach a binding consensus among members is one way in which associations can induce changes in member behavior. It is here that small numbers enhance institutional strength by making it easier to reach consensus or compromise positions. In Mexico, members of business met very frequently during the process of negotiating stabilization pacts of the late 1980s and the NAFTA agreement. Participants agreed that frequent and lengthy meetings were instrumental in building consensus. Where membership is large in number, frequent deliberation within functional and regional committees can facilitate consensus and institutional strength. Taiwan’s TEAMA (electronics) established fifty-nine subcommittees to deal with individual products and divisional offices to investigate and report on underground (nonmember) firms.

Participants agreed that frequent and lengthy meetings were instrumental in building consensus. Where membership is large in number, frequent deliberation within functional and regional committees can facilitate consensus and institutional strength. Taiwan’s TEAMA (electronics) established fifty-nine subcommittees to deal with individual products and divisional offices to investigate and report on underground (nonmember) firms.

In sum, high density, valuable selective benefits, and effective internal mediation all enhance institutional strength. Of the three, selective benefits seem the most important. If associations come to provide significant benefits, as for example when the Colombian government offered control over an export tax to an association that existed only on paper, then the association can quickly enroll most members and achieve high density. Moreover, if the benefits are great, then large firms have incentives to push for effective internal intermediation in order to gain proportionate access to the benefits. This push is most likely in voluntary associations where members themselves can change internal statutes at will (in contrast to the national-level corporatist legislation that blocked change in Brazil).

Associations with a great deal of institutional capacity and abundant resources usually undertake a larger range of different activities; and, as suggested earlier, some of these are likely to contribute to sectoral performance or to joint production of public and private goods. However, the balance of productive and unproductive activities is more decisively influenced by external factors.

4. External enforcement and economic performance

The internal characteristics of associations alone do not explain the productive activities examined in Section 2. Institutional capacity is typically a neutral resource that association leaders can use for good or ill. The associations discussed in previous sections are generally subject to two external constraints that can increase the incentives to deploy institutional strength for productive activities: competitive markets and state discipline (see Table 3).

In many instances enforcement comes primarily from a sector’s or industry’s market vulnerability. The vulnerability of a sector or industry can of course increase firms’ appetite for rents, but it also makes associations more likely to use whatever rents they secure to enhance the competitiveness of member firms. Rogowski argued that in sectors characterized by ‘quality export dependence’ collective action was more likely to be efficiency oriented than driven by rent seeking. The strong correlation in the cases in our tables between export dependence and developmental activities by associations provides some initial empirical confirmation of Rogowski’s theoretical argument. Unfortunately, the
### Table 3. Enforcement mechanisms and productive business associations

<table>
<thead>
<tr>
<th>Associations</th>
<th>Competitive international markets</th>
<th>State discipline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federacafé (coffee, Colombia)</td>
<td>Yes</td>
<td>Medium</td>
</tr>
<tr>
<td>TGSD (clothing, Turkey)</td>
<td>Yes</td>
<td>Weak</td>
</tr>
<tr>
<td>CPC (encompassing, Chile)</td>
<td>No</td>
<td>Medium</td>
</tr>
<tr>
<td>CCE (encompassing, Mexico)</td>
<td>No</td>
<td>Strong</td>
</tr>
<tr>
<td>Araru Association of Furniture Makers (Brazil)</td>
<td>No</td>
<td>Strong</td>
</tr>
<tr>
<td>Thai Garment Manufacturers’ Association</td>
<td>Yes</td>
<td>Weak</td>
</tr>
<tr>
<td>Thai Rice Exporters’ Association</td>
<td>Yes</td>
<td>Medium</td>
</tr>
<tr>
<td>TPSEA/TFMA (shoes, Taiwan)</td>
<td>Yes</td>
<td>Strong</td>
</tr>
<tr>
<td>TEAMA (electronics, Taiwan)</td>
<td>Yes</td>
<td>Strong</td>
</tr>
<tr>
<td>SIMA (surgical instruments, Pakistan)</td>
<td>Yes</td>
<td>Medium</td>
</tr>
<tr>
<td>Sofofa (industrial, Chile)</td>
<td>Yes</td>
<td>Medium</td>
</tr>
<tr>
<td>KOFOTI (textiles, Korea)</td>
<td>Yes</td>
<td>Strong</td>
</tr>
</tbody>
</table>

*Note:* Our binary coding of markets is based on whether most member production is sold in international markets. Our coding of state discipline is based on the empirical assessment of the studies cited in previous sections. Generally, state discipline depends both on formal statutes or legislation and bureaucratic capacity to withstand rent-seeking.

... case materials do not offer complete information to trace the causal connection from members’ competitive vulnerability to pressures on associations to make productive use of rents.

Federacafé markets Colombian coffee in highly competitive international markets. Accounts of Federacafé praise its effective management of large rents (a government-delegated export tax) and a large and dispersed staff. Federacafé’s competent staff is often given part of the credit, but members and the government are carefully watching that Federacafé use its resources to enhance the competitiveness of Colombian coffee in international markets. Thai textile and garment exports declined sharply in the mid-1990s in the face of rising labor costs and competition from China. Thailand’s problems have been compounded by the increasingly stringent quality, price, and delivery requirements of global retailers. In response, the Thai Garment Manufacturers’ Association has become a key player in a government-backed program to encourage upgrading. The effort includes a new textile industry institute, meetings to solicit overseas buyers’ views on product requirements, low-cost loans for and tariff cuts on new machinery inputs: in other words, new rents that the association has used to help firms meet the challenges of competitive markets.

The importance of market vulnerability is especially evident in the cases of once protected sectors that were opened up to competition, a change that prompted associations to reorient their activities from rent seeking to upgrading. Prior to economic liberalization in the late 1980s, the association of Mexican footwear producers in Guadalajara not only diffused information about retailers’ behavior (noted earlier), it also helped to set and reinforce low quality standards. Tariff reforms, however, ‘replaced the quality standard set by the manufacturers’
coalition with one determined by world markets.’ The association’s initial response was to lobby (successfully) for a temporary tariff increase. But with recovery, it began to promote trade fairs and to establish a local branch of a technical institute with long experience in the footwear industry. The productive response of the Pakistani surgical instruments association, SIMA, to the imposition in the United States of FDA standards, noted above, also marked a real shift in associational behavior: a survey prior to this crisis reported that the association was ‘ill-informed with regards to technical and market information,’ and its most frequent activity was more distributive, involving lobbying the government, especially customs and tax officials.

A second major source of third-party enforcement is the state. Since the state often provides selective benefits, it has built-in leverage over associations (whose leaders depend on the continued flow of benefits). Thus, state enforcement usually takes the form of what Amsden calls reciprocity: states grant associations benefits in return for enhanced economic performance by their member firms and sectors. The mechanisms of state enforcement vary across countries. In Taiwan and Korea, staff and leaders of associations were often recruited directly from the state, bringing informal mechanisms of enforcement directly inside the association. When the United States imposed limits on Taiwanese shoe exports, the government supported the creation of a peak Taiwan Footwear Manufacturers’ Association (out of seven subsectoral associations), and backed the new association’s use of its discretion over the distribution of quotas to promote quality upgrading. In Colombia the government granted Federacafe the proceeds from an export tax on coffee, but, in the same legislation, enacted extensive reporting requirements, placed government officials on the Federacafe board, and made the concession of the export tax temporary (usually for ten-year periods) and hence subject to further government approval for extension.

In Brazil, the Aruaru furniture makers were able to set and enforce standards among member producers because the government signed contracts making the association, not the individual producer, responsible for replacing any defective product. In Mexico in the 1980s the government bargained with representatives from organized business and labor over the terms of tripartite stabilization. The state’s ability to play this role was a function of capacity not only to monitor firm compliance but also to threaten recalcitrant firms with tax audits and strikes (because labor unions were part of the ruling party). Similarly, government negotiators during NAFTA made clear to firms that this was not merely an opportunity to seek special protections based on purely political power.

Another pattern that emerges from Table 3 is that state enforcement alone is uncommon. In most instances market pressures gave states and member firms convergent incentives to make sure that associations used their resources productively. In other cases, outside enforcement came in part from other associations, as Olson theorized in his brief consideration of encompassing associations. When, as in Chile and Mexico, encompassing associations are the main interlocutors with government, then each member association of the encompassing association has incentives to monitor the behavior of other associations to ensure that no one gets preferential treatment. In the stabilization
pacts in Mexico, the government relied on business associations for help in monitoring and enforcing price agreements. And, in the negotiations over NAFTA, the Mexican government obliged representatives from different sectors to sit down and work out agreements among themselves over how to liberalize trade along an entire productive chain.

In sum, the productive associations canvassed in Section 2 generally enjoyed institutional strength, but nothing in their internal organization ensured that they would use this strength productively. Rather, external enforcement—usually in the form of competitive markets, disciplining states, rival associations, or all three—channeled institutional strength into more efficient activities.

5. Conclusion

In the early 1980s, Richard Freeman and James Medoff took a step back from a politically charged issue and asked, *What do Unions Do?* Among other impacts, both negative and positive, the authors concluded that unions enhanced employment contracts (beyond what employers could devise themselves) and thereby increased productivity; reduced inequality; and pushed social welfare legislation that benefited groups outside their membership. The intent and perspective parallel theirs in a number of respects: we too put associations in their broader economic and political context to ask what impact they had beyond their own sectors, and we looked for unintended consequences. Union negotiators do not set out to help managers write labor contracts that benefit firms over the long term, yet this was a major externality of union bargaining.

Similarly, under certain conditions business associations have contributed to economic development without intending anything more than defense of their members’ interests. In Section 2, we divided these contributions into two categories. One, ‘market-supporting’ activities, included the promotion of property rights, infrastructure, and cleaner bureaucracies. Associational pressures for these kinds of goods and services can lead to an expansion of public goods whose benefits for other sectors may be especially great where capitalism is incipient. The second category of contributions—labeled ‘market complementing’—included activities ranging from reducing inflation, to setting standards for agricultural exports, promoting training, and reconciling differences between upstream and downstream parts of value chains.

But if the empirical studies reviewed in Section 2 illustrate the potentially positive impacts of business associations, experience suggests that these institutions are schools for corruption and strategic advantage in the tradition of Olsonian distributive coalitions as often as they are schools for dynamic efficiency and collective welfare. A major task of this article has therefore been to identify the factors influencing associations in one direction or the other. In Section 3 we inferred from our empirical survey that more productive associations exhibited high member density, the ability to provide valuable resources to their members, and adequate internal mechanisms for mediating member interests. These attributes gave associations institutional capacity and helped members make collective decisions and abide by them rather than defect. The implications for Olson’s arguments on the growth-stifling effects of associations
are important: the problem for development may not be, as Olson argued, that associations are too strong, but rather that they are too weak. Of course, institutionally strong associations can still do a lot of damage except, as argued in Section 4, when subject to external discipline, either in the form of competitive markets, especially export markets, or direct government enforcement.

The grounded framework developed in this article is based on empirical correlations between internal associational attributes and external contexts, on the one hand, and largely productive associational activities, on the other. We have not demonstrated that non-productive associations lack these attributes. But the empirical correlations noted in this article constitute the bases of hypotheses to be tested systematically through a larger number of cases that vary with regard to both explanatory factors and outcomes. Further, our framework highlights some deficiencies in microeconomic approaches to institutions, in this instance theories of collective action. Through such approaches, derived largely from prior assumptions about the preferences and strategies of business, economists tend to assume away many of the most intriguing and consequential variations in association behavior. The empirical material reviewed in this article demonstrated that variation in associational behaviors and impacts cannot be deduced from either underlying sectoral considerations, such as the specificity of firm assets in any given sector, or from their organizational scope. As we noted, a variety of non-encompassing associations made contributions to economic performance either without extracting rents from the rest of society or by making (sometimes unintended) productive use of rents. In sum, a deductive Olsonian approach ignores the combination of internal attributes and external pressures that seem to account best for differences in associational behaviors and impacts.

Our research also confirmed some elements of Olson’s theory, most importantly the centrality of selective incentives in explaining associational density and institutional capacity. However, these findings should not be viewed merely as confirmation of standard Olsonian logic but rather as an opportunity to probe further into the effects of varying types and sources of selective benefits on member engagement in associational activities. In Olson’s original formulation, selective benefits, like discounted insurance for members, may have allowed higher dues but did not necessarily elicit more active participation by members. In fact, Olson’s byproduct theory is implicitly premised on member indifference: associations take revenues generated from the provision of selective benefits and use them to finance activities, like lobbying, that members might not have requested in the absence of selective incentives. Selective incentives, in this view, generate autonomy for the association staff and leaders.

In our survey, in contrast, two features of the most common selective benefits constrain association leaders and staff. The first, external, constraint derives from the source of selective benefits that most often began with the state delegation of benefits like the distribution of import and export quotas, earmarked revenues, and special access to government policy forums. In most cases the delegation of these functions to associations gave the government continuing leverage over the association since officials could revoke the delegation. The second, internal constraint derives from the greater member participation in association activities that result from the type of selective benefit. A selective benefit, like discounted

279
insurance, requires no additional participation by members who consume it. However, ensuring the fair distribution of export quotas, getting the most out of privileged access to, say, an industrial policy council and, developing and making use of training programs, standards, and technical support services all require active engagement by members in association activities. Under these circum-stances, leader and staff autonomy to pursue 'byproducts' may be far more constrained.\textsuperscript{109}

Lastly, our research has some implications for one of the broadest, ongoing debates in the New Institutional Economics: namely, what is an institution? One position in NIE, derived largely from the North, is that institutions are the rules of the game (from constitutions and formal legal systems to informal, cultural norms) under which organizations like firms (and, at least implicitly, associations), try to maximize their gains.\textsuperscript{110} Firms, associations, unions, and other organizations are, in this first view, not problematic: they merely seek to maximize the incomes of shareholders or members.\textsuperscript{111} The broader rules of the game do all the theoretical work in explaining big outcomes like growth, investment, and entrepreneurship. Another position, associated with Coase and Williamson, treats firms as institutions which also constrain the behavior of economic agents.\textsuperscript{112} Although Coase and Williamson devote almost no attention to associations, their definitions can accommodate associations as institutions to be investigated and explained.\textsuperscript{113} Our research wholly supports this second perspective that problematizes organizations.

Notes

1. Schneider thanks Christina van Wijnbergen and Tulia Falleti for research assistance and the Institute for Policy Research and the Center for International and Comparative Studies at Northwestern University for research support. We are grateful to Alasdair Bowie, Greg Felker, Stephan Haggard, Alex Hicks, Andrew MacIntyre, Aurelio Parissotto, Tom Remington, and Sylvia Saes for very useful comments on previous versions.

2. We define business associations as long-term organizations with formal statutes regulating membership and internal decisionmaking in which the members are individual business people, firms, or other associations (that are not necessarily linked by ownership (such as Japan’s keiretsu) or contractual ties).


7. Olson’s dim view of associations got dimmer with time. By 1997 he was arguing that an economic interest group such as a business association typically had ‘a very narrow, rather than encompassing interest. It therefore faces incentives that are much more detrimental to society than those facing the secure stationary bandit, often also worse than those that face the gang with a protection racket, and not much better for society than those facing the individual criminal’ (1997, p. 46). Even the NIE-inspired work by multilateral development agencies that stresses the beneficial role of public institutions—reflected in a 1998 World Bank publication (Burki and Perry, 1998) aptly titled \textit{Institutions Matter}—ignores the possibility that market economies ‘are compatible with a diverse range of institutional arrangements,’ and that such arrangements might include strong institutions for collective action by business (Rodrik, 2000, p. 25).

8. Knight’s strategic account of institutional origins does not preclude collective benefits as unintended
consequences of distributional conflict (1992, p. 20). For examples of unintended collective goods resulting from distributional objectives, see Broz’s discussion of joint production in the emergence of central banking (1999), Schamis’ discussion of economic reform (1999), and Pack and Westphal’s analysis of South Korean industry associations (1986, p. 99). On the dynamic aspect of associational strategies, see Schneiberg and Hollingsworth (1991), who found that associations that emerge in the pursuit of rents may subsequently develop organizational capacity to reduce transaction costs and promote efficiency.

9. Indeed, almost all of these studies focus on individual countries and in some instances individual associations. There are very few broad comparative studies and no attempts to devise a general framework for comparison. The few exceptions include Lucas (1997) and Moore and Hamalai (1993). An especially useful and recent work is Nadvi (1999b). Streeck and Schmitter (1999 [1981]) developed an extensive framework for analyzing associations in developed countries, but only parts of the framework travel to contemporary developing countries.

10. See Doner and Schneider (2000).

11. The empirical sections focus primarily on more developmental associations. Our conclusions would be strengthened by greater variation on the dependent variable. A systematic review of weak and non-productive as well as strong and productive associations would strengthen our ability to identify key internal and external factors. Owing to space and information constraints, we have emphasized successful associations. Where possible we note less successful cases.

12. As Haggard points out, ‘Olson’s analysis rests on the implicit counterfactual of an efficiently functioning market economy; onto this tabula rasa are written the policy distortions that result from interest group pressures. Yet the typical starting point for most new democracies is an economy characterized by numerous distortions … In such a setting, an interest group that seeks a larger share of the social pie for itself does not necessarily reduce efficiency … (1997, p. 125).


18. Laothamatas (1992). When governments do not simplify procedures, associations can also step in to broker and reduce the transaction costs of red tape. Some Mexican associations offered members what they called ‘single window’ service: members gave the association applications that required multiple trips to multiple agencies (i.e., windows) and the associations did the legwork (interview with Gabriela Espinosa, staff member of Canacintra, 15 November 1993).


22. Rodrik (1995), p. 80. As Lall notes, business enterprises do not grow in isolation; they rely on a complex network of linkages that help firms to ‘deal with each other, to gain access to expensive (“lumpy”) information and facilities, and to create information, skills and standards that all firms need but no individual firm is willing or able to generate on its own’ (1995, p. 263). Business associations in our survey have been active in all these areas.

23. Business associations in Europe are often largest and most influential in wage negotiations. This function is largely absent from our survey because unions have been weak and repressed, and employers’ associations (as opposed to other kinds of trade and producer associations) are consequently weak or nonexistent.


26. Although cases of participation by peak associations in macroeconomic coordination are fewer outside of Latin America, Moore (1998) describes the role of the KCCI in aiding macro coordination during Kuwait’s financial crisis in the 1980s. Doner and Laothamatas (1994, p. 433) describe how, during Thailand’s debt problems of the 1980s, the peak Federation of Thai Industries (FTI) operated within an arrangement known as the Joint Public—Private Consultative Committee to provide the government with information and support useful in Thailand’s successful stabilization effort.


33. The association further mobilized members to establish a textile technology college and coordinated the supply of raw materials during periods of shortages (Kuo, 1990, pp. 104–110).
43. Schneider (1997).
46. In their review of industrial clusters in developing countries, Nadvi and Schmitz note that numerous groups, including a local metallurgical association in Argentina and a national footwear association in Peru, organize international trade missions and provide members with information on market trends, product designs and input suppliers. The capacity for flexible response to market pressures has been an important outcome of these activities (1994, p. 26). In other cases the information exchange is even more intense. The Chinese Chamber of Commerce in Penang helped to promote SME linkages to and spinoffs from multinational semiconductor firms. The result has been a vibrant SME machine tool base in Penang that contrasts with the weakness of such firms in the rest of the country where local associations were not able to play such a role (Rasiaiah, 1998). See Kuo (1990, p. 64) on similar contributions by TEAMA (electronics, Taiwan). TEAMA also organized frequent survey trips to other markets and to regional competitors in order ‘to identify investment opportunities and to keep Taiwanese producers on their toes’ (Kuo, 1990, p. 165). The association of Colombian bankers created an information exchange on check clearing practices and a list of unreliable customers (Urrutia, 1983).
56. Author interviews. Associations of Mexican footwear producers joined with their main suppliers to agree to a common set of measurement standards, the lack of which had plagued the industry for decades (Rabellotti, 1999, p. 1576). Quality standards, and their uniform enforcement across an entire sector, are crucial to exporters. However, the same association functions can arise in much smaller, less sophisticated domestic markets. For example, the Aruuru Association of Furniture Makers set product standards and guaranteed the warranties of member producers (Tendler, 1997, p. 118). The association was essential to the success of the program designed to promote government purchases from small producers.
65. Schmitter argues that associations have strategic capacity if they are ‘sufficiently resourceful and autonomous to be able to define and sustain a course of action over the long run that is neither linked exclusively to the immediate preferences of their members nor dependent on the policies of parties and agencies external to their domain’ (1992, pp. 438–439). Schmitter concentrates more on the ‘relative autonomy’ of the leadership of capitalist associations, while our discussion focuses more on the institutional capacity of associations. Sabel’s (1994) notion of ‘developmental association’ also focuses on the ability of associations to alter member behavior: ‘a central role of the developmental associations … is to help create the interests and identity of its members’ (p. 149). However, Sabel’s definition deals only with preferences and not induced compliance, which in our view covers much of the interesting work done by associations.

66. Institutional capacity is less essential for market-supporting activities. Weaker associations can lobby states for stronger property rights, infrastructure, and transparency. Our focus for the remainder of the paper is on associations that perform market-complementing functions.

67. This focus on internal characteristics responds to Nadvi’s recent (1999b, p. 35) call for a ‘better understanding of the functioning and organizational structure of business associations.’

68. In the context of European corporatism, Schmitter argues that ‘small numbers, high membership density, and broadly encompassing domains of representation are jointly conducive to increasing’ strategic capacity (1994, p. 302). Our definition differs because we are interested in non-encompassing associations as well and focus more on capacity than autonomy. Small numbers, though, are facilitating but not necessary factors for effective internal intermediation.

69. We focus on output rather than numbers of members because for our purposes it is more important that associations include most large firms rather than most small firms. An association with high density in terms of proportion of potential members might not include a substantial proportion of output if some large firms abstained. In this case, which is empirically uncommon, the association would have fewer resources and hence fewer benefits and moreover would not be perceived by state actors as an effective representative of the sector.


72. Manusavee (2000); author interviews, Bangkok (July 1999).

73. Cathie Jo Martin argues that this tendency to resort to a ‘least-common-denominator politics’ is characteristic of U.S. business groups due to their fragmentation and competition for members (1997, p. 399). In Latin America, Argentine associations stand out for their institutional weakness, due in large measure to the existence of competing associations in numerous sectors (see Acuña, 1998).

74. Olson (1965), pp. 133–150.

75. Kuo (1990), p. 185.


77. Tendler (1997).


79. For an analysis of the role of Chilean and Mexican associations in trade negotiations in the broader Latin American context, see Schneider (2000).


81. Institutionalized access gives members stronger incentives to invest more time and resources on the association. Participation in policy debates or trade negotiations requires technical preparation by associations, and hence more investment in professional staff and data collection. Moreover, association presidents or their delegates actually go to meetings with the government, so members have stronger incentives to participate in association meetings and struggles over electing the associations leaders.

82. In Asia, especially in the Chinese diaspora in Southeast Asia, ethnic business communities are small, homogeneous, and a minority group, all of which provide centripetal incentives for collective action and strengthen business associations (Doner and Ramsay, 1997; Lim and Gosling, 1983; MacIntyre, 1991). By contrast, in Latin America, immigrant businessmen come from a variety of European, Asian, and Middle Eastern societies, and immigrant status seems to have dampened activity in business associations (see, for example, Derossi, 1971, p. 191).


85. Conversely, of course, strict proportional representation can sometimes alienate smaller firms and weaken associations. The TCSA (cotton, Taiwan) was weakened by the estrangement of small producers during
the 1970s and 1980s (Kuo, 1990, p. 110). Problems of small-firm estrangement also plagued the Pakistani surgical producers (Nadvi, 1999a). Two positive cases illustrate options for resolving this tension of effective representation. Colombia’s Federacafé has a complex structure of representation that ensures some representation for all growers, including small farmers, but informally puts the concerns of the large growers at the top of the agenda. Growers in each coffee-growing municipality elect delegates to the district committee in proportion to its output. However, those elected to the national congress to represent the districts are usually large growers or processors (Urrutia, 1983). And in the case of Taiwan’s TEAMAA, the association maintained small-firm allegiance by combining a consistent voting rights differential with a lower dues for smaller members in both absolute and proportional terms (Kuo, 1995). See also Moore’s (1998) account of a successful approach to proportional representation of an association of large, multisectoral firms. See also Moore and Hamalai (1993).

86. See Thacker (2000).

87. The importance of flexibility is highlighted by cases such as industry associations in Mexico (Concamin), Brazil (FIESP), and Argentina (UIA) that have been unable for decades to change representation and membership and hence have not kept up with the rapidly evolving composition of the sectors these associations claim to represent. See Schneider (2000).


89. Schneider (1997).

90. See the fascinating case of organizational strength among U.S. truckers resulting from the constant deliberation required to set rates among numerous small firms (Derthick and Quirk, 1985, p. 166).

91. Kuo (1995). Finally, Korea’s KOFOTI illustrates that the process of mutual monitoring often required when members commit themselves to capacity reduction and/or certain behaviors in exchange for selective incentives can combine the benefits of transparency and deliberation (Moskowitz, 1984).


95. Somponrn (1998); Interview, Thai Garment Manufacturers’ Association, 30 July 1999. The strength and contributions of the Thai Rice Exporters’ Association were in large part a result of the need to maintain product norms and reputations in a volatile and demanding global market (Doner and Ramsay, 1997, p. 257).


99. Sabel (1994), for example, argues that state enforcement was absolutely crucial to the positive roles of developmental associations, especially in Japan from the late nineteenth century on. On the Japanese cotton spinning industry, see Saxonhouse (1974).

100. Amsden (1989). In cases of other functions pursued by associations such as setting standards, collecting and disseminating information, and other matters internal to sectoral governance, the potential for mischief is much lower because rents are not created or distributed. Here the government’s role more often involves information provision, encouragement of positive externalities, and reconciliation of collective action problems among different sectors of the value chain.


103. In their comparison of Peru and Colombia, Thorp and Durand (1997) argue that the greater dependence of Colombia on a single export, coffee, makes government officials keener to ensure that rents are deployed productively. Conversely, prior to the late 1990s, the failure of Thai textile associations to channel quota management fees into more productive areas such as training and equipment upgrading (in contrast to Taiwanese associations), can be attributed to the politicization and weakness of the supervising Thai Ministry of Commerce (Interview, Thai National Institute of Development Administration, 5 July 1996).

104. Explaining why state actors would want to push associations to make productive use of their resources is beyond the scope of this essay. At a minimum such an analysis would likely consider political factors like the coalitional basis of the government, institutional features of the bureaucracy, and strategic or state factors such as the dependence of the state on certain exports for government revenues or essential foreign exchange.


Further elaboration might also explore the relationship between specific product characteristics (e.g. short product cycles vs. more mass, standardized goods) or numbers of producers on the one hand, and capacity for specific types of activities (e.g. training vs. standards vs. lobbying for protection).


Further, as noted earlier, certain benefits, such as access to training or technical support services, despite their selective, ‘club good’ nature, can have positive spillovers for the rest of the industry or the economy.


Through his emphasis on scope and selective incentives, Olson’s earlier work did take the organizational characteristics of groups more seriously. But, as we have noted, his latter writings tended to assume away any variability in group performance.


NIE analysis focuses largely on overcoming market imperfections and provision of public goods at the macro level, such as regulation, clear property rights, education and judicial services. There is little attention to market failures at the meso or micro levels where one might expect associations to be most active. For a review of these issues see Doner and Schneider (2000).

References


Richard F. Doner & Ben Ross Schneider


286


