

Constraints and Development

In this book, I attempt to expand the VoC approach to include a wider set of countries. As laid out in the first chapter, there are important limitations in the applicability of the existing VoC/VP framework for explaining the variation of economic governance institutions in developing countries. This chapter develops an alternative framework for explaining these determinants by exploring the scholarly work on development.

The developmental state literature looks at the ability of governments to achieve rapid growth by intervening in the economy to overcome market failures in the provision of infrastructure and investment by promoting business directly, by picking winners, and by facilitating coordination among businesses (Gerschenkron 1962; Johnson 1982; Evans 1995; Noble 1998). Though the firm is given more of a prominent position in the VoC literature, it is also critical to the processes identified in the development literature. Government programs must be designed and implemented with industry input and buy-in. Businesses must choose to interact with each other and with the state in order for development programs and institutions to work; business interests must become embedded in development bureaucracies without capturing them (Evans 1995; Noble 1998).

Similarly, in coordinated market economies, economic actors must be willing to form long-term relations with each other, with suppliers, and with state institutions. They must be willing to share critical information about their activities and not sacrifice long-term growth opportunities

for short-term profits. In other words, they must be willing to hold co-specific assets. As described above, these are risky to have in environments where policy change is common. The state can subsidize many of these endeavors, but the success of any such policy still depends on its credibility with business.

What factors will encourage the participation of business and the ultimate success of the developmental state? Autonomy of the bureaucracy from political forces is heavily cited (Evans 1995; Johnson 1982; Noble 1998). That is, if economic policy is designed by insulated technocrats to serve broad, rather than narrow, interests then actors will be willing to hold co-specific assets. If, however, policy-makers are captured and policy is designed to serve particularistic interests, a system of governance develops that is neither wholly coordinated nor wholly liberal. In this type of economic system, the availability of narrowly targeted policies provides owners, managers, and workers with incentives that dissuade them from holding co-specific assets. For example, firms that can access policy-makers for directly targeted benefits will be less willing to share information about their activities, plans, and capabilities with competitors, suppliers, and customers in order to achieve policy changes that benefit the industry as a whole. This is because the pathways of access themselves become important secrets that firms have extra incentive to keep secret. This sort of governance system has institutions which resemble Ben Schneider's hierarchical economic governance institutions (Schneider 2013).

The hierarchical market economy features governance institutions that revolve around personal and familial networks of loyalty and patronage. The extent of cooperation is limited to non-peak, family-based conglomerations of firms. This sort of hierarchical system may better characterize some of those cases that fall outside of the VoC categories. Thus, political systems that result in particularistic policy outcomes ought to have hierarchical economic governance institutions.

But in some respects, the autonomy of the bureaucracy is a placeholder for other variables. If the bureaucracy exists at the whim of the government, then whether or not it is autonomous depends on the willingness of the government to keep it so. The question becomes: when will states have the political will to keep the bureaucracy insulated while engaging business?

Some scholars focus on structural factors to explain variation in the political will of the state. Exposure to external military threats, breadth

of political coalitions, and access to natural resources are expected to impact the ability of the state to insulate policy from narrow interests (Cummings 1998; Ross 1999; Waldner 1999). Doner, Ritchie, and Slater integrate these arguments into a single theory (Doner et al. 2005). They argue that some developing countries are better able to create “developmental institutions” because systemic vulnerabilities force them to. A combination of external threat, sensitivity to popular pressures, and resource scarcity will force a government to vigorously pursue upgrading so that it can afford the high levels of military spending and side payments required to stay in power. While the authors never explicitly refer to policy stability (other than macroeconomic) as a mechanism of this process, I submit that these vulnerable leaders will avoid policy volatility as it reduces credibility and increases uncertainty. Additionally, though the authors focus primarily on the impact of these variables at the time of state formation and consider them as nominal variables, I believe that the logic should apply as a matter of degree and throughout the lifespan of a country. It is unclear if it would have the same impact on democracies or countries with more than a single veto player. Both the Doner et al. article and Hicken and Ritchie’s examination of Singapore suggest that it is at least applicable to single veto player contexts (Hicken and Ritchie 2002; Doner et al. 2005).

In addition to giving broadly targeted side payments, single veto player autocracies facing vulnerabilities are more motivated to find institutional mechanisms to overcome the time-inconsistency problem. This argument need not be entirely functionalist; it may be that, though motivated, an autocrat is unable to find the mix of institutions needed to signal policy stability. If so, however, the failure to subsequently provide sufficient resources to maintain broadside payments and military spending means that the regime will not last long. Also, I am not claiming that all authoritarian regimes are necessarily single veto player governments. Rather, the above discussion of autocracies refers to non-democracies controlled by single veto player governments.

Such institutional mechanisms may be deep business consultations or any interest representation short of outright veto power. Hicken and Ritchie and Doner, Hicken, and Ritchie have explored the viability of such non-veto consultative mechanisms in greater detail. For our purpose, it is enough to say that systemic vulnerability will motivate autocrats to overcome the time-consistency problem and commit to policy stability.¹

2.1 SYNTHESIS: VETO PLAYERS, CORRUPTION, AND COORDINATION

One strand of the VoC literature argues that the number of veto players will determine whether an economy resembles the liberal or coordinated ideal type. As noted above, a group of countries (including those with EVPs) emerges which does not fit into either of its main categories and the framework offers conflicting explanations as to why some single veto player autocracies resemble coordinated economies while others do not. The developmental state literature identifies an alternative economic system based on political rent seeking and provides a theory as to why some single veto player autocracies resemble coordinated economies while others do not. The presence or absence of systemic vulnerabilities will determine in part whether the policy environment is broadly targeted and stable, encouraging coordinative economic governance institutions or collusive, encouraging hierarchical governance institutions.

Adding a third, hierarchical market economy (HME) to the two present in the VoC framework can greatly improve its utility in explaining governance systems in developing countries. Does not this cause major damage to the parsimony of the veto-player model? There is some debate on this tradeoff in the larger comparative capitalisms literature. Colin Crouch criticizes the VoC framework for missing important complexities because of its parsimony (Crouch 2005a, b). Future work, he argues, should include more types and identify the strength of institutions from each type in a given governance system. While adding a third type is far shy of the complexity that Crouch is advocating, I argue that retaining the integrity of the veto player framework, with its clear deductively derived expectations, is worth the potential loss of descriptive accuracy. On the other hand, I agree with and employ Crouch's "analytical" approach to evaluating types of institutions. This approach identifies the strength of each of the potential types of governance institutions rather than simply characterizing an economy as one, single type. In addition to achieving greater accuracy, this will enable us to observe changes over time (Crouch 2005a).

What exactly would the institutions in a hierarchical governance system look like? The competition for access to policy-makers becomes the key force in hierarchical governance systems. The potential for rents provides incentives for economic actors to create and make use of institutional structures that maximize access. Patron–client ties are a defining

feature of such systems. It is worth noting here that patron–client ties are typically informal institutional relationships. That is, they are not maintained via legal contracts or specified in organizational charts. To be sure, the relationships may be glimpsed now and again in the formal institutional arrangement, for example in the makeup of a firm’s boards of directors, but the substance of the relationships pre-exists these formal ties and does not substantively rely upon them.²

In the realm of corporate governance, the availability of rents means a substantially different set of incentives facing investors. Just as with liberal systems, investors in a hierarchical system are very concerned by risks. If a competitor suddenly gains access to officials or the actor finds himself out of favor with the government, his access to rents may suffer. As such, investors will be unwilling to concentrate their holdings in a single industry. On the other hand, they are unwilling to rely on diffuse shareholding to allay these risks because the background legal institutions provide little protection from managerial shirking or expropriation by controlling shareholders. Rather, investors must make use of other institutions which do not rely on the state to limit exposure. Often this means a reliance on patron–client or ethnic/communal ties. Investors can then spread their assets over many industries through bonds of power or trust rather than bonds of law. Such conglomerations also have the benefit of enhancing the investor’s political clout and access to subsequent rents, providing firms with a competitive edge based on access rather than either incremental or radical innovations. This is in agreement with Schneider’s characterization of hierarchical corporate governance in Latin America (Schneider 2013).

Of course, conglomerated business groups can also be efficient more generally when there are many benefits from economies of scope. Particularly in developing countries, where managerial and technological knowledge-based assets are in short supply, there may be great benefits for a particular firm to utilize its accumulated knowledge-based assets in more than one product category. Indeed, the Japanese Keiretsu and Korean Chaebol had success in using diversified business groups to exploit economies of scope at earlier stages of developments (Amsden 2001; Feenstra and Hamilton 2006). While there is no reason to think that diversified family conglomerates in hierarchical market economies would not want to economize in a similar fashion, the expectation is that the extent of diversification in hierarchical market economies will be substantially wider than can be attributed to economies of scope.

That is, while there may be many knowledge-based assets acquired in the process of manufacturing textiles that are applicable to the manufacturing of shoes, it is unlikely that there will be many that are applicable to real-estate.

Inter-firm ties in a hierarchical system will be more developed than in a liberal system but weaker than in a coordinated system. The weakness of the legal system limits the willingness of firms to share sensitive information with competitors. Supply lines may be run internally in large conglomerates. While this may reduce the chances for fraud, there is no guarantee that the goods will be of adequate quality or cost. Additionally, because the owners are not heavily concentrated in the relevant industry, there will be less benefit from accumulated, specialized knowledge.

The complementarities inherent in hierarchical market economies (HME) are self-reinforcing as in the ideal-type CMEs and LMEs, but they are not positive in the same way. Each hierarchical governance institution in an economy does not increase the returns to other hierarchical EGIs so much as reduce the returns to other non-hierarchical Economic Governance Institutions (EGI). The absence of worker training institutions for either general or specific skills will lead to an unskilled workforce. With such a workforce, foreign MNCs are unlikely to invest in any production activities that require skilled workers. Without any job opportunities for skilled labor, workers are unwilling to invest in skills. The same holds true for domestic firms (Schneider 2013).

Firms and conglomerates built around individual families with political access are likely to want to limit the flow of information about current and future firm activities to protect their political rents. Thus, they are unlikely to hire, promote, or train workers to critical managerial or engineering positions without direct familial or patron–client ties. This both significantly limits the demand for skilled labor in the market and dulls the innovative (both incremental and radical) capacities of the firm. Similar problems will occur in attempts to form strong inter-firm governance institutions. Firms will be even more hesitant to share information about operations with competitors as such information may reveal patterns of access that could lead to exposure. With operations spread around several industries, family conglomerates would also be hesitant to become too involved in any one (Schneider 2013).

A particularistic policy environment will result in a hierarchical governance system because access to policy-makers becomes the most

effective way for firms and investors to maximize profits and minimize risks. The returns to investments in attaining political access become higher than the returns to investments in either incremental or radical innovations. Because medium-term firm strategies are made conditional on the opportunities created by policy-makers and because firms will want to prevent evidence of such collusive relationships from being made public, they will limit the involvement of employees in the formulation of these plans. Without active engagement of skilled, senior employees, neither incremental nor radical innovation becomes possible for such access-centered firms.

Three categories result: liberal, coordinated, and hierarchical governance systems. As with the VoC argument, veto players act as constraints. For single veto player governments without alternation, we would expect the lack of constraints on rent-seeking to lead to a particularistic policy environment and a hierarchical system unless systemic vulnerabilities serve as an alternative form of constraint. Thus, systemic vulnerability conditions the impact of the single veto player. Additional players add additional constraints on the government's ability to radically change policies or provide narrowly targeted rents. At the high extreme, however, balkanization and/or logrolling occurs so that narrowly targeted rents are pervasive throughout the economy and hierarchical institutions develop. Figure 2.1 provides a graphical representation of the argument (which represents extreme high and low exceptions to the linear relationship presented in Fig. 1.1).

Though the model developed here is designed to account for the full spectrum of governance systems, I focus the remainder of this book on developing and testing the implications of the most novel elements of this framework: the single veto player autocracies and the countries with EVP governments.

2.2 CASES AND CONCEPTS

This book evaluates the explanatory power of my typological framework in accounting for the evolution of economic governance institutions in Thailand, Malaysia, and Singapore. These countries were selected because they feature within-case variation on the key variables of this study. In looking intensively at a smaller number of cases, I can determine in part whether the degree of vulnerability and the number of veto players had the expected impact and whether the mechanisms

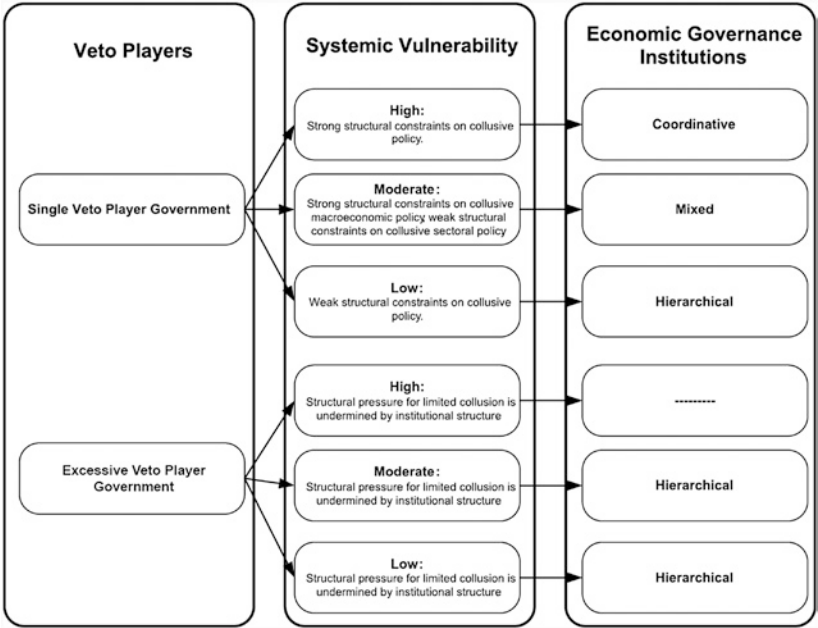


Fig. 2.1 Typological framework

hypothesized by the theory are connecting cause to effect. The variation observed in Thailand is longitudinal. Here I am able to control for much, noting how changes in the number of veto players and the degree of vulnerability result in changes in the policy environment and ultimately governance institutions. In Malaysia, by contrast, the variation is regional. Much is held common because of the same national context, but historically contingent regional differences have resulted in variation in the degree of vulnerability—which leads us to expect divergent outcomes. Although Singapore only offers a single observation for the purposes of this study, it is especially valuable for comparing the outcomes across each of the countries.

In Thailand, changes in national political institutions and the larger political environment make for six distinct periods, with both single veto player and excessive veto player governments facing low to high levels of vulnerability. In Chap. 3, I explore the impact of these changing circumstances on the policy environment and on patterns of economic

Table 2.1 Case selection

	<i>Systemic vulnerability</i>		
	<i>Low</i>	<i>Moderate</i>	<i>High</i>
One veto player	Post 1969 (MY); Single party (TH); Military rule (TH)	Semi-democracy (TH), ^a Pre 1969 (MY)	Singapore, Penang (MY)
Excessive veto players	Coalitional democ- racy (TH)	Post-crisis (TH)	Instability period (TH) ^b

^aIn this period there was a single veto player in charge of macro policies and an EVP coalition in charge of sectoral/micro policies

^bI do not have a case that fits in this cell of the typology but the theoretical argument suggests that such a case could not exist long (i.e. it would be overthrown, invaded, or reformed with fewer veto players). I will briefly discuss the instability period in Thailand to explain how and why an EVP government ought not to be possible in a high vulnerability environment

governance. This also allows me to observe the process of institutional change. In Malaysia, a combination of factors caused the Penang state government to be in a much more vulnerable position than the rest of the country. As such, I compare the types of economic governance institutions that developed in each in Chap. 4. In Chap. 5, I evaluate the evolution of the policy environment and economic governance in Singapore, where a single veto player government faced high vulnerability. In Chap. 6, I make comparisons across the cases and assess the framework as a whole. The countries selected are, of course, quite diverse. These cases allow me to end up with some modest, contingent generalizations about the larger population of the single and EVP sub types. The table situates the observations within the framework (Table 2.1).

These cases also allow for the elimination of potential rival explanations. Some observers have suggested that cultural traits may account for unique Asian types of capitalism. In particular, a Sino variant of capitalism has received attention in the popular and academic analyses of Asian capitalism. It is thought to produce unique characteristics, influenced by social and religious cultural attributes (Gomez and Xiao 2004; Tanzer 1994; Weidenbaum and Hughes 1996). I compare three economies dominated by ethnically Chinese actors: Singapore, Malaysia, and Thailand which should produce quite distinct governance systems according to the theoretical framework. If, however, the power of culture is determinative, those countries should produce similar outcomes.

Alternatively, it may be that ethnic divisions in general, rather than the attributes of any specific culture, prevent the type of economy-wide collaboration necessary for coordinated governance (Banerjee et al. 2005; Alesina et al. 1999; Miguel and Gugerty 2005). Singapore and Malaysia feature ethnic heterogeneity. If ethnic homogeneity or inter-ethnic harmony is necessary for coordination, we would expect the absence of coordinative institutions, despite what is predicted by the framework. Because I am observing changes over time, I will also be able to evaluate the effects of alternation in the identity of veto players.

Another possible alternative argument is that growing US influence, increasing capital mobility, and the intellectual hegemony of neoliberal principles are leading to a global growth of LME institutions. This perspective, which parallels the institutional convergence critique of the Varieties of Capitalism perspective, should lead to an outcome whereby countries' institutions increasingly morph into liberal governance systems to comply with the interests of short-term investors (Hall and Thelen 2009; Howell 2017). Because I am evaluating the strength of each type of governance system, I will be able to observe the relative changes in the strength of liberal institutions.

Another possibility is that multinational corporations engaging in foreign direct investments or forming joint ventures will simply transplant or recreate their home country governance institutions (Yeung and Coe 2015, 49). A more nuanced version of this argument, derived from the global value chain (GVC) approach, would be that lead firms may relocate segments of their value chain to specific countries depending on the innovative and coordinative capacities in those countries (Yeung and Coe 2015; Coe and Yeung 2015; Barrientos et al. 2011; Lane and Probert 2009). For example, a lead firm may want product design and high value-added manufacturing to take place in a country with strong coordinative institutions while they relegate simple assembly and more mature manufacturing to occur in places with hierarchical institutions because of the associated pool of low-cost, low-skilled labor.

It is possible that systemic vulnerability has an indirect effect on the type of governance system by influencing the number of veto players in addition to the direct influence it has on the governance system. This may result in a causally complex, intervening, causally shallow or even spurious relationship between the number of veto players and the type of governance system (George and Bennett 2005). Further research must be done to explore the effects of vulnerability on the number of veto

players in government. As noted earlier, I have limited this book to the study of subtypes of the larger veto player framework. I thus limit my conclusions to contingent generalizations regarding the single and EVP subtypes (albeit with highly suggestive implications for the larger VoC framework). For single veto player governments, the framework predicts systemic vulnerability to be determinative. For EVP governments it predicts systemic vulnerability to have no effect. Whether or not the systemic vulnerability had a prior effect on the number of veto players should not bias my results since I am not making explicit generalizations about the other possible subtypes. If the results of this analysis suggest that further testing of this modified framework as a whole is warranted, the potential indirect effect of systemic vulnerability by means of affecting the number of veto players must be tested as well (i.e. endogeneity). To further this end, this project includes a preliminary investigation into this question.

Looking at the difference between MNC behavior in Penang and the rest of Malaysia is especially informative here. If MNCs set up similar operations in both areas but strong coordinative institutions develop in one but not the other, then the MNC argument is not a sufficient explanation. Additionally, in both Penang and Singapore, the timing of the creation of the institutions vis-à-vis the arrival of MNCs will be relevant. The framework employed here suggests that the policy environment and the resultant governance institutions will condition MNC strategies. That is, if there is a stable, broadly targeted policy environment, MNCs will employ strategies that make use of the reduced transaction costs embodied in CME institutions, but if there is a particularist policy environment, MNCs will use hierarchical structures to mitigate risks. Thus, the MNC deterministic approach and my approach offer conflicting expectations.

The second alternative, the undeveloped argument is that strong consultative mechanisms, whereby economic actors have (non-veto) participation in policy-making, may make policy changes predictable to these actors (Hicken and Ritchie 2002; Doner et al. 2009). If this is the case, these actors may be willing to form co-specific assets despite the potential for policy changes in single veto player regimes, because they will occur for predictable reasons. Here, tracing policy changes in Singapore and Penang and evaluating changes in risk perceptions and willingness to form co-specific assets of actors will be useful in evaluating this possibility. I label these as undeveloped arguments rather than as alternative

theories because it is not clear what types of MNCs would prefer strong coordinating institutions or what types of consultations with economic actors are a sufficient signal to make policy changes predictable.

I am attempting to explain the variance of economic governance institutions in the electronics and electrical appliance industries. I have selected this sector for several reasons. Successful electronics production generally is technically demanding and typically represents entry into a higher value-added segment of the global economy. Despite this, however, there is ample room for producers to specialize in simple assembly and lower value segments of this global value chain. Electrical appliance and electronics production, in particular, contains a range of technologies that may be possible for producers to mimic—but which would require stronger cooperative capacities to absorb, thus creating strong incentives to form cooperative institutions where the political environment permits (Lall 1998).

Another advantage of using the electronics and electrical appliance industries is that they have emerged as important sectors for each of the Southeast Asian countries selected in this study. In the last 50 years, Thailand has become a major exporter in some mature appliance sub-sectors such as air conditioning and refrigerator manufacturing. All three countries have been generally successful in exporting within the computer component industry, with important variation in the degree to which local firms have upgraded from simple assembly to higher value segments of the global electronics value chain. Other research has been done looking at the importance of developmental state institutions and national innovation systems in explaining the various levels of success in upgrading in this industry (Intarakumnerd et al. 2002; McKendrick et al. 2000). This book will contribute to this literature by offering a political explanation that accounts for both of these more proximate explanations.

For each of the periods and regions studied, I describe the overall, economy-wide economic governance institutions and then proceed to go into detail on governance in the electronics and electrical industries.

Institutions tend to be especially abstract and vaguely understood, even by the actors that regularly interact with them. Though I am investigating economic governance institutions using a framework that has been employed elsewhere, previous analyses offer limited guidance. This is because previous studies have differed in their conceptualization of economic governance institutions, have often preferred to use already

available proxy indicators, and because I am substantially expanding the diversity of cases to which the framework is applied.

Hall and Soskice have differentiated between two ideal types of governance systems: liberal and coordinated (Hall and Soskice 2001). Because they were primarily concerned with broadly characterizing the ideal types and their innovational outcomes, they did not provide precise indicators. By evaluating “degrees of coordination” in corporate governance institutions, Gourevitch and Shinn offer clearer indicators and a more ordinal measure, along the lines recommended by Crouch (Gourevitch and Shinn 2005). But because they still base their analysis on a dichotomous typology, they mischaracterize observations that have stronger coordinating institutions than exist in liberal systems but that operate with a different internal logic than coordinated institutions.

Though the VoC scholars have identified five such institutions, I am focusing on two: inter-firm linkage and corporate governance institutions. I also evaluate recent research by Ritchie concerning a third, worker training institutions (Ritchie 2010). Corporate governance institutions structure the relationship between investors and firms. They are central to much of the work on this literature and have a powerful impact on the structure of the economy as a whole (Gourevitch and Hawes 2002; Gourevitch and Shinn 2005; Gourevitch 2003). Inter-firm linkage institutions structure the relationships among firms, both horizontally and vertically. Linkages and linkage institutions such as business associations are often cited as important by the development literature (Brimble and Doner 2007).

I focus my attention on those institutions for which data are available. This necessarily means that institutions that were considered or attempted but were unsuccessful are not observed. If this leads to any bias, it will be that I view institutions as weaker than they may be in actuality. Though I make every effort to limit exposure to this by gathering as much information as possible, I acknowledge this potential for bias. There may be an additional problem for informal institutions generally and collusive informal institutions in particular. The longitudinal approach of this book allows us to overcome this problem to some degree by comparing the changing manifestations of these informal institutions over time. I have no expectation that the actors would have greater or lesser ability to hide such informal institutions in one period than another.

Much of this analysis will be based on evaluating changes in formal and informal economic governance institutions that emerge in response to changes in the overall policy environment. As Hall and Thelen note, this must be done with care as informal practices may remain despite formal institutional changes and informal practices may shift despite no obvious change in the formal institutions (Hall and Thelen 2009; Thelen 2004). Thus, I look for evidence of these changing practices in addition to changing institutions.

Corporate governance institutions structure the relationship between investors and firms. Coordinative corporate governance institutions rely on either patient, concentrated bank credit that allows lending which stimulates long-term growth rather than quick returns or networks of cross-shareholding firms that have a real stake in each other's operations (Figs. 2.2 and 2.3).

The primary indicator for the strength of liberal corporate governance institutions is the proportion of publicly listed firms that are widely held. I rely on the classification system of Porta et al. for this assessment (Porta et al. 1999). If companies do not use stock markets to raise external funds, I consider liberal corporate governance institutions weak. Likewise, the strength of coordinated corporate governance institutions is assessed by looking at the proportion of publicly listed firms that rely on widely held financial institutions. Of course, the Japanese "network" version of coordinated corporate governance relies on patterns of cross-shareholding more than bank-lending. So, I evaluate whether there is a high degree of non-pyramid, cross-shareholding in listed firms.

In HMEs, firms access funding using resources spread throughout family-dominated business conglomerations. External funding coming from outside of these familial channels are limited because of the high risk of the expropriation of firm value by controlling shareholders. This same concern also prevents the development of widely-held financial institutions (Fig. 2.4).

It is important to note that the formal distinctions listed above can be misleading. Firms listed in capital markets can be hierarchically controlled through pyramid shareholding arrangements and financial institutions may not be widely held and use access potential, rather than growth potential to assess long-term profitability. Thus, where possible, I take the degree of pyramid shareholding structures and family dominance of financial institutions into account when deciding whether a particular group's finances are hierarchically structured.

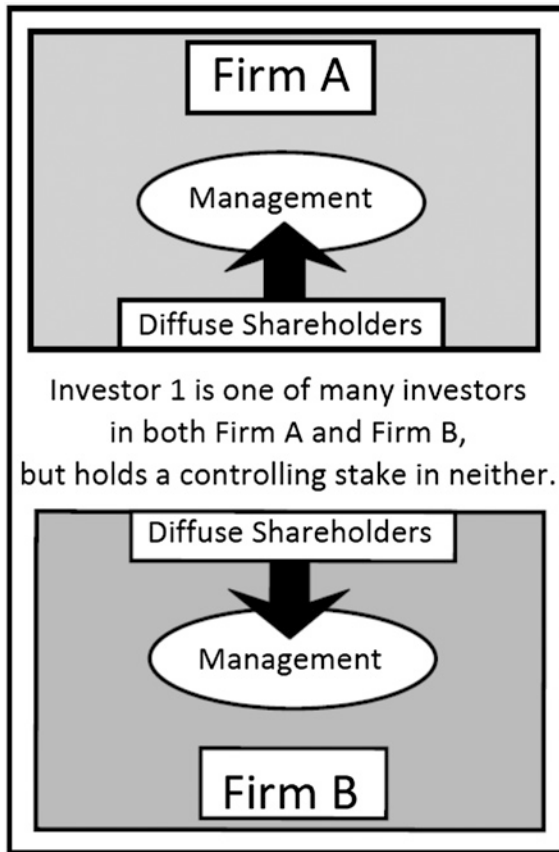


Fig. 2.2 Firm structure under liberal corporate governance systems

Inter-firm linkage institutions (ILI) structure the relationships between companies, both horizontally and vertically. Evaluating ILIs is not quite as clear-cut as evaluating corporate governance institutions. There are no ready-made, easily quantifiable indicators that can show conclusively when coordinated, liberal, or hierarchical inter-firm institutions are dominant in an economy. The main way of distinguishing between types of ILIs is by characterizing the nature of activities they undertake. In liberal systems, firms use market signals to determine the

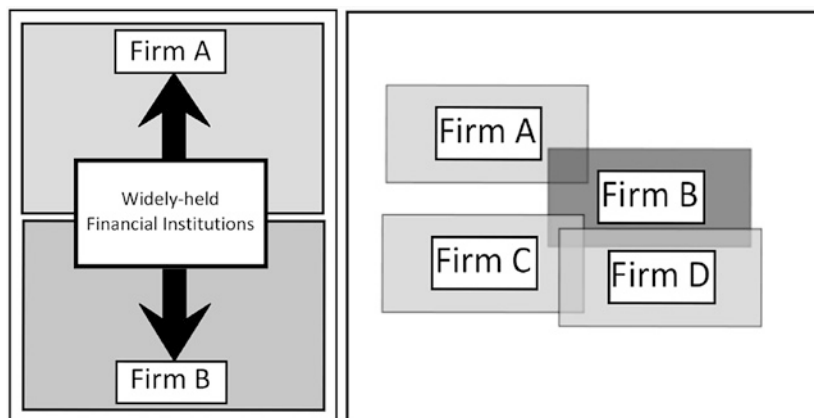


Fig. 2.3 Firm structure under coordinated corporate governance systems

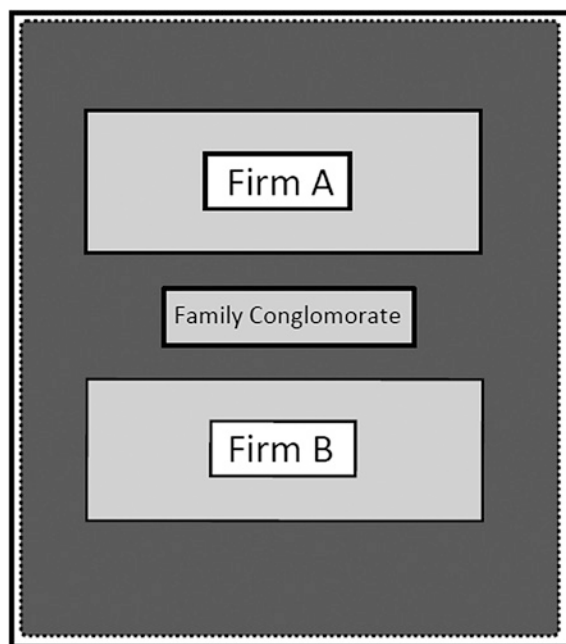


Fig. 2.4 Firm structure under hierarchical corporate governance systems

price and quantity of goods to exchange with suppliers and customers and activities beyond arms-length contracting are largely foregone. In coordinated systems, firms use long-term relationships with suppliers and customers that are much less dependent on current market signals and engage in a wide variety of cooperative activities. In a hierarchical system, firms also rely on non-market relationships but use other sources of power to facilitate limited, typically oligopolistic linkages.

Thus, it is quite likely that ILIs with similar sounding names may be performing quite different operations in the different systems. An apparel manufacturers association may, for example, engage in limited lobbying for tariff reform in a liberal system, in a wide range of activities including joint research, training, and government consultation in a coordinated system, and in cartel pricing in a hierarchical system.

For each observation, I characterize the nature of linkage activities engaged in by the main inter-firm organizations. Linkage institutions that are predominantly engaged in arms-length, market-based activities with little or no coordinative activities are considered liberal. Linkage institutions that are engaging in activities requiring substantial coordinative capacities are considered coordinative. Linkage institutions are serving the interests of the most powerful firms are treated as hierarchical. Very large firms may sometimes find it in their interest to engage in activities with positive externalities that will benefit the entire sector. These activities may include creating horizontal and vertical organizations that serve the interests of the sector. Although such behavior is initiated by large firms for self-interested reasons, I count it as evidence of coordinative inter-firm institutions when the actions of the resulting institutions serve the interests of the horizontal or vertical bodies broadly.

According to the framework employed here, veto players and levels of systemic vulnerability are thought to jointly determine the nature of the above-identified economic governance institutions. Veto players are actors whose assent is required for change to the policy status quo to occur. I limit the scope of this project to single, non-alternating veto player regimes and countries with a very high number of veto players.³ Following MacIntyre, I chose not to focus on ideology, but rather considered the number of discrete, partisan actors who have formal veto authority over the particular policy space (MacIntyre 2003a, b). Where factions are potentially important players within collective veto players, I use the level of direct, zero-sum competition among factions

to determine whether to treat them as veto players. So, though military factions may be important actors within a junta, they are only counted as separate veto players where they are actively trying to undermine one another via promotion channels or a coup. Likewise, a faction within a political party will only be counted as a separate veto player if it competes for votes with other factions in the same party.

Though some have suggested that additional veto players may have nonlinear effects on a variety of outcomes, none have specified precisely where such a threshold would be (MacIntyre 2003b; Cox and McCubbins 2001). The observations I use to test the EVP portion of the framework represent cases at the extreme of existing veto player scales. If any observations should exhibit the qualities hypothesized, it should be these. Should the cases studied here behave as indicated by the framework, future quantitative tests may be able to pinpoint exactly where the deadlock-threshold may be.

I distinguish between macro- and microeconomic policy stability because, while both are important for actors' perceptions of the risks involved in forming coordinating institutions, they may be decided by different numbers of veto players. Additionally, they may be of unequal importance. It may be that the presence of particularistic interests in macro policy is more likely to result in highly hierarchical institutions than in micro policy.

Systemic vulnerability, which is expected to condition the impact of single veto player governments, is assessed along a three-value ordinal scale and has three critical elements: external threat, resource scarcity, and sensitivity to unrest. Rather than focus on these elements at the time of state formation as Doner, Ritchie, and Slater and Ritchie have done, I relax the assumption of path-dependency and assess changing values over time (Ritchie 2010; Doner et al. 2005).

Ritchie offers some proxy indicators for the level of external threat (Ritchie 2010). First, he uses a count of the number of conflicts a state is involved in, based on the Correlates of War Project (Small and Singer 2006). While this is a reasonable proxy indicator, it lacks precision on two critical fronts. First, it is unable to differentiate between conflicts where the survival of the regime in power is at risk and those where it is not. Second, it is unable to distinguish between cold wars and hot ones. He also uses military expenditures as a percentage of GDP. As military spending is an important causal mechanism in this framework, linking the level of external threat to the nature of the policy environment, I report

it in that capacity as a measure of external threat. I follow Doner et al. in evaluating the degree to which overtly hostile countries have a credible potential to invade (Doner et al. 2005).

Following both Ritchie and Doner et al., I base my assessment of resource scarcity on the importance of natural resource extraction to an economy (Doner et al. 2005; Ritchie 2010). The value of commodity exports as a fraction of GDP—taken from Sachs and Warner (1997). To this, I add an assessment of aid inflows as a percentage of GDP, for these can likewise soften budget constraints.

Ritchie measures coalitional breadth using several alternative indicators (Ritchie 2010). First, he uses an index created by Bueno de Mesquita et al. to measure the size of the winning coalition in a country (Bueno de Mesquita et al. 2003). As Ritchie notes, this measure relies heavily on voting and elections, which are not necessary for a coalition to be considered broad in the systemic vulnerability model (Doner et al. 2005). Second, he looks at the degree of societal inequality. Again, this represents an important causal mechanism in my framework and is too related to the policy environment to be useful as an indicator of coalitional breadth/sensitivity to unrest. Following Doner et al., I focus specifically on the degree to which the government relies on the support or acquiescence of a majority of the population in order to maintain power (Doner et al. 2005).

Together, the number of veto players and the level of systemic vulnerability are expected to influence economic governance institutions by shaping the policy environment and thus the micro incentives facing workers, investors, and managers. As mentioned above, this framework distinguishes between macroeconomic policy and sectoral policy environments. In practice, the boundary lines between macro and sectoral policies may not be completely distinct. Macroeconomic policy areas, including fiscal, monetary, exchange rate, and trade policies, can be undermined or circumvented by sectoral policies such as tariff exemptions and export subsidies. For each type of policy environment, I evaluate the degree of policy volatility and the degree to which policies are narrowly targeted.

In the work that has posited a link between the number of veto players and the VoC, the degree to which economic actors fear radical shifts in economic policy has been of chief concern. But there is an important difference between a government changing policy in a consistent manner in response to an external event and a government changing policy

in a haphazard manner for domestic political reasons. If, for example, an external shock occurs that would warrant some sort of stimulus according to orthodox macroeconomic theory, a mechanical evaluation of changes in policy on the ground may lead one to characterize as volatile, a policy environment in which investors might not actually fear radical policy change. Thus, in assessing the volatility of the policy environment, I try to be as clear and explicit as possible in indicating when a given policy change might be a predictable response to external circumstances and not evidence of volatility. I make this evaluation based on secondary analyses of the global economic circumstances of the time.

I argue that a particularistic policy environment incentivizes economic actors to engage in competition for political access that narrows the range of economic governance institutions they can establish. In a broad sense, particularistic economic policies are those that benefit specific groups at the expense of overall economic welfare. Unfortunately, not all economic policy changes involve Pareto-improvements. Even if a policy change improves the economy as a whole, there are usually some who lose out. Ideally, it would be easy to clearly differentiate between actors that seek compensation for policies that are harmful to them but led to net welfare improvements for the economy as a whole, and actors that seek to achieve their preferred policies regardless of their impact on the whole economy. For each category of economic policy, I specify the ways in which policy might be particularistic and the signs I look for in evaluating the degree of particularism.

Macroeconomic policy includes monetary, exchange rate, and fiscal policies. Monetary policy deals with the money supply and includes interest rates, reserve ratios, and the regulation of financial institutions. Exchange rate policy deals with the relative value of the currency and includes capital controls, foreign exchange reserves, and interventions in the foreign exchange market. Fiscal policy deals with the balance between state revenues and expenditures. For this macroeconomic component, I am focusing on changes in the overall amount of taxation and spending. I consider the macroeconomic policy environment predictable when governments consistently follow a clearly articulated policy objective (a balanced budget, counter-cyclical policy, or economic stimulus policy). Macroeconomic policy environment is unpredictable when a government or successive governments fail to do so. The policy environment is particularistic when there is a fiercely competitive battle to influence the size of the budget, interest rate level, or exchange rate level

(since the battle to influence the distribution of the budget is considered in the sectoral policy environment).

Sectoral policy deals with government efforts to intervene in the market to achieve some particular set of goals. This can include attempts to achieve net-welfare enhancing goals such as limiting behaviors with negative externalities and promoting behaviors with positive externalities, but it can also include attempts to use government policies to assist particular well-connected firms at the expense of their competitors and consumers. The policies include regulatory policies, direct subsidies, credit guarantees, tax exemptions, and the provision of government contracts.

I consider the sectoral policy environment predictable when governments consistently follow a clearly articulated policy objective. The sectoral policy environment is unpredictable when a government or successive governments fail to do so and policy oscillates significantly over time. The policy environment is particularistic when sectoral policies are targeted at particular firms with very little clearly articulated economic rationale.

In Chaps. 3 through 5, I evaluate the impact of the number of veto players and the degree of vulnerability on the policy environment—and the impact of changes in the policy environment on the nature of corporate governance and inter-firm linkage institutions in Thailand, Malaysia, and Singapore. These utilize within-case comparisons, some longitudinal and some cross-sectional. In Chap. 6, I take a larger view and evaluate the ability of this typology to explain variation across these three countries.

NOTES

1. See Hicken and Ritchie (2002); Doner et al. (2005). Of course, it may be that the government fails to do this or put strong developmental institutions in place. In such cases, it risks being replaced by invasion or mass uprising.
2. Not all such informal ties need be based on political rents, of course. The literature of capitalism in Asia points to informal bonds of trust, family, and shared ethnicity as leading to improvements in coordination and efficiency in Japan, South Korea, and Taiwan (Lincoln and Gerlach 1992; Feenstra and Hamilton 2006; Amsden 2001; Redding 1996).
3. Note here that I'm focused on the expectation of alternation of the veto player. The key is whether actors making the decision to participate in various types of governance institutions believe the government will remain in power.

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