

# Introduction

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The papers in the present collection are based on lectures made to a Nordic researcher training course which was held at Krogerup Højskole, Denmark from May 29 to June 2, 1995. The course was an integrated component of the PhD programme on political and cultural institutions in development, organised by International Development Studies, Roskilde, in co-operation with network partners in Denmark and the other Nordic countries. The theme for the course was "Institutional frameworks for industrial development: Asian experiences", and the following description of the relation between institutions and industrial development was circulated to lecturers and participants in advance:

'Different industrial strategies and diverse development trajectories must be seen partly as reflections of the different institutional configurations of societal and political systems. The explanatory framework and the methodologies in institutional studies differ substantially. Broadly speaking we can distinguish between a contractual or rational choice approach and a historical-structural approach. The former takes its point of departure in methodological individualism and explains collective outcomes by reference to rational, calculating and utility maximising individuals. This approach applies a deductive-axiomatic methodology in order to develop general theories on institutional choice and evolution. In contrast, the historical-structural approach is inclined to follow an inductive-historical procedure although with a theory-generating perspective. It has the collective as its unit of analysis, puts less emphasis on formal theory building, considers theory as more place and time specific and is satisfied with more limited generalisations.

The term *institution* is used here in a broad sense, encompassing both institutions as rules-of-game and institutional patterns or arrangements. Thus, institutions include both formal rules and informal norms, customs, conventions and standard operating practices which structure the relationships between individuals

and social groups, as well as the broader institutional arrangements as they appear at different societal levels - international, national, company and household. Institutions are then conceived of as socially constructed, routine-produced and behaviour regulating frameworks. Formal organisations are important carriers of such institutions as are regimes with codified rules and sanctions, but institutionalisation can also take more invisible forms. Institutions are often described only as constraints which shape human action, but they are also vehicles for activity within these constraints - they simultaneously control and empower. In fact, institutions condition and are necessary and constitutive parts of a variety of social activities, including activities pertaining to industrial development.

Industrialisation never proceeds independently of the concrete institutional and historical context. That is true for Asian industrialisation as it was true for industrial development experiences in the West. An institutional perspective on late industrialisation in Asia is therefore not oriented towards or measured against any 'normal' pattern of industrial accumulation but is concerned with the way in which particular industrial pathways or trajectories are embedded in the local socio-cultural and socio-political context. Nevertheless, by means of comparative analysis we hope to come up with generalisations on the relationship between selected institutions and industrial development and be able to specify the conditions under which these generalisations are valid.

As defined above institutions do not act and have no power of their own. They cannot be looked upon as driving forces behind industrial development. Institutional analyses therefore cannot replace a detailed analysis of the relevant actors (firms, interest organisations, classes and other social forces) their interests and power positions. Nevertheless, institutions are of great importance as intermediate factors, as pattern-creating mediating factors between the international or national structural dynamics and the particular industrial strategies, policies and practices. Institutions affect (but do not determine) policy choices and they certainly affect implementation and impact of *national industrial strategies*. A particularly important aspect here is their effect on the strategic capacity of the state to develop and implement macro-economic policies, including trade policies. Another aspect is state capacity to implement industrial policies to promote particular production and investment decisions among a large number of producers. Institutions also affect the *pattern of*

*industrial development*. Pattern here refers to varieties in the configuration of leading industries, leading agents (state vs. private, local vs. foreign), leading orientation (e.g. export oriented vs. domestic market oriented) and leading pattern of distribution. Finally, existing institutions shape and constrain *firm strategies*.

The chosen *institutional perspective* is concerned with the question: What kind of institutions are conducive to a particular path of industrialisation? We are keen to know more about the origin of particular institutions, the reasons for their reproduction, their actual mode of functioning as well as their economic impact. Further, we will consider the ways in which institutions are changed both in practice and in the more formal-legal sense.

The suggested researcher course will be concerned with two typical situations in relations to industrial development.

First, the *minimum requirements for industrial development*. One aspect here is the capacity of the state for establishing a legal framework, its ability to provide certain public goods, etc. These capacities will be restricted if the state is penetrated by rent-seeking forces and/or if the state elite itself follows a predatory style. Another aspect is certain civil society norms which ensure general trust in market relations by embedding the market into norms of reciprocity. When such norms do not prevail and economic activity and exchange of goods, in particular, are governed by tradition and social networks, the markets are likely to perform very differently from what is envisaged in mainstream economic theory.

Second, a situation where these minimum requirements are in place will be dealt with. Here a certain level of industrial accumulation has been achieved and a driving entrepreneurial class has been formed. The focus then is on *institutional framework(s) for dynamic industrial transformation and competitive industrialisation*, that is on particular constellations or clusters of institutions which facilitate efficient and effective management of economic development.

It might be useful to look at society as constituted by four major components, each consisting of several elements: *state*, *market*, *firm* and *civil society*. These components are interrelated although in asymmetrical ways. From one perspective we can consider each of these societal spheres as arenas of diverse actors and interests. From another perspective each of them can be looked upon as *sets of institutions* which are governed by their own principles (governance structures) which in turn affect the

behaviour of the various actors (individual, classes and organisations) involved.

In studies of the institutional framework for industrial development we leave the abstract notion of state, market, firm, and civil society. Moreover, instead of taking institutions for granted (assuming their optimality and efficiency) an institutional perspective requires that we consider each of the institutions and their functioning logic and explore how particular processes of industrial development are embedded in the particular character of the state, the basic features of the market, the particular character of civil society and the prevailing internal organisation and procedures of the firms.

Inspired by among others Karl Polanyi's notion of trade, money and markets as embedded in wider social, religious and political values and institutions in pre-industrial societies, a society-centred institutionalism has emerged in the interface between economics and sociology. This institutionalism study either how modern markets are embedded in trust and 'general morality' or how economic organisations and processes are mediated by (embedded in) concrete personal relations and networks of such relations.

The notion of embeddedness of economic processes in social processes open a vast area of research on institutional frameworks for industrial development. In an Asian context, obligations of kinship and friendship structure the relationship of Chinese firms and the networks between these firms (including overseas Chinese activities), but personal networks have also contributed to the rise of non-Chinese entrepreneurial groups. Industrial economist and geographers have also identified local industrial districts in which sectoral agglomerations of small and medium sized firm have developed a collective efficiency and flexibility. The role of local institutional conditions and in particular local networking constitute a promising avenue for research into local industrial regions in Asia.

It is not only a society-centred view on institutional frameworks for industrial development which opens up for promising avenues of investigation. The same applies to some of the state-centred approaches.

An important area of research from this perspective focus upon state building and the extent to which the state is able to deliver the very institutional infrastructure necessary for the functioning of the market and for the continued viability and reproduction of capitalist industrial relations (securing property

rights, guaranteeing contracts, providing physical infrastructure, regulating external relations, etc.). Going beyond these minimal tasks in the second type of situation described above we may look at strategic industrial policies and governing-the-market activities in support of dynamic capitalist transformation and competitive industrial development.

At the core of the researcher course is a topic like the institutional aspects of and the interface between industrial policy processes and industrial development processes. The following overall questions may guide the investigations in this area: To what extent is the processes of industrial development results of public policies and how are these policies mediated by institutional factors? To what extent is successful industrial transformation a result of "getting institutional factors right" in the industrial production system, and how are the different industrial pathways linked to diverse clusters of institutions around manufacturing and distributions processes?

An institutional approach would suggest that we look at how the main decision making institutions affect strategy choice. It is, however, obvious that strategy formulation cannot and should not be explained without reference to international economic-political and societal constraints and pressures. Who are the main societal actors influencing industrial policy making (classes/sectoral groups, communal groups, transnational institutions, companies and segments of the state bureaucracy)? What is their role in determining national industrial choices?

At the stage of implementation and the study of policy impact we may ask: How are the chosen policies implemented and how do they impact upon industrial development? Strong societal constraints is one factor which should be looked at in the case of non-implementation but the institutional basis for policy (non-) implementation are of utmost importance, too. An institutional perspective on policy implementation capabilities enquires into such issues as the level of bureaucratic autonomy, the character of public-private collaboration, the level of administrative and technical capacity, the degree of bureaucratic coherence, and the availability or non-availability of relevant policy instruments.

Industrial development processes in the modern organised sector are characterised by a complicated division of labour inside and among firms. A crucial question, therefore, is how the separate and disparate activities of production and distribution are integrated and co-ordinated. Industrial organisation theory has been preoccupied with the virtues of markets and firms,

respectively, but increasingly the associated approach is concerned with the complex organisational forms which falls between markets and hierarchies. As highlighted earlier, the firm constitute one core institution of co-ordination which must be looked at. Simultaneously, the market must be looked upon not just as a structure but as a complicated exchange mechanism which rely on both formal and informal institutions for its proper working. Theories of organisational governance have been particularly concerned with institutional design - i.e. with the most efficient type of governance structure in relation to production and technology systems. They appear to be useful in explaining why similar sectors in different countries have similar governance structures and why different sectors in the same country have different industrial strategies and institutions.

The institutional aspect of integration and co-ordination become even more complicated if we look beyond the firm and the market. Here we find a broad and complex terrain of inter-firm alliances and networks: alliances for manufacturing, marketing, or research; customer-supplier contracts taking the form of relative egalitarian-horizontal co-operation or vertical, hierarchical sub-contracting systems of an industrial or commercial kind; franchise networks; networks of ownership, investment and control (parent company-subsidary relations, joint ventures or looser owner-investor networks), etc.. All that belong to the fields of investigation when we look at institutional frameworks for industrial development.

The main objectives of this researcher course may now be summarised in this way: a) to acquaint the participants with some of the major approaches to studying and explaining industrial development in Asian high-performing countries and assess their relevance and applicability in other parts of the Third World; b) to present and discuss supplementary approaches which focus upon institutional aspects and assess their contributions to the understanding of diverse industrial development patterns; c) to ensure a basic understanding of epistemological positions/assumptions and methodological guidelines embodied in the different approaches to empirical analysis and theory construction; d) to discuss implications of empirical studies for the various theoretical frameworks and the hypotheses elaborated based on these.'

The organisers of the course were Laurids Lauridsen and John D. Martinussen, International Development Studies, Roskilde Uni-

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versity, and Christer Gunnarson, Department of Economic History, University of Lund. Associated organisers were Karin Holstius, Turku School of Economics and Helge Hveem, Center for Development and Environment, University of Oslo.

A total of 20 participants attended the course, the majority being PhD students from the Nordic countries. They were taught by an international faculty of 10, including scholars from United Kingdom, Australia and India. The contribution by professor Nirmala Banerjee, who attended the course as part of an ongoing ENRECA cooperation scheme between Centre for Studies in Social Sciences, Calcutta, was very valuable as was the presence of Opyene James, from the other ENRECA partner, Centre for Basic Research, Kampala.

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