PART I:

THEORETICAL ISSUES

Chapter 2

Globalisation and institutions

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During the 1980s students of developments increasingly emphasised systematic comparative studies of national diversity in development performances. This was a reaction against the generalising tendencies of grand development theories which was reinforced by a new interest in institutional variation in social sciences.
In the 1990s globalisation studies that emphasised global, rather than local conditions of economic performance became popular. Some argued that globalisation forced an adjustment of local institutions to 'international' (or 'Anglo-American') standards, while failure to adjust was punished by economic marginalisation. They were countered by globalisation sceptic who stressed national institutional conditions and continuous diversity.
In this chapter we try to integrate these two agendas. Our aim is to develop a conceptual and analytic framework to study the combined impact of globalisation and local institutions on economic transformation in developing countries and emerging economies. The first section presents a number of processes summarised under the heading of globalisation and identify the challenges they present to industrial and agricultural development in developing countries. Section two introduces a conceptual framework for the study of institutions, mostly at the national level, and their impact on processes of economic transformation.

1. Globalisation

A number of definitions of globalisation have been developed within social theory. David Held and associates have attempted to synthesize these definitions into a comprehensive one:

[G]lobalization can be thought of as a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions – assessed in terms of their extensity, intensity, velocity and impact – generating transcontinental or interregional flows and networks of activity, interaction and the exercise of power (Held et al. 1999: 16).

This definition encompasses a variety of economic, political, social and cultural processes, many of which are quite unrelated to one another. We have singled out three types of 'global' (i.e. transcontinental or interregional) processes for discussion. We discuss two main forms of economic globalisation, primarily driven by private actors, in the form of 'global flows' (mainly financial flows) and 'global webs' (of production and services). In addition comes political globalisation, primarily driven by public actors (states, international organisations) in the form of 'global rulemaking' which may include various forms of economic liberalisation, but also other forms of rulemaking, such as standardisation.

a) Global financial flows

Under this heading we discuss foreign loans (long-term and short-term); foreign portfolio investment (minority investment in various assets such as stocks and bonds); and foreign currency trading.[1] Velocity is a main issue in relation to these flows. Financial flows in and out of national economies may be highly unbalanced, resulting in boom and bust patterns within countries, sectors, enterprises, asset markets and currencies.

The general instability of financial markets becomes all the more serious in relation to cross-border financial flows. Absence of trust rooted in local culture between debtors and creditors, differing regulatory frameworks and economic relations that involve several currencies are then likely to enhance instability. Financial volatility has been a particularly pertinent issue in 'emerging economies' as indicated by a number of major financial crises since the mid-1990s, including Mexico 1994-5, East Asia 1997-8, Russia and Brazil 1998, Turkey and Argentina 2001-.

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[1] Foreign direct investment may also be viewed as a kind of flow. Firstly, it may occur in the form of so-called 'brown field investment' through obtaining a controlling position in already existing enterprises. These brown field investments may at times be hard to separate from minority portfolio investment if the ownership/control position is not permanent. The aim of obtaining corporate control is then to boost the value of the corporation's assets and to divest oneself of these assets in relatively short time. Secondly, large net capital inflows into a country, regardless of their form (direct investment, portfolio investment, loans) will have an inflationary impact on the economy as foreign currencies are converted into the local currency.

Currency movements may lead to changes of exchange rates that are weakening the national economy, or central banks operations to stabilise the exchange rate may have unfortunate secondary impacts, such as high national interest rates. Foreign capital inflows in the form of foreign loans and portfolio investment may supply developing countries with useful investment funds in economic activities not easily funded by domestic investment funds. Yet large-scale withdrawal of these funds may provoke a foreign debt crisis and plummeting asset values with serious repercussions to the national economy. There is also interplay between financial markets. For instance, a depreciating currency may induce investors to withdraw capital from a country. This interplay is much enhanced by trade in second-order financial instruments, such as derivatives and futures, option contracts.

Governments and financial institutions in developing countries and emerging economies then face the task of containing the volatility associated with 'economic flows'. Governments may prefer to keep an open capital account in order to give domestic companies access to cheap international capital, or to maintain investor confidence, but the costs can be high. One major issue is whether and to what extent the cross-border capital flows should be contained by capital control. There is a debate about the desirability and problems of enforcement of capital control which becomes all the more complicated as capital control may assume many forms: control on inbound or outbound financial flows, quantitative controls through absolute restrictions on inflows or outflows, or taxation of certain types of inflows/outflows.

National governments may also try to improve the organisation and regulatory procedures of financial institutions. This is especially urgent when there is a strong expansion of domestic and foreign credit and finance. Governments then will have to address the issue of setting up and enforcing regulatory standards for the domestic financial system and choosing some policy mix of openness/closure vis-à-vis the international financial order.

b) Global economic webs

'Global economic webs' refer to transnational organisation of production and services through major companies. They may be viewed as a hierarchic 'global value chains' of production and services and analysed in terms of the 'value added' in the different parts of the chain. In most accounts it is emphasised that large proportions of the value added are concentrated in the upper end of these value chains where most hi-tech production, R&D, design and marketing take place, while the lower ends are highly competitive with substitutable low-skilled forms of production.

The degree of centralisation of these webs will vary. In addition to direct hierarchic control based on mother company majority ownership in local affiliates, transnational corporate control may also be based on subcontractor relations, control of technology transfers, marketing, etc. These corporate relations and their variations will be discussed more thoroughly in chapter 4.

Global webs may play an important role in national development strategies through transfer of competence, technology, global marketing networks and capital. Conversely, failure to link up with these networks may constrain national development strategies. A permanent position within the highly competitive low-value added end of global webs may also be a 'development trap' that provides some short-term benefit, while restricting wage growth as well as spin-offs to domestic enterprises in the long run.

Global webs are not confined to manufacturing and services. In the post-World War 2 capitalism the production chains of food have become increasingly complicated as a number of tasks in the food production process have been transferred from the household to industry in the developed world and among high income groups in developing countries. In result agriculture has become a supplier of organic raw materials for global food-industrial complexes (Friedman 1991).

The global economic webs pose quite different challenges from those of global flows. Developing countries will have to decide on the blend of national and foreign economic actors in their development strategy. Governments will have to decide on strategies of openness/closure vis-à-vis foreign investors and domestic corporations will have to consider alliances with TNCs versus maintaining local control. In both cases the resources from foreign investors with regard to know-how, capital and marketing are weighed against possible problems of dependency.

However, positioning in relation to global transnational webs goes much further than the issue of local or foreign ownership. Organisation through transnational companies is frequently based on subcontracting networks, rather than direct ownership. Nationally owned companies and national agricultural producers will frequently rely on these subcontractor relationships to move into export markets as they lack the required capabilities of marketing, technology and design. Especially, these 'webs' may be crucial to exports for industrialised countries. Local producers and governments then face the challenge of developing necessary capabilities to enter global webs of importance for exports and technological development through enabling environments that promote the absorption of new technology, incremental improvement of products and production processes, domestic capabilities of research and development, and possibly also product design, branding and foreign marketing. Once within the global chains, the challenge is to develop competencies to climb into higher-value added activities with denser national inter-enterprise linkages.

c) Global regulation

Developing countries are heavily exposed to international regulations. International political pressure for liberalisation of cross-border flows of trade, foreign investment and finance is the most discussed form of 'political globalisation' in developing countries, but there are also forms of regulation that do not imply liberalisation in a direct sense, for instance international product standardisation and international property rights. These rules may reduce the transaction costs associated with international trade, investment and finance. However, they may also by default or by design protect companies and markets from competition.

Our discussion focuses on the global governance organisations the World Trade Organisation (WTO), the International Monetary Fund (IMF) and the World Bank. We distinguish between international regulation through conditionality demands and through rulemaking. The structural adjustments demands by IMF and the World Bank are the most important forms of conditionality discussed in the present discussion. Regulation through rulemaking organisations sets more or less binding rules and standards for global flows and investment. The most important international organisation engaged in the making and implementation of rules is the WTO. We also discuss product standardisation by a number of other organisations as a form of rulemaking.

Regulation through conditionalities – Conditionality demands are typically invoked by multilateral and bilateral donors when countries apply for economic assistance. Conditionalities have been widespread after the onset of the developing country debt crisis in the 1980s. Developing countries that are undergoing structural adjustment programmes have come under pressure from the International Monetary Fund (IMF), the World Bank and the donor community to balance their public budget, enforce tight monetary policies, liberalise external trade and finance and reduce government involvement in the economy through state-owned companies as well as through economic intervention. During the Asian financial crisis the IMF did also demand corporate reform and strengthened regulation of financial institutions. The pressure by the donors is accompanied by great retaliatory power in case of non-compliance, such as the withholding of structural adjustment loans with further impacts in terms of access to international financial markets and ability to attract foreign investors.

The authority of these organisations are strongly felt in heavily indebted poor countries, but also the OECD country South Korea had was facing this sort of pressure, mainly from the IMF and the United States, during its financial crisis in 1997-98. However, for South Korea and other countries that are not permanently dependent on economic aid, this kind of pressure is mostly felt during periods of emergency and crisis. Developing countries facing pressure from conditionality organisations must then balance their economic policy objectives against various forms of donor pressure.

Regulation through rulemaking – In contrast to conditionality demands, rules and standards in principle apply generally irrespective of a country's economic position or need to bargain for support. In the international system the WTO has emerged with considerable authority to organise international negotiations over trading rules and to enforce these rules.

The WTO's authority has been enhanced through the Dispute Settlement Mechanisms (DSM) as well as its review of country performance through the Policy Review Mechanism (PRM). The PRM promotes interlocking and cross-conditionality between the global governance institutions, since it is also used by the IMF and the World Bank in their evaluation of country performances. While the GATT framework focused on industrial merchandise trade, the WTO framework also includes agricultural goods, services (General Agreement on Trade in Services, GATS), Trade-related Investment Measures (TRIMs) and Trade-related Intellectual Property Rights (TRIPs).

The multinational trading regime embodied in the WTO framework can be viewed as an attempt to create a level playing field, which in principle should enable developing countries to break entrenched industrial-country protectionism. However, powerful industrialized country interests are tilting the playing field in directions less favourable to developing countries as seen in the delay in liberalisation of textiles and agriculture and the ability of major industrialised countries to introduce TRIPs, TRIMs and services in the WTO agenda despite strong developing country reservations. Also, bilateralism and managed trade, rather than multilateral rules has to a large extent continued to direct industrial country trade relations with developing countries. Frequently developing countries have to adjust both to multilateral rules and to the unilateral rules and *ad hoc* decisions of powerful trading partners.

Another form of international rulemaking which we will focus on is product standardisation, especially standards of health and sanitation and environmental standards.[2] In these cases not only international organisations and national governments, but also consumer associations, NGOs and public media in importer countries may play a role in developing the standards.

Developing countries then have to relate to a variety of global rules that prescribe economic opening to trade and investment, restrict their ability to copy intellectual property and force them to conform with detailed standardization procedures. Compliance with demands for merchandise imports as well as service imports, TRIPs and TRIMs may go against national industrial policy strategies and attempts to reduce financial flow volatility. However, internationally agreed codes are not unequivocal. They are highly complex legal texts with considerable leeway for interpretation. The capability to develop and negotiate legal interpretations in accordance with 'national interests' is then of great importance. As some are more equal than others before the rule of law the capability to accommodate bilateral trade pressure from important trading partners in areas deemed less important without compromising overall economic strategies is also of great importance.

Finally, it should be noted that while the present discussion of international relations has been organised according to a distinction between 'external' pressures and inducements and 'internal' responses, political transnationalisation may take place in a way which muddle these distinctions. For instance, the adjustment of trade policies or the

[2] There have been attempts to introduce Trade-related Environemental Measures, TREMs within the WTO framework, but so far with limited success.

implementation of conditionalities may take place through transnational political alliances that include 'domestic' political and economic agents as well as transnational companies, Western governments and global governance organisations.

d) Summary

The previous discussion has shown that differing processes of globalisation imply differing challenges, constraints and opportunities for states and firms in developing countries and emerging economies. Thus, the three forms of globalisation identified here pose various problems and dilemmas of getting access to international resources without compromising national development imperatives.

The main adjustment task in relation to global financial flows would be to develop a local financial system that ensures needed cheap finance and credits for productive investment, possibly through the international credit market, without compromising financial stability. As for adjustment to global webs the main challenge is to promote a selective inclusion into hierarchic international division of labour controlled by transnational corporations (TNCs) in order to get access to their resources in a way that promotes broad spin-offs to the local economy and upgrading into high-value added activities. With regard to global regulations, the main adjustment task is to take advantage of market access and other resources provided by adherence to international political regulations in a way that does not jeopardise financial stability and upgrading into higher value added activities.

2. Institutions

We shall now try to develop a theoretical framework to investigate how national institutions impact adjustment to globalisation.

a) Institutions and institutional analysis

Institutions may be defined as 'systematic patterns of shared expectations, taken-for-granted assumptions, accepted norms and routines of interaction that have robust effects on shaping the motivations and behaviour of sets of interconnected social actors' (Chang & Evans 2000). Institutions are found at global, regional, national and subnational levels. The present discussion will focus on the national level. Formal organisations are important carriers of institutions, as are regimes with codified rules and sanction but institutions can also be carried by informal social arrangements.

Institutions are constraining as they limit the options of choice by defining needs, preferences and rules of thumb of actors. Simultaneously institutions are enabling, as they promote coordination of action. For instance, a rule of right-hand driving facilitates faster driving. Institutions are reducing uncertainty by prescribing certain lines of action. In a more fundamental sense, institutions may be seen as constitutive of actors' world views as institutional norms and cognitive maps of the world are internalised by the actors. Institutions do not only provide the rules of the game, but shape the very perception of the game itself.

Institutions are considered to be highly resilient to change. As stressed in arguments on institutional path dependency, particular forms of institutions and organisations may become dominant due to relatively contingent processes, yet once they have become established they tend to be reproduced.[3] Long periods of reproduction of institutions and organisations are occasionally interrupted by shocks which result in the creation of new institutions. From the point of the view of the present discussion, contradictions in the national economic, political and institutional order that trigger institutional changes should be distinguished from 'external shocks'. This is a major issue in the globalisation debate, as globalisation sceptics frequently argue that changes attributed to 'globalisation' in reality are outcomes of domestic processes (e.g. Weiss 1999; 2000).

b) Institutional arrangements

Hollingsworth (2000: 610) categorises institutional arrangements in terms of six coordination mechanisms: markets, communities, networks, associations, private hierarchies and the state. Each of these coordination mechanisms have specific logics in terms of membership, possibilities of entry and exit, degrees of formality and hierarchy and underlying arrangements to ensure regulation and compliance.

Institutional arrangements rarely occur in pure forms. Economic institutionalists emphasise that markets are embedded in non-market

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[3] Mahoney (2000: 517) draws on sociological theory to identify four mechanisms of the reproduction of institutions: utilitarian explanations; power-centred explanations; functionalist explanations and explanations in terms of legitimacy.

institutional arrangements that provide information, normative guidance and taken-for-granted habits for market actors. Markets should therefore be described in terms of shifting forms of articulation with communities, associations, states, private hierarchies and networks. Similarly, an institutionalist focus would reject 'statist' insistence on causal priority to the state as the main non-market institutional framework.

c) Institutional sectors

Hollingsworth further identifies institutional sectors, defined as 'all organisations in a society which supply a given service or product, along with their associated focal organisations' (Hollingsworth 2000: 614). 'Society' is a loose term which can be applied to several levels of analysis. Our discussion will mainly focus on the national level. Four institutional sectors are singled out for discussion: Corporate systems; systems of education, training and research; financial systems; and agricultural systems.

Corporate systems – Our notion of 'corporate system' comes close to Richard Whitley's 'business system', defined as 'particular arrangements of hierarchy–market relations which become institutionalized and relatively successful in particular contexts' (Whitley 1992: 10). Unlike Whitley we do however leave out relations between firms and financial institutions as well as labour training from 'corporate systems'.

A main focus in our discussion is on *relations among firms*. Relations may be atomistic and competitive as corporations compete with one another, shift suppliers and buy and sell equities from one another on short notice. Also labour markets may be atomistic and highly mobile with fast hiring and firing and little attachment to particular companies. Alternatively, these inter-firm relations may be based on more durable network relations: Companies develop business groups where formally autonomous companies within the group support one another, while competing with other business groups, supplier relations are based on durable subcontractor networks of great durability, the labour market is confined to the business group and the business group is consolidated through cross-ownership of equities. A third variety is the 'internalisation' of inter-firm relations through joint ownership and organisation within bureaucratised private hierarchies and bureaucratised career hierarchies of labour.

Market networks and corporate hierarchies may be based on relatively formal and non-personal relations, or they may entail a considerable degree of 'community' through friendship, personal acquaintances and kinship. Community relations are emphasised in the 'new economic sociology' which use the notion of 'embeddedness' to identify economic relation rooted in personal ties or community identity (Granovetter 1985, 1994). Thus, there is a multitude of combinations of markets, networks, communities and private hierarchies in inter-firm relations. These arrangements are influenced by government policies and institutionalised patterns of government–business interaction as well as the strength and composition of business associations. It is frequently contended that networks and community play a relatively strong role in Asia, while US capitalism to a greater extent entails atomistic markets, formal private hierarchies and relatively loose networks with a much more limited community component.

A second important dimension is that of *intra-firm relations*. A key issue is the degree and form of separation between ownership and control. While modern US corporate management to a large extent is based on separation between the two and attempts to institute shareholder control over management (not always successfully as seen in the cases of Enron and WorldCom), the separation between these two levels are frequently less institutionalised in Asian companies. Other important intra-firm issues are internal organisation of companies, including their division of labour, managerial hierarchies and labour relations. Once again, analysts emphasise the great role of 'community' in modifying private hierarchies and labour relations in Asia as compared with Western and particularly Anglo-American corporate management.

Systems of education, training and research – Under this heading we identify institutions and organisations involved in research and development, including the links between R&D organisations and business enterprises. We also discuss 'human resource development' (HRD) or skill-formation of the labour force.

The organisation of research and development and dissemination of R&D for practical use is at the core of an industrialisation process. Early industrialisation may not require very elaborate research and development systems, but rather a set of institutional arrangements that allows for swift adoption of technology and incremental improvements and adjustments of products and production processes. In her study of South Korea, Alice Amsden (1989) argues that a shop-floor management focus with a high proportion of engineers that were directly involved in the production process was important for these purposes. A low level of skill within the labour force is however frequently a bottleneck.

David Ashton and associates (Ashton et al. 1996; Ashton et al. 1999) have developed a framework for the comparative analysis of different trajectories and constellations of institutions, organisations and government policies in skill formation. Ashton *et al.* (1999) identifies state-centred development models of education and training in Singapore, South Korea and Taiwan. It is argued that the governments of these countries strongly influenced both the supply and the demand for skills. Their development strategies signalled to business what skills that were needed (demand), while they affected supply through their co-ordination of education policies with trade and industrialisation strategies. Detailed control of the educational system and its curriculum allowed the government to promote technical education. In contrast, in early industrialising countries there were few attempts at central coordination of education, and universities typically have had a high degree of autonomy from the government.

Skill development entails more than formal schooling as seen in development models that have put great emphasis on training. The German apprenticeship system promotes vocational training and is regulated by corporatist organisations. Japan developed a system of in-house training and education based on life-time employment that reduced free-rider problems of corporate labour training (Ashton et al. 1996). Thus, there is great variation in the role of organisations undertaking skill development (companies, formal educational institutions) and in government control and corporatist influence.

At some stage in an industrialisation process more formalised research and development processes will be needed. The organisational set up of R&D activities will vary. Large corporations may be able to develop in-house R&D capabilities, and to provide their suppliers with technology. When the economy is dominated by smaller companies support programmes undertaken by the government or business associations may be necessary to link up these enterprises with research laboratories and universities. Several studies emphasise that strong, institutionalised links between R&D institutions and business enterprises are crucial in the development and dissemination of technologies according to business needs. Autonomous universities or state autonomy in university policies may impede these linkages.

Financial systems - Under this heading we discuss the organisations and institutional arrangements that 'serve to transform savings into investment and to allocate those funds among competing users' (Zysman 1983: 57). John Zysman (1983) distinguishes between capital market-based and credit-based financial systems. In the United States and the United Kingdom long-term external financing of investments are dominated by capital markets. In contrast, West-Germany, France and Japan have credit-based systems where most long-term investment funds are mediated by banks and other financial institutions[4] that act as intermediaries between savers and investors.[5] In terms of the previous discussion of institutional arrangements, capital-market based financial systems have relatively atomistic market relations between investors and business. In contrast, credit-based financial systems entail more durable long-term network relations between investors and business.

Richard Whitley summarises recent studies regarding the effects of these different kinds of financial systems on innovations.[6] The lock in between investors and business in credit-based financial systems favours long-term organisational competence development within exiting technological trajectories and relatively stable forms of industrial organisation as the investors develop detailed knowledge of the industries they finance, and are better able to judge their performances than investors in capital market-based systems. Credit-based systems are however less favourable to 'radical innovations' that disturb the established industrial organisations patterns and establish new lines of industries.

'Impatient' capital markets promote swift reorganisation of financial resources to sustain 'radical innovations' as they are less impeded by long-term network relations with established lines of industry. Credit-based systems may also be able to develop specialised venture capital firms that mediate high-risk capital for industrial start-ups (Whitley 2002: 514-515).

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[4] Here the word institution is used in its everyday meaning as 'organisation'.

[5] Actually Zysman identifies two sub-types of credit-based systems, one where critical prices are administered by governments, and the other where financial institutions are dominant, but for the present discussion his basic distinction will suffice.

[6] Whitley uses the terms 'insider-based' and 'outsider-based' financial systems, that correspond to Zysman's credit-based and capital-market based financial systems respectively.

Corporate raiding and asset stripping may be seen as a form of 'creative destruction' that mobilises capital for new lines of industry in credit-based systems. Yet the creativity should not be taken for granted. Without well-developed venture capital organisations these processes may be more destructive than creative.

With regard to the globalisation discussion, the two types of financial systems may both be linked with the international financial market. National equity markets of capital market-based financial systems are likely to be linked with international portfolio markets, while credit-based financial systems are more likely to be linked with global credit markets (short-term or long-term). However, in both cases the strength of these linkages will also rely on national policies and regulations.

Agricultural systems – The institutional sectors identified so far have mainly been discussed in relation to the development of manufacturing industry.[7] Here we identify a fourth sector of agricultural systems, including aquaculture farming. Important features of diversity in agriculture are the use or non-use of wage labour, the producer's ownership/non-ownership of land, the degree of commercialisation of the farm produce and the farming inputs and the relationship between agricultural producers, retailers and industrial processors of agricultural goods.

An Anglo-American model of agriculture prevails in previous British settler colonies such as the United States, Canada, Australia and New Zealand. While it is rooted in family farming this agricultural system is highly commercialised, technology-intensive and closely linked with ago-industrial complexes. It is specialising in exports of cereals, oil and feed products and meat.[8]

In contrast to the relatively homogeneous structure of the Anglo-American model, developing country agricultural systems are frequently bimodal or dualist, with the co-existence of peasant farming and larger, more market-integrated production. The traditional market-oriented agricultural systems promoted during the colonial era were either plantation type of production,

[7] Systems of education, training and research as well as systems of finance can however also be related to agricultural development.

[8] With high input of fossil fuels and agro-chemicals the input/output ratio measured in calories is highly unfavourable for this type of agriculture.

drawing on a huge number of low paid plantation workers without developing the domestic markets, or European settler type of agriculture, that was also developing domestic markets and agricultural institutions like extension services, research and marketing boards. After decolonisation local producers have in many cases benefited from the agricultural infrastructure established under colonisation that have promoted expansion of production for the local market and exports. These favourable outcomes were however mostly restricted to large-scale market-oriented agriculture. Agricultural dualism was continued, unless there were comprehensive land reforms that combined rural redistribution with services such as extension, irrigation, transportation, etc. through government agencies or agricultural associations.

In many developing countries the commercialisation of the agricultural sector has been promoted by agribusiness companies, both foreign and local. Small-scale farmers who produce on a contract carry out the production. The company avoids the risk of owing land while supplying green revolution technologies, strict organisation and use of agro-chemicals to the small-scale farmers.

There has been a secular downward pressure on traditional tropical agricultural exports over the past two decades. New market niches are however appearing, for instance tiger prawns, cut flowers and tropical fruits for the upmarket in the rich countries. Safe, ecological or organic products are another emerging market among concerned consumers.

These new markets have benefited from the development in transport technology such as container transport and airfreight as well as technologies to conserve the commodities. What starts as a luxurious commodity for a limited number of consumers tends to attract mass demand after a few years. The ability to follow the trends at the global market requires a sophisticated organisation with means to communicate and change production and marketing rapidly. This favours the position of large agribusiness companies at the expense of the peasant producers, freeholder capitalist farmers and small aquafarmers.

d) Asian forms of capitalism and globalisation

In Hollingsworth's framework institutional sectors link up with one another in 'social systems of production'. This notion opens up for strong or weak characteristics of national models of capitalism. The strong variety contends that national institutional sectors operate according to a similar institutional logic as they are 'embedded in a culture in which their logics are symbolically grounded, organisationally structured, technically and materially constrained and politically defended' (Hollingsworth 2000: 614).

In result, the dominant institutional arrangements in the sectors tend to reinforce one another. For instance a financial sector system with equity-based financing of corporations may favour arms-length relations among corporate enterprises, while systems of bank financing may reinforce business group organisations. Underlying these developments are general 'meta norms' with deep cultural roots. One implication is that social systems of production are highly resilient to change. Piecemeal changes of social organisations within one sector tend to be neutralized by the overall logic of the system.

At a high level of aggregation one may then argue that 'Asian models of capitalism' generally tend to have business systems, financial systems and systems of education, training and research where long-term network relations and community-based norms and forms of authority play a relatively strong role in contrast with the 'Anglo-American model' where atomistic market relations sustained by formalised legal arrangements are playing a greater role.

This does however conceal the variety of Asian forms of capitalism. A focus on national Asian models may be more appropriate, but it may also be problematic to argue that institutional sectors cohere with one another into national 'social systems of production' based in common norms and values. This cannot be taken for granted, especially not in large countries (India), countries with co-existence between capitalist agriculture and peasant agriculture, ethnically and religiously divided countries (India, Malaysia, Syria) or countries with long-term administrative-political and ideological divisions (Vietnam). A weaker, more open-ended notion of national social systems of production may then be required to allow for alleged 'impure' combinations of institutional sectors.

Globalisation may also promote 'impurity' through the co-existence of 'Anglo-American' and 'Asian' institutional arrangements. The international economy is dominated by Anglo-American principles of capitalism. The United States has pioneered the new organisations of vertically integrated global webs through loose subcontractor networks, major US investors have led the way in the 'financialisation' of the world economy which has created the large global flows of finance over the past decade. These economic developments have been accompanied by political forms of globalisation much influenced by US interests, including great emphasis on liberalisation of capital movements, trade and investment in services and protection of intellectual property rights.

Some argue that Asian forms of capitalism are resilient to these trends, while their ability to maintain favourable forms of capitalism depends on domestic conditions (Weiss 1999, 2000). Others emphasise that US-dominated global webs allow for complementary forms of capitalism, rather than convergence. Asian capitalism can benefit from their institutional specificity as in the case of Taiwanese electronics producers that have established networks with Chinese subcontractors in Southeast Asia and China, while themselves serving as key suppliers of components and OEM for US high-tech merchandisers (Hamilton 1999: 55-57).

Against these views some claim that the Anglo-American form of capital market-based financial system is superior to Asian (and other) credit-based varieties and that there is a competitive relationship. For instance, John Grahl (2001) argues that global financial markets establish an interlocking system of pressures on national governments, corporations and financial institutions to adjust to the standards of 'outsider-based' financial system, and that this goes along with a weakening of long-term networks in relationist business systems.

The 1997/98 Asian financial crisis led to much discussion on the ability of the East Asian model(s) of capitalism to create financial stability in an era of globalisation. Credit-based financial system with high debt-to-equity ratios and non-transparent relations between government, business and financial institutions were seen by many as major causes of the crisis. Asian financial systems were deemed inferior to Anglo-American systems with arms-length relations government-business, strict regulatory regimes and dominance by capital markets.

Others claimed that the credit-based high-debt system was a functional late-developer adjustment that mobilised large amounts of investment funds. The systemic risks of high debt were mollified through government control of bank lending and cross-border capital flows. Asian financial systems were destabilised by the opening of the capital account and financial sector liberalisation. The crisis resulted from an 'impure' combination of Asian and Anglo-American forms of capitalism (Wade & Venoroso 1998).

e) Globalisation and the capabilities of states and firms

Globalisation imposes new restraints on the performance of our key organisations, firms and states (including particular state agencies in the latter case). This includes issues such as whether a particular group of firms within one country is managing the challenges of intellectual property rights better than other firms, whether a central bank in one country is better at regulating the financial system than a central bank in another country, etc.

The discussion of institutional arrangements may also be useful for this kind of investigation. For instance, Peter Evans' 'embedded autonomy' thesis posits that a combination of institutionalised networks between government and business and a bureaucratised state organisation enhances the performance of the state. Government bureaucracies may be strengthened by community elements that create trust, facilitate communication and limit the rigidities of formal hierarchies, such as common educational background of the administrative elite (Evans 1995). Similarly one may identify differences between the performance of companies with greater or smaller extent of markets, networks, community-based forms of business organisation, etc.

The capability of states, firms and other organisations may be characterised along two dimensions. Firstly, they may be characterised as strong or weak in terms of their ability to set realistic goals and to accomplish these goals. Secondly, they may be characterised as flexible or inflexible in terms of their ability to adjust their goals, their means and organisational structure to accomplish their goals under new conditions.

Globalisation puts a premium on both strength and flexibility of states and firms. States and firms should enhance their ability to accomplish goals of financial stabilisation, economic upgrading, export expansion, etc. under changing conditions.

Global opening may force states to dispense with previous industrial policy instruments, such as the subsidising of earmarked sectors, or face tough retaliatory trade policy measures. This may pose a challenge to develop new forms of industrial policy, such as research and development networks with a certain degree of targeting of new sectors of production, rather than simply abandoning industrial policies altogether. The challenge would be to maintain or preferably enhance organisational strength, while undertaking flexible changes of policy instruments that also might entail changes of the government's organisation.

Inclusion into global economic webs may require that companies develop new kinds of quality control systems to meet the requirements of their buyers in industrialised countries and refashion their internal organisation in important respects.

In sum, globalisation may change the world in many respects, but old 'virtues' of flexibility and strength are still key to industrial upgrading with financial stability for firms and states in developing countries and emerging economies.

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