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CONTENTS

Inequality and Democracy: Why Inequality Harms Consolidation but Does Not Affect Democratization — *Christian Houle* 589

National Design and State Building in Sub-Saharan Africa — *Cameron G. Thies* 623

Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe — *Andreas Nölke* and *Arjan Vliegenthart* 670

The Real but Limited Influence of Expert Ideas — *Johannes Lindvall* 703

Review Article
The Political Economy of Global Finance Capital — *Richard Deeg* and *Mary A. O'Sullivan* 731

Index to Volume 61 764

The Contributors ii

Abstracts iii

Referees 2008 v

ENLARGING THE VARIETIES OF CAPITALISM
The Emergence of Dependent Market Economies in East Central Europe

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Introduction

DURING the last few years, comparative typologies of capitalisms (comparative capitalism)[1] have become canonical among students of the political economy of Western societies.[2] This research field has been pioneered by scholars such as Andrew Shonfield[3] and popularized by Michael Albert,[4] and the landmark volume compiled by Peter Hall and David Soskice[5] has both built upon and inspired many related studies. The idea that the basic institutions of capitalism differ from one country to another and that these differences are not accidental but linked to strong institutional complementarities, has led to a very sophisticated, holistic, and easily understandable picture of the institutional complexity of advanced capitalism. Many empirical studies depart from the juxtaposition of liberal market economies (LMEs), typically represented by the U.S., and coordinated market economies (CMEs), typically represented by Germany.

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[1] Jackson and Deeg 2006.
[2] Blyth 2003, 215.
[3] Shonfield 1965.
[4] Albert 1991.
[5] Hall and Soskice 2001a.

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Given that the original varieties of capitalism (VOC) research program was developed for analysis of the U.S., Japan, and Western Europe, scholars may wonder whether the approach is as useful for analysis of countries outside of this traditional core of the world economy. As cases for an extension of the VOC framework, we have chosen the countries of East Central Europe (ECE), namely the Czech Republic, Hungary, Poland, and the Slovak Republic. In these countries the period of "transition" has come to an end and it is time to reflect on their position in the wider context of global political economy. They are different from the countries further to the east, such as Russia and the Ukraine, that have experienced a specific type of economic and political transformation and occupy a different position in the capitalist world economy. From a comparative political economy perspective, the Czech Republic, Hungary, Poland, and Slovakia are increasingly considered as four cases of the same basic variety—sharing very similar socioeconomic institutions while being distinct from, for example, the Baltic states, the Commonwealth of Independent States (CIS), Romania, or Slovenia.[6]

The VOC research program is currently quite popular within comparative political economy and it is no surprise that quite a few scholars have already started to apply the VOC approach to the economies of East Central Europe. After all, it was the collapse of real-existing socialism that paved the way for the ongoing explosion of research on inner-capitalist diversity. This is not to say that prior to 1989 the question of what defines modern capitalism was neglected, but a large part of comparative research focused on the differences between capitalism and socialism.[7] It is therefore not without irony that the VOC approach has now entered the former socialist area with much force. The outcomes of these applications, however, are puzzling because they have led to somewhat contradicting conclusions. While some studies claim a convergence of East Central Europe on the CME type,[8] others observe a convergence on the LME type,[9] and a third group argues the rise of a bastard or hybrid variety of capitalism that combines features of both types.[10]

These outcomes are not only confusing, but also challenge the basic assumption of the VOC approach that strong institutional comple-

[6] Whitley 1999, chp. 8; Bruszt 2002; McMenamin 2004, 269; Lane 2005, 245; Cernat 2006; Mykhnenko 2007; Bohle and Greskovits 2007a, 2007b; Hancké, Rhodes, and Thatcher 2007b; King 2007; Drahokoupil 2009.

[7] Feldmann 2006, 830.

[8] McMenamin 2004; Lane 2005.

[9] Cernat 2002; Crowley 2005.

[10] Palda 1997; Neumann and Egan 1999; Iankova 2002; King and Sznajder 2006; Mykhnenko 2007.

mentarities exist between the central elements of a successful variety of capitalism. It is exactly this core hypothesis—that the character of institutions within a successful economy are mutually reinforcing, balanced, and complementing—that is at the heart of the VOC theory.[11] As seen from the traditional VOC perspective, bastard or hybrid varieties of capitalism that combine features of both models should lead to suboptimal outcomes if compared to a coherent variety.[12] We argue that these different and contradictory inferences are partly explained by a somewhat premature, mechanistic preference for quantitative approaches.

Many studies simply take the basic characterization of the two dominant models of political economy (CME and LME) as a given and apply their dominant categories to the economies of ECE.[13] But given the fact that statistical correlations as such do not necessarily imply causal interrelationships between the institutional elements involved, this may lead to producing methodological artifacts.[14] Alternatively, studies that focus on only one institution[15] may also lead to problematic conclusions because a narrow focus does not allow for an identification of the quintessential interdependencies between different institutions within one capitalist model.[16]

We depart from a somewhat more complex reading of the VOC approach and focus on the most crucial institutional complementarities within these models. Based on this reading, we conclude that the emerging ECE capitalism does not fit well with the established varieties since fitting in would entail an exclusion of the central characteristic of the region, its external dependency. From our perspective, the identification of individual institutional parallels between ECE capitalism and either the CME or the LME model is misleading. We suggest that ECE signifies the emergence of a third basic variety—a dependent market economy (DME) type of capitalism. DMEs have comparative advantages in the assembly and production of relatively complex and durable consumer goods. These comparative advantages are based on institutional complementarities between skilled, but cheap, labor; the transfer of technological innovations within transnational enterprises; and the provision of capital via foreign direct investment (FDI). Given these complementarities, the superior performance of a DME, for instance,

[11] Hall and Soskice 2001b, 17–21; Amable 2003, chp. 3; Höpner 2005.
[12] Hall and Gingerich 2004; Cernat 2004, 2006.
[13] E.g., McMenamin 2004; Lane 2005; Knell and Srholec 2007.
[14] King and Sznajder 2006, 761–62.
[15] Such as industrial relations, e.g., Iankova 2002; Crowley 2005; Feldmann 2006.
[16] Höpner 2005.

compared with the rather incoherent "cocktail capitalism"[17] of Romania, becomes understandable.

Characterizing ECE countries as DMEs not only clarifies the confusion noted above, but also helps to eliminate some pitfalls of the VOC approach that have been noted in the literature.[18] First, it broadens the original Hall and Soskice framework's narrow focus on the U.S. and Western Europe. Second, it overcomes the overly strict dualism of this framework. Third, it incorporates transnational influences—in particular the role of transnational companies (TNC)—in an approach that traditionally tends to consider socioeconomic systems as closed containers and contributes to an emerging literature on the interaction between "national capitalisms and global production networks."[19] However, not all typical shortcomings of the VOC approach can be addressed at the same time. The most important omission in this article concerns the domestic class struggles and transnational politics that have historically led to the emergence and transformation of specific economic institutions.[20] Since we cannot give a complete picture of the emergence of ECE capitalism in these pages, our broad account needs to be complemented by more historically detailed and country-specific articles on the domestic political origins of these institutions, including the role of the state, domestic bourgeoisies, and unions, and their interplay with multinational corporations.[21]

Still, when compared with the existing literature, our extension of the varieties-of-capitalism approach leads to different policy conclusions. Against transitology studies from mainstream economics,[22] our extension of the VOC approach argues that there are different models for economic success and that it would be futile to expect or to hope that the ECE economies converge on the liberal model. Against more orthodox Marxist analyses,[23] our approach highlights the existence of a rather coherent segment within ECE economies that can successfully compete in world markets for the time being, as long as inconsistent institutional frameworks are avoided. Thus, we see some potential for taking the VOC approach as a basis for the development of economic strategies for emerging market countries. After all, the concerns of the

[17] Cernat 2006.

[18] Phillips 2004, 12; Crouch 2005, chp. 2; Feldmann 2006, 830–31; Jackson and Deeg 2006, 37–39; Bohle and Greskovits 2007a; Hancké, Rhodes, and Thatcher 2007b, 4–9; Drahokoupil 2009.

[19] Lane 2008.

[20] See Streeck and Yamamura 2001; Thelen 2004; Crouch 2005; on ECE see Jacoby 2006; Drahokoupil 2008.

[21] Drahokoupil 2009.

[22] E.g., Balcerowicz 1993, 1995; Frydman et al. 1993.

[23] E.g., Nesvetailova 2004; Raviv 2008.

contemporary VOC debate and important strands of development theory are strikingly similar.[24] But our analysis highlights some challenges for the long-term future of these DMEs: their comparative advantages are constantly being threatened by countries located further to the east and will continue to remain limited to segments of their economies, thereby leading to increasing social and political tensions.

To support our argument, we briefly introduce the two basic models put forward by the established VOC literature. Next we apply these models to the ECE countries thereby demonstrating that they do not fit either model, that they are not simply bastard combinations of the two basic models, and that they form a distinct third model we call dependent market economy. We also provide an analysis of the institutional complementarities within DMEs, based on the analytical categories of the VOC approach, which explains the comparative advantages that these countries currently enjoy. Our conclusion focuses on future perspectives for the sustainability of the DME variety of capitalism and for research. In addition, given that the main purpose of this article is conceptual development, we outline some options for a more systematic empirical test of our argument.

Dependent Market Economies as a Third Variety of Capitalism

The most widely used and comprehensive comparative typology of capitalism is still the varieties-of-capitalism model developed by Hall and Soskice.[25] Although there are a number of comparative capitalism alternatives that propose a much larger number of types of capitalism,[26] most authors still prefer to depart from the juxtaposition of CMEs and LMEs. Besides offering a rather balanced and comprehensive framework, one of the most important advantages of this typology is its parsimony;[27] while the two basic models clearly are unable to give full justice to the intricacies of, for example, British, French, or Italian capitalism, they still grasp the most important differences between the basic ideal types of "Anglo-Saxon" and "Rhenish" economies. Moreover, not even the scholars that highlight the particular features of state-enhanced capitalism in France or Italy would claim that these socioeconomic systems entail a third type of coordination mechanism—a necessary

[24] Phillips 2004, 16–20.
[25] Hall and Soskice 2001b.
[26] E.g., Hollingsworth and Boyer 1997; Whitley 1999; Coates 2000; Amable 2003; Schmidt 2003.
[27] Jackson and Deeg 2006, 31–32; Hancké, Rhodes, and Thatcher 2007b, 16.

precondition for a third basic variety of capitalism (see below); instead these economies are mostly described as “in between” or “mimicking” features of CMEs and LMEs.[28]

The main theoretical task of the CME/LME juxtaposition is to explain the marked differences in the comparative advantages of advanced capitalist economies. These advantages are most easily demonstrated by focusing on the different types of innovation processes that are central to the two production systems.[29] CMEs such as Germany or Austria are assumed to have a premium on incremental innovation, whereas LMEs such as the U.S. and the U.K., in contrast, are supposed to focus on radical innovation. Of course, these patterns of specialization do not comprise the whole of the economy. Basic services, for example, are produced throughout all economies, but are hardly covered by any of the VOC models.[30] Furthermore, it is problematic to equate a whole industry with a certain specialization pattern in innovation given that there are more- and less-innovative activities within the same industry and that these can vary over time.[31] Correspondingly, the VOC models are meant as broad ideal types.

The basic hypothesis of the varieties-of-capitalism approach is that the inherent institutional complementarities of the two different types of market economies can explain these broadly conceived innovation patterns. Each element of the two basic types has strong institutional complementarities with other elements of the same model and differs clearly from its functional equivalent in the other model. Usually, five interdependent elements can be highlighted:[32] the financial system (the primary means to raise investments); corporate governance (the internal structure of the firm); the pattern of industrial relations; the education and training system; and the preferred mode for the transfer of innovations within the economy. More generally, the two models differ with respect to the basic mechanisms available for the solution of coordination problems within national economies. In liberal market economies, the most important forms of coordination are competitive market arrangements and formal contracts. In coordinated market economies, nonmarket forms of coordination, such as interfirm networks and national or sectoral associations, play a crucial role.[33]

[28] Schmidt 2003, 547; Della Salla 2004, 1045.
[29] Hall and Soskice 2001, 38–44.
[30] Blyth 2003, 223.
[31] Taylor 2004, 613; Crouch 2005, 31.
[32] Hall and Soskice 2001b, 17–33; see also Jackson and Deeg 2006, 11–20.
[33] Hall and Soskice 2001b, 8, 33–36.

Given the importance of a parsimonious scheme for the success of the Hall and Soskice model, new varieties should not be added without hesitation. In order to qualify as a distinct variety of capitalism, three conditions have to be met:[34] (1) the existence of an alternative overall economic coordination mechanism closely related to (2) a relatively stable set of institutions based on marked institutional complementarities, that leads to (3) a set of specific comparative advantages (in relationship to CME and LME) and a superior economic performance over comparable, but less pure, socioeconomic systems. We address each of these conditions in turn to demonstrate that we can identify a third basic variety of capitalism that is emerging in ECE, although it is perhaps still too early to judge the long-term stability of this variety and its ability to provide an equal alternative to CMEs and LMEs.

The common denominator of the third variety is the fundamental dependence of the ECE economies on investment decisions by transnational corporations. Though we accept that the CME and the LME models are embedded in the global economy, we will demonstrate that the DMEs are—in both quantitative as well as qualitative terms—more deeply dependent on foreign capital than any of the core CMEs and LMEs. We baptized the third variety "dependent market economy" because it is similar to the label "liberal dependent post-communist capitalism" coined by Lawrence King;[35] it was inspired by earlier works on dependent development in Latin America.[36]

The point of departure for our argument is a recent literature on the relationship between transnational corporations and capitalist variety.[37] The main conclusion derived from this literature is that TNCs tend to look for a combination of low labor costs and the acquisition of "tacit knowledge embedded in local industrial districts."[38] As we demonstrate below, it is a combination of relatively low labor costs and a skilled population with substantial knowledge of a medium level of technology that constitutes the comparative advantage of the DME model. Similar to previous studies on the origin of economic institutions,[39] we highlight the crucial importance of an extraordinary crisis for the emergence of new socioeconomic institutions—in this case, the collapse of communism. TNCs always strive to create an institutional setup conducive to their needs. The political situation in ECE was uniquely well

[34] We owe this point to two anonymous reviewers.
[35] King 2007, 309.
[36] Evans 1979.
[37] E.g., Morgan and Kristensen 2006, 2007.
[38] Morgan and Whitley 2003, 610.
[39] Streeck and Yamamura 2001; Höpner 2005, 343.

suited for a full-blown institutional design geared towards the preferences of these corporations, given the absence in the region after 1989 of strong domestic bourgeoisies that could resist such a development.[40] The ideology of the leading political class fostered the development of an economic system that catered to the interests of TNCs as this class adhered to economic policies that spurred economic restructuring and economic growth through foreign investments.[41] Correspondingly, we identify the hierarchy within transnational corporations as the central coordination mechanism in DMEs,[42] in contrast to competitive markets and formal contracts as the central coordination mechanism in LMEs, or interfirm networks and associations having that role in CMEs (see Table 1). The notion of hierarchy not only complements markets and networks as the classical coordination mechanisms of modern societies,[43] but it is also closely linked to the complementarities between the most important socioeconomic institutions within the DME variety. Following earlier works in the VOC tradition,[44] we take corporate governance (specifically the hierarchical control by TNC headquarters) as our focal point and demonstrate its complementarities with the other four major institutions identified within the VOC framework.

First and most obvious are the complementarities between corporate governance and the primary means for rising investment within DMEs. Given the extremely huge volumes of FDI, TNCs prefer to hierarchically control local subsidiaries from their headquarters as an alternative mode of finance and governance rather than to accept financing by international capital markets and outsider control by dispersed shareholders (LME), or to accept financing by domestic bank lending as well as retained earnings and insider control by networks of concentrated shareholders (CME).

Second is the close relationship between the corporate governance institutions—the primary means of raising investments—and the system of industrial relations. On one side, TNCs need low labor costs for the DME model to work well and therefore will not accept costly institutions such as comprehensive collective agreements or cumbersome procedures for layoffs. Given the heavy competition for FDI, TNCs are in an excellent position to bargain on these issues. On the other side, the integration of corporate decision making into transnational commodity

[40] Eyal, Selényi, and Townsley 1998.
[41] Drahokoupil 2008; Vliegenthart and Overbeek 2007.
[42] For a remarkably similar concept see the notion of Hierarchical Market Economy (HME) as coined by Schneider 2008.
[43] Thompson, et al. 1991.
[44] E.g., Hall and Gingrich 2004; Höpner 2005.

chains leads to TNC interest in keeping workers in the distinct subsidiaries fairly satisfied. Widespread labor unrest would not only hinder the functioning of the distinct subsidiary, but might also have an effect on other parts of the commodity chain. We assume that the position of the subsidiaries is not so rooted within the national societies as to require a general arrangement with regard to labor issues. As a result, rather selective company-level agreements should dominate; ones that allow for catering to the needs of TNCs and create stable relationships between management and labor within the individual firm.

Third, we expect to observe an intrinsic interconnection between the education system, the system of corporate governance, the primary means for investment, and the innovation system. Given that FDI into this variety of capitalism pays off with rather low labor costs as well as with considerable tax breaks, TNCs will not be in favor of a generous public education system or of their own substantial investment into their labor force. In addition, they do not see the need to invest heavily into innovation-relevant skills, given that they prefer to transfer innovations into the region from abroad (see below). Furthermore, the strongly individualized system of company-level industrial relations in the DME as well as a system of corporate governance strongly geared toward the corporate hierarchies of individual TNCs would hardly allow for the introduction of a CME-style system of vocational training institutions, given that effective training institutions require national (or at least sectoral) coordination within interfirm networks and associations.

Fourth, TNCs prefer to keep the most innovation-heavy activities at their headquarters or to acquire them via takeovers (LMEs) or joint ventures with other companies in their country and sector (CMEs). Dependent market economies are expected to be used as assembly platforms based on innovations that are made at TNC headquarters and transferred within TNC hierarchies. This again entails complementarities between the DME institutions. Investment financing by FDI and hierarchical control by TNC headquarters allow for the transfer of innovations to DMEs without the risk of the intellectual-property-rights problems associated with joint ventures, for example. Moreover, given the limited amount of innovative activity, there is no need for an LME-type system of general-skill education combined with massive research and development (R and D) expenditures, or for a CME-type system of comprehensive vocational training. The same applies for industrial relations; TNCs do not need highly flexible labor markets to acquire

innovations (as in LMEs) or long-term investment into skill acquisition based on inflexible labor contracts (as in CMEs). DMEs work particularly well with a medium level of labor-market flexibility; TNCs retain the ability to adjust employment levels to demand in order to avoid too much labor-market fluidity for their skilled staff and avert a breakdown of their assembly platforms.

Taken together, the complementarities outlined above should give rise to a specific type of comparative advantage that is not based on radical innovation (LMEs) or incremental innovation (CMEs), but rather on an assembly platform for semistandardized industrial goods. While the highly innovative parts of the business cycle remain at TNC headquarters, fully developed technologies are transferred to the TNC's subsidiaries in the DMEs and remain under the control of the corporate hierarchy. At the same time, based on extremely favorable conditions for FDI (for example, tax breaks financed by low public expenditures), moderate labor costs, and a fairly skilled workforce, the region can successfully compete in the global market for this kind of investment.

East Central Europe: The DME Model in Practice

Our modification of the VOC conceptual framework identifies as the central coordination mechanism within these economies a number of institutional complementarities that are centered on the multinational enterprise core principle of intrafirm hierarchy. In this section we take a closer look at the five institutional components introduced by Hall and Soskice and further develop our idea that a third variety of capitalism is emerging in ECE. We demonstrate the complementarities between these institutions, as well as their mutual reliance on the hierarchical coordination within transnational enterprises, by using empirical data from the ECE region. However, with regard to the specialization pattern in CME and LME as discussed above, our construction of the DME model covers only the dominant industries within the region and cannot represent East Central European economies as a whole.

Primary Means of Raising Investments

In our view, the decisive impact of foreign capital in the restructuring of the former socialist economies symbolizes the primary characteristic of the emerging DME variety.[45] The dependency on foreign capital is best illustrated by a look at the way in which investments are financed.

[45] See also King 2007.

TABLE 1
THREE VARIETIES OF CAPITALISM

Institution	*Liberal Market Economy (LME)*	*Coordinated Market Economy (CME)*	*Dependent Market Economy (DME)*
Distinctive coordination mechanism	competitive markets and formal contracts	interfirm networks and associations	dependence on intrafirm hierarchies within transnational enterprises
Primary means of raising investments	domestic and international capital markets	domestic bank lending and internally generated funds	foreign direct investments and foreign-owned banks
Corporate governance	outsider control/ dispersed shareholders	insider control/ concentrated shareholders	control by headquarters of transnational enterprises
Industrial relations	pluralist, market based; few collective agreements	corporatist, consensual; sector-wide or even national agreements	appeasement of skilled labor; company-level collective agreements
Education and training system	general skills, high research and development expenditures	company- or industry-specific skills, vocational training	limited expenditures for further qualification
Transfer of innovations	based on markets and formal contracts	important role of joint ventures and business associations	intrafirm transfer within transnational enterprise
Comparative advantages	radical innovation in technology and service sectors	incremental innovation of capital goods	assembly platforms for semistandardized industrial goods

In the case of ECE, the primary source of investment is foreign direct investment (see Table 2), not the stock market (as in LMEs) or domestic credit (as in CMEs). FDI is concentrated in complex industries and ECE countries clearly have more of these than other transition economies such as the Baltic states and the CIS.[46]

Although FDI does play a role in the CME and LME models, the degree of external dependency is much more extreme in ECE. This is best demonstrated by an examination of the relationship between inward and outward FDI stock (see Table 3). While the relationship is fairly balanced in both CMEs and LMEs, DMEs are heavy importers of capital.

[46] Bohle and Greskovits 2007a.

TABLE 2
SOURCES OF BUSINESS FINANCE

Country	*Stock Market Capitalization (Percentage of GDP)*	*Domestic Credit to Private Sector (Percentage of GDP)*	*Inward FDI stock (Percentage of GDP)*
DME			
Czech Republic	31.0	33	48.0
Hungary	29.5	46	51.8
Poland	30.1	28	24.9
Slovak Republic	25.0	31	31.5
LME			
U.K.	138.9	156	37.8
U.S.	136.9	249	12.7
CME			
Austria	41.3	106	22.7
Germany	43.7	112	16.4

SOURCES: United National Conference on Trade and Development (UNCTAD); World Investment Report 2007 for inward FDI stock; World Development Indicators for stock market capitalization and domestic credit data for 2005 (Foreign Stock and Market Capitalization) and 2004 (Domestic Credit).

Another indicator of the importance of foreign capital to ECE countries is the measure, by sector, of their exports. In industries in which the ECE states have clear comparative advantages, such as automobiles, manufacturing, and electronics,[47] foreign ownership clearly dominates (see Table 4). In the banking sector, which affects the distribution of capital within an economy (particularly for small- and medium-scaled enterprises), foreign ownership is also omnipresent.

Taken together, these data about the origin of the primary means for raising investments demonstrate the external dependency of the ECE economies. Foreign direct investment is by far the most important source of capital. Domestic bank lending, the second most important source of finance, is also clearly dominated by transnational companies. When compared with ownership relationships in Western Europe, the heavy penetration of the ECE banking sector by FDI is obvious. At the end of 2004 the market shares of foreign branches and subsidiaries in the Euro area amounted to a mere 15.5 percent; the figure was well over 70 percent in ECE economies.[48] While ECE economies include large

[47] Rugraff 2006.
[48] Raviv 2008, 168–70; see also King 2007, 310.

TABLE 3
RATIO INWARD FDI STOCK/OUTWARD FDI STOCK

Country	*2006*
DME	
Czech Republic	15.3
Hungary	6.4
Poland	9.7
Slovak Republic	23.6
LME	
U.K.	0.8
CME	
Austria	1.0
Germany	0.5

SOURCE: UNCTAD.

TNCs as well as mid and small domestic companies, these companies also depend on foreign financing.[49] We can thus safely conclude that the most fundamental financing decisions are not made in the region itself, but in Western Europe and the U.S.

CORPORATE GOVERNANCE

The relationship between management and owners constitutes the central part of any corporate governance system. In most of the literature on corporate governance, ECE countries are considered to be hybrids of CMEs and LMEs.[50] We argue, however, that this assessment is superficially based on an analogy that looks only at formal governance structures such as two-tier boards. We suggest linking corporate governance to the specific ownership pattern of the region. Many larger corporations have been taken over by foreign investors. Especially in Hungary, but also in the other ECE states, privatization has led to a host of foreign takeovers of formerly state-owned corporations.

As a result, with regard to the institutional setup and its dependency on foreign investments, the East Central European DME model is different from the CME and LME models. Foreign ownership leads to important changes in the internal corporate-governance structure within ECE enterprises; major corporate decisions are not negotiated between managers and shareholders, but rather between managers of the ECE

[49] We owe this point to an anonymous reviewer.
[50] Iankova 2002; Neumann and Egan 1999, 175; Palda 1997, 93.

Table 4
Share of Foreign Ownership in Three Strategic Sectors

Country	*Automotive*	*Manufacturing*	*Electronics*	*Banking*
Czech Republic	93.1	52.6	74.8	85.8
Hungary	93.2	60.3	92.2	90.7
Poland	90.8	45.2	70.3	70.9
Slovak Republic	97.3	68.5	79.0	95.6

Source: Data for 2004, based on OECD.stat database, measured as a percentage of turnover; banking data for 2002 based on Mérö and Valentiny 2003.

subsidiary and Western headquarters. TNCs "have fully integrated the CEE [Central and East European] subsidiaries into their company networks."[51] As a result, corporate managers of ECE subsidiaries are responsible to internal supervisors in other countries. "Foreign companies… have applied tight budgets…exercised close control on managerial decisions and relied heavily on their appointees to the board of directors."[52] In general, we perceive a strong institutional complementarity between an ownership structure that is dominated by foreign direct investments and a corporate governance structure that demonstrates close supervision of local managers by Western-based headquarters. This contrasts both the LME model, in which there is an active market of corporate control based on financial markets to supervise management, and the CME model, where managers primarily have to deal with holders of large blocks of stock and domestic banks that provide funding as preferred partners (so-called Hausbanken).

To some extent these observations are also valid for subsidiaries in Western Europe and the U.S., but in East Central European countries the process is more marked. Corporate governance in ECE is more transnationalized than in the core of the world economy. TNCs play a decisive role in total growth as domestically owned small- and medium-scale enterprises (SMEs) are often dependent on foreign partners in supplier-driven and buyer-driven supply chains.[53] As a result, corporate strategies adopted in foreign headquarters have a decisive impact on the whole economy of the region, which reflects the dependent position of the ECE countries discussed earlier. Thus, these investments have an ambivalent character, as indicated by the case of a German paper multinational: "This firm integrates the Polish economy with the Western

[51] Radosevic 2003, 33.
[52] Czaban and Henderson 2003, 182; see also Holman 2002, 414.
[53] Radosevic 2003, 33.

European ones, while simultaneously making it dependent on the decision of a firm with operations in many countries, making investment decisions with its global empire, not Poland's development, in mind."[54]

Finally, the corporate-governance regulatory framework first introduced in the early 1990s has been highly influenced by the process of EU enlargement. In this process, the EU has laid out the kind of corporate-governance reforms needed in order to acquire EU membership. As a result, corporate-governance practices as well as corporate-governance regulations are not pure endogenous products, but have been strongly influenced by transnational agents.[55]

Industrial Relations

Regarding labor relations, ECE economies do not resemble either the market-based Anglo-Saxon or highly cooperative Rhineland models, but constitute a variety in their own right. Again, a study that looks only at quantitative data and formal institutions might classify the region as a hybrid. In general terms, East Central European collective bargaining coverage rates are higher than in the Anglo-Saxon world, but lower than in the Rhineland states (see Table 5).

Indeed, unlike the Anglo-Saxon model, ECE countries do not have a culture of hiring and firing, nor do they have a corporatist structure in which organized labor is incorporated into a complex system of bargaining procedures and enjoys real power in the struggle over wages and collective agreements on the sector level. The position of labor in DMEs is substantially weaker than in CMEs, given the heavy competition for foreign direct investment and the lingering threat of companies being relocated further east. Correspondingly, transnational companies will not accept factors such as high wages, high union density, comprehensive collective agreements, powerful worker representation or cumbersome procedures for layoffs. Given that the incorporation of DMEs as assembly platforms in complex global commodity chains makes strikes very costly, as soon as TNCs invest heavily within the region they become interested in keeping workers fairly satisfied.[56] At the same time, these TNCs cannot easily replace their skilled labor and they cannot avoid worker defection by simply paying higher wages, doing so would cause them to lose the cost advantage of that workforce. Thus, they avoid the rather fluid relationship with workers that can be observed in LMEs, and generally strive for an appeasement of workers

[54] King and Sznajder 2006, 781.
[55] Vliegenthart 2009.
[56] Greskovits 2005, 121–22.

TABLE 5
INDUSTRIAL RELATIONS AND SOCIAL SPENDING

Country	*Collective Bargaining Rate (Percentage of Entire Working Population)*	*Dominant Level of Bargaining*	*Union Density (Percentage of Entire Working Population)*	*Public Social Spending (Percentage of GDP)*
DME				
Czech Republic	27.5	firm	27.0	21.1
Hungary	40.0	firm	19.9	22.7
Poland	40.0	firm	14.7	22.9
Slovak Republic	40.0	sectoral/ firm	36.1	17.3
LME				
U.K.	32.1	firm	29.2	16.2
U.S.	13.1	n.a.	12.8	20.6
CME				
Austria	98.5	sectoral	35.7	26.1
Germany	70	sectoral	23.5	27.3

SOURCES: Collective bargaining rates for 2002, Visser 2004; dominant level of bargaining, European Commission Union Density for 2001, Visser 2004; social spending for 2003, OECD.stat.

in terms of work conditions. A typical phenomenon is the existence of company-level agreements, which make up 80 percent of all collective bargains in ECE, in contrast to Western Europe where most agreements are made at the sectoral or even national level.[57]

In this respect, ECE states can be characterized as countries with incomplete social pacts,[58] a characterization that is also represented in public social spending. ECE welfare arrangements are not as comprehensive as those of CME states, but the ECE governments spend more on welfare than do their counterparts in LME states (see Table 5). In ECE industrial relations and social spending systems are not built on broad-based social struggles, but rather are instituted to selectively appease transnational corporate employees. The issue of worker representation on supervisory boards poses another example of the incomplete system of employee involvement within ECE industrial relations; such representation is officially part of the institutional setup in countries, but in practice only half-heartedly implemented.[59]

[57] Crowley 2004, 406.
[58] Bohle and Greskovits 2006; Meardi 2007.
[59] Vliegenthart 2008.

If the system of industrial relations is linked with the primary means to raise investments and the system of corporate governance, given the dominant interest of Western owners to keep labor costs low and to safeguard the smooth working of tightly integrated commodity chains, strong institutional complementarities can again be identified. While this preference is well served by company-level collective agreements, sectoral or even national agreements are hardly viable because coordination between the owners of local businesses—situated in a number of various Western capitals—is difficult to generate. In contrast, sectoral- or national-level agreements are fairly typical for CME countries where the existence of a strong domestic bourgeoisie heavily reduces the corresponding transaction costs. At the same time, the increasing scarcity of skilled labor in ECE countries (examined in the next section) would make an LME system—with its high reliance on fluid labor markets and individual contracts—very costly if disruptions of complex commodity chains are to be prevented.

Education and Training Systems

When turning to education and training systems, ECE can again be distinguished from the countries that manifest the LME or CME varieties of capitalism. The 1990s saw substantial cutbacks in government spending on education[60] and a decentralization of the responsibility for education.[61] Between 1995 and 2000, government spending on education was reduced "from 5.5 percent to 5.2 percent in Poland, from 5.4 percent to 4.9 percent in Hungary, and in the Czech Republic from 4.9 percent to 4.4 percent" of the GDP.[62] At the same time the basics of the socialist educational system, with its focus on vocational training, survived but its orientation radically changed. As K. Roberts[63] points out, one of the key elements of the postsocialist education system is that vocational training is structured to meet the labor demands of TNCs. Spending on and structuring the vocational system then, in turn, shape the rest of the educational system.

In this respect, it is important to stress that employers usually "are unwilling to bear the additional costs of on-the-job training of inexperienced young workers."[64] It seems that most employers do not find it rewarding to invest heavily in their own workforce.[65] The DME model

[60] Commandor and Kollo 2008.
[61] Barrow 1998.
[62] Feldmann 2004, 278.
[63] Roberts 2001.
[64] Nesporova 2002, 12.
[65] Bohle and Greskovits 2006, 15.

differs from the CME model in the sense that in it, public vocational training, largely outside of corporations, dominates the system; not much vocational training occurs at the workplace. At the same time, the withdrawal of governmental involvement no longer allows for a strong public education system that counterbalances limited vocational training with a high quality general-skills education along Anglo-Saxon lines. ECE governments find it difficult to invest heavily in public education—a major precondition for a comprehensive general-skills education—given the fiscal constraints that go hand in hand with the intense competition for FDI, frequently including massive tax-reduction packages.[66]

All in all, the postsocialist educational system fits neatly with our interpretation that the economies of ECE countries belong to a third variety of capitalism and that this third variety is primarily characterized by its external dependency. Whereas demanding tasks such as research and development are executed in the CMEs and LMEs of the core regions of Western Europe, the DMEs of East Central Europe are used as assembly platforms for semistandardized goods. For these purposes, existing vocational skills are largely adequate; major investment to upgrade required skills would endanger ECE's cost advantages and would be difficult to organize, given the firm-centered system of industrial relations within DMEs. In addition, given the specific corporate-governance and finance systems of DMEs, it hardly comes as a surprise that there are few activities that counter the slowly eroding comparative advantage of these economies—which probably goes hand in hand with low levels of spending on education and training. Whereas nationally owned businesses would be concerned about these long-term developments and might coordinate for reverse action, Western headquarters do not care much about these tendencies, given their potential to relocate production in the long term if local skill levels deteriorate too much.

Innovation Systems

Similarly, for tasks such as assembly platforms for semistandardized goods, major investments in R and D are not necessary and too costly. Decisions regarding research and development are not dominated by concerns about the long-term innovation potential of local economies, but rather by their current profitability within a transnational company. The tendency not to invest into the valorization of the production process is reflected in the total spending on research and development,

[66] Bohle and Greskovits 2006, 20–21.

which falls way below the figures of Western Europe and the U.S. (see Table 6).

The level of spending on research and development is not the only thing that sets dependent market economies (negatively) apart from the other varieties; the organization of the innovation system within them differs considerably from those within LMEs (where innovations are transferred via the market) and CMEs (where innovations are spread by diverse means of business cooperation). In the case of DMEs, most R and D is done outside the region and then imported into the production process through transnational networks that bind together the different places of production. Foreign corporations often import new technologies into the region and do their R and D and design elsewhere in the world because they consider ECE economies as a place for production and not for research.[67] The consequence for local companies within DMEs has been nicely summarized by Ottó Sinkó, president of Videoton, a leading Hungarian company: "Downsize radically, stop developing new products, and focus on labor-intensive manufacturing to serve a hungry crop of multinational investors."[68] Modern technology is transferred to ECE economies under the strict control of TNC headquarters, something enabled by the externally dominated corporate-governance patterns described above. Correspondingly, more than 70 percent of R and D expenditure in Hungary is provided for by foreign-controlled firms.[69] As a further consequence, there has been an increasing shift from joint ventures to majority foreign ownership—the latter accounting for 40 percent of FDI in Poland in 1993, 45 percent in 1995, 50 percent in 1998,[70] and even 100 percent ownership in the technologically most demanding activities[71]—thereby indicating a strong complementarity between innovation systems and the control over the means of investment. Still, technology transfer should not be underestimated, since it has allowed for the modernization of ECE production facilities and thus supported the region's current competitive advantage within global capitalism. ECE economies have been able to attain a relative degree of economic success[72] without massive investment in their own education systems due to a disproportionate amount of foreign direct investment.

[67] For an excellent account of these tendencies in the clothing industry see Pickles et al. 2006.
[68] Quoted after Bohle and Greskovits 2006, 13.
[69] King 2007, 312.
[70] King and Sznajder 2006, 778.
[71] Greskovits 2005, 120.
[72] King 2007, 314.

TABLE 6
GROSS DOMESTIC EXPENDITURES ON RESEARCH AND DEVELOPMENT AS A PERCENTAGE OF GDP

Country	*2000–2005 Average*
DME	
Czech Republic	1.3
Hungary	0.9
Poland	0.6
Slovakia	0.6
LME	
U.K.	1.8
U.S.	2.7
CME	
Austria	2.1
Germany	2.5

SOURCE: *Eurostat*, U.S. and U.K. figures for 2000–2004.

Although we do not go into the details of different types of innovation (product, process, etc.) in this article, the assessment can be broadly supported by an analysis of patent data, as utilized by Hall and Soskice[73] in their analysis of CME and LME innovation patterns. ECE performs relatively poorly with regard to the number of patents when compared to CMEs and LMEs (see Table 7), even when the shortcomings of this broad indicator are taken into account.[74] Moreover, the gap with regard to investments within the enlarged European Union seems to be growing. For all countries in the region, R and D intensity declined between 1990 and 2000.[75] This might also explain the fact that the number of patents in the region has actually decreased during the last ten years.

The absence of large numbers of (high-tech) patents does not mean that there is no innovation activity undertaken in DMEs. Innovation in ECE "has so far been predominantly imitative and not creative. Technological activities in firms are skewed towards downstream nonanalytical and non-R and D activities like testing and standards."[76] This is

[73] Hall and Soskice 2001b, 41–44.
[74] Taylor 2004; Crouch 2005, 28–31.
[75] OECD 2002, 16.
[76] Högselius 2003, 22.

TABLE 7
TRIADIC PATENTS[a] PER MILLION INHABITANTS

Country	*1990*	*2000*
DME		
Czech Republic	0.71	0.60
Hungary	2.69	1.62
Poland	0.14	0.16
Slovak Republic	n.a.	0.02
LME		
U.K.	25.26	16.78
U.S.	44.57	n.a.
CME		
Austria	22.52	26.61
Germany (including ex-GDR from 1991)	51.74	53.79

SOURCE: *Eurostat*, patent statistics.
[a]Triadic patents are patents acknowledged by U.S., EU, and Japanese patent organizations.

reflected in the number of high-tech patents that are registered in the region (see Table 8). There is a big gap between ECE economies and both LMEs and CMEs.

Again, this is not to say that there is no innovation whatsoever in ECE or that the region produces outdated products. On the contrary, the comparative advantage of the region rests upon its ability to quickly adapt to new trends in the production of qualitative durable consumer goods. Yet most of the new trends come from outside the region; the existing innovation in ECE is rather limited in scale and is conducted by a number of small companies that are active suppliers and final producers for the major transnational companies. Whereas the TNCs deliver the technology to subsidiaries, the subsidiaries in return are widely connected, partly through ownership ties, to their national suppliers. This leads to a rather stable relationship between these firms.[77] The transnational corporations are on the top of the institutional hierarchy, the national suppliers are highly dependent on the TNCs for the continuation of their work,[78] and the practices brought into the region by the TNCs are subsequently introduced by domestically owned corporations.

[77] Czaban and Henderson 2003, 185.
[78] Pavlinek 2004.

TABLE 8
HIGH-TECH PATENTS PER MILLION INHABITANTS
GRANTED BY THE USPTO[a]

Country	*1990*	*2000*
DME		
Czech Republic	0.097	0.178
Hungary	0.193	1.139
Poland	0.013	0.039
Slovak Republic	n.a.	n.a.
LME		
U.K.	7.156	11.305
U.S.	34.493	n.a.
CME		
Germany (including ex-GDR from 1991)	7.093	15.75
Austria	1.814	8.292

SOURCE: *Eurostat*, patent statistics.
[a]USPTO patents are patents that are registered at the U.S. patent organization.

This fits the general picture that foreign direct investment is not only important in regards to ownership issues, but also to the region's whole institutional setup.

COMPARATIVE ADVANTAGES AND ECONOMIC PERFORMANCE

Although the limited large-scale innovation capacity of DMEs may be worrisome in the long run, for the time being, the specialization of ECE has allowed for substantial growth in the region. This is reflected by the comparative advantages of the ECE states that are situated in the assembly and production of relatively complex and durable consumer goods. Poland, for example, has undergone a remarkable shift with regard to its export structure, moving from agricultural products and industrial materials to consumer goods such as vehicles and vehicle parts.[79] ECE countries are now increasingly specialized in labor-intensive export industries, such as medium-quality cars, machinery, electronics, and electrical products. As Table 4 demonstrates, these sectors are predominantly foreign owned. They can be considered complex when it comes to the worker skills involved, but the intensity in physical capital varies

[79] King and Sznajder 2006, 779.

from heavy (i.e., cars) to light (i.e., electrical products and electronics).[80] The comparative advantage of the region in component manufacturing and assembly for diverse industrial goods primarily stems from the availability of cheap, but skilled labor.[81] In this respect, ECE has become what John Pickles et al.[82] call "a global assembly platform"—a region where technical products are put together before they are exported (mostly) to more advanced economies. After the collapse of state socialism and the subsequent deindustrialization, the region specialized in the reexport of high-tech consumer goods. For this particular type of activity, no major research and development in the region is necessary.

In order to assess the overall economic performance of the emerging DME model, it must be compared with countries in a similar position, i.e., postsocialist European states. Measured in terms of GDP per capita development, the four major ECE states—the Czech Republic, Hungary, Poland, and Slovakia—are among the best performing countries (see Table 9).[83] A rare exception in the cluster of postsocialist states is Slovenia, which emulates the CME model and also has a high GDP per capita.[84]

While the ECE states have outperformed former CIS states such as Russia and Ukraine in terms of GDP per capita development, their superior economic performance (particularly that of Slovakia) becomes most obvious when compared with Bulgaria or Romania. The DME model of Slovakia has been much more successful than the rather incoherent "cocktail capitalism"[85] of Romania. This superior performance is also exemplified by the export share of complex, human-capital intensive industries; from 1996 to 2005 it rose in Solvakia from 41 percent to 51 percent while it decreased in Bulgaria from 31 percent to 23. Slovakia also reports rapid development in high-tech exports from 2003 on. In contrast, the Bulgarian export structure has been relatively stable for the last five years, with some increase in heavy basic exports. Although

[80] Greskovits 2005.

[81] Czaban and Henderson 2003, 182.

[82] Pickles et al. 2006.

[83] In line with other comparative evaluations of the economic performance of specific varieties of capitalism such as Hall and Gingrich (2004) as well as Kenworthy (2006), we are using data on GDP growth. The utilization of patent data by Hall and Soskice (2001a and b) has been severely criticized (Taylor 2004). Moreover, it would be misleading to use patent data as performance indicators for DMEs since they, by definition, rely less on this type of innovation activity than on CMEs and LMEs. Still, we agree with Kenworthy (2006, 86) that aggregate analyses, e.g., based on GDP data, have limited merits in testing causal hypotheses on economic performance.

[84] Feldmann 2006.

[85] Cernat 2004.

TABLE 9
GROSS NATIONAL INCOME PER CAPITAL PURCHASING POWER PARITY

Country	*1995*	*2001*	*2007*
East Central Europe			
Czech Republic	12,820[a]	15,640	22,020
Hungary	12,830	12,830	17,210
Poland	7,330	10,880	15,330
Slovak Republic	8,380	11,900	19,340
Baltics			
Estonia	6,320	10,160	19,810
Latvia	5,080	8,550	16,890
Lithuania	6,040	9,050	17,180
South East Europe			
Bulgaria	5,480	6,690	11,180
Romania	5,860	6,620	10,980
Slovenia	12,910	18,150	26,640
Commonwealth of Independent States			
Russian Federation	6,360	8,130	14,400
Ukraine	3,160	3,630	6,810

SOURCE: World Development Index, Quick Query
[a]All figures represent U.S. dollars.

the current differences between ECE and the Baltics in terms of GDP development are far less obvious, the long-term prospects for sustainable economic development are brighter for the ECE states, given that they have specialized in complex exports and not in exporting worked primary goods such as wood manufacturing. The Baltics might still be caught in a "postsocialist developmental trap" that hinders structural economic development.[86]

CONCLUSION AND RESEARCH PERSPECTIVES

We have identified an economic model in East Central Europe that is stable and fairly successful—particularly when compared with most other transition economies. For the time being, this model leads to comparative advantages of parts of ECE economies in sectors such as

[86] Greskovits 2005.

automobiles and consumer electronics. The comparative advantages of the economies can be explained by looking at the complementarities between the different institutions within these capitalist systems. Taken together, these institutions form a rather coherent, stable whole. At the same time it becomes clear that these institutional complementarities do not fit the coordinated market economy or the liberal market economy models and it does not make sense to describe ECE as epitomizing a mixture of CME and LME elements. The latter not only ignores the fundamental argument of the VOC approach (institutional complementarities), but also leads to the identification of superficial similarities that do not cover the basic functions of ECE capitalism. Instead, we have constructed a third variety, based on the original categories supplied by the VOC approach. We have baptized this variety the "dependent market economy" since its overriding feature is the fundamental dependence on investment decisions by TNCs. Thus, the hierarchy between TNC headquarters and local subsidiaries replaces markets (LME) and associations (CME) as a typical coordination mechanism within these economies. Subsequently, we have identified a number of complementarities between these corporate governance features and the other major institutions of DMEs.

This perspective opens a range of avenues for further research including the need to combine it with a more political account of the emergence of these institutions. Conceptualizing the economies of ECE as dependent market economies raises the question as to whether these findings may also be applied to other semiperipheral regions within the contemporary world economy, such as parts of Latin America or South East Asia. This comparison would lead to a more systematic empirical test of our argument and would clarify the role of the timing of integration into the capitalist world economy in the evolution of DMEs. Arguably, this timing has heavily contributed to the extraordinarily dependent character of the ECE economies (when compared to other regions of the semiperiphery), given the weakness of domestic bourgeoisies after the demise of communism. Therefore the ECE region is perfectly suited as an empirical illustration of the development of a DME ideal type, as are Germany and the U.S., respectively, in cases of CME and LME. However, the specific heritage of the recent transition from communism makes it difficult to test ECE's economic performance against less pure cases of DME in other world regions; according to VOC logic, DME performance should be superior.

A second comparative perspective instigated by our theoretical development concerns the ongoing graduation of former semiperipheral

economies, such as Ireland, into the core of the world economy. These countries have experienced sustained economic growth in the context of a prominent role for foreign TNCs. Will this graduation be possible for ECE as well? Given the extraordinarily high degree of external dependency in DMEs, our findings indicate a somewhat skeptical perspective.[87] On the one side, the extreme situation in ECE leads to particular risks, as indicated by the case of Poland (and made more obvious by the recent subprime crisis):

> While some of the smaller European economies are probably similarly dependent, it seems possible that Poland may have a greater reliance on TNCs for technology transfer… It also seems that even more of the "commanding heights" of the Central Eastern European economies—banking, telecom, utilities, and high-tech manufacturing—are foreign owned… Polish growth has become extremely dependent on imported industrial goods, foreign markets, and the investment decisions of foreign-owned firms and banks. It is therefore extremely sensitive to exchange-rate fluctuations and changes in external demand.[88]

Western owners of eastern production sites may well have a certain interest in the short- and medium-term viability of their investments in DMEs, but they have less incentive than domestic bourgeoisies to invest in the long-term sustainability of these economies. Instead, Western owners might relocate their production sites further to the east, driven by the competitive pressures of financial capitalism. At the same time, the current comparative advantages of ECE may gradually be eroded, given the decreasing value of the skill heritage acquired during communism and the absence of substantial investment into R and D and education that have been so crucial for the Irish case.[89] Correspondingly, the movement of DMEs towards CME or LME status does not look likely and the stability of DMEs might even be slowly undermined in the very long run.

A third comparative perspective, however, stemming from the institutional features of many economies of the former Soviet Union states—in particular their high degree of rent-seeking activities—could lead to the conclusion that there may still be limitations to the eastward relocation drive. These economies are marked by the prominent role of informal patronage networks and the overriding role of control over the access to raw goods—their most important economic assets. It is difficult to imagine that they could offer the same institutional

[87] See also Böröcz 2004, 6–9.
[88] King and Sznajder 2006, 790.
[89] Keating 2006.

complementarities that support the competitive position of the ECE economies, in spite of their considerable economic growth. In the logic of our argument one may therefore assume the existence of at least a fourth basic variety of capitalism—based on "clans"—as a fourth basic mode of social coordination[90] and dominating the global periphery of Central Asia[91] and sub-Saharan Africa.

Of course, not all economies have to be institutionally coherent. One might be tempted to use the variety of capitalism approach as the basis for a theory of underdevelopment, explaining it by the absence of sufficient institutional complementarities. This theory would suggest seeking equilibrium in domestic systems and strongly advise against benchmarking "best" institutions across countries.[92] In particular, the transfer of individual institutions from one variety to another has rarely proven successful, as numerous attempts to export the German system of apprenticeships have demonstrated. Moreover, studies exploring the origin of vocational training institutions indicate that the institutionalization of a stable system of firm-based training relies on very specific class settlements.[93] Correspondingly, the usefulness of the VOC theory for the design of development strategies might be somewhat limited, given the considerable difficulties of creating these complex institutions and linkages by policy design.

In any case, the policy conclusions from our investigation are quite ambivalent. The most immediate implication from our assessment would be for the ECE economies to substantially invest in education, training, and research in order to stabilize their current comparative advantages against the relocation of production and to attract new investments. But doubt may still be raised as to whether stabilization of the current position in the world economy is really desirable, given that few countries would explicitly choose an export-oriented development path with a medium level of technology under the domination of foreign capital.[94] Moreover, only part of the society benefits from the success of the externally dominated industries. While the DME model has proven to be fairly coherent and successful for certain sectors, it clearly fails to lift the standard of living of the whole population. Instead, we observe a growing dualism within these societies with rising income disparities between those who participate in the export-oriented industries and

[90] Ouchi 1980.
[91] "Patrimonial postcommunist capitalism," see King 2007, 309.
[92] Höpner 2005, 334.
[93] Thelen 2004.
[94] We owe this point to an anonymous reviewer.

those who are excluded or who have to bear the costs incurred by the generous incentives offered by governments to attract FDI.[95] Most recently, this uneven development has led to increasing political and social tensions in East Central Europe, accompanied by the rise of populism. While massive FDI has undoubtedly contributed to the modernization of East Central European industries, its broader societal implications may be more ambivalent.

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[95] Bohle and Greskovits 2006, 20–21.

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COMMENTARY

Hierarchical Market Economies and Varieties of Capitalism in Latin America*

BEN ROSS SCHNEIDER

Abstract: The extensive scholarship on 'varieties of capitalism' offers some conceptual and theoretical innovations that can be fruitfully employed to analyse the distinctive institutional foundations of capitalism in Latin America, or what could be called hierarchical market economies (HMEs). This perspective helps identify four core features of HMEs in Latin America that structure business access to essential inputs of capital, technology and labour: diversified business groups, multinational corporations (MNCs), low-skilled labour, and atomistic labour relations. Overall non-market, hierarchical relations in business groups and MNCs are central in organising capital and technology in Latin America, and are also pervasive in labour market regulation, union representation and employment relations. Important complementarities exist among these features, especially between MNCs and diversified business groups, as well as mutually reinforcing tendencies between these dominant corporate forms and general under-investment in skills and in well-mediated employment relations. These four features of HMEs, their common reliance on hierarchy, and the particular interactions among them add up to a distinct variety of capitalism, different from those identified in developed countries and other developing regions.

Keywords: varieties of capitalism, Latin America, business groups, multinational corporations, skills, labour, economic liberalisation

Introduction

The comparative institutional analysis of different varieties of capitalism has been elaborated extensively for some developed countries, especially the 'liberal market economies' (LMEs) of the United States, the United Kingdom

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and other Anglophone countries, and the 'coordinated market economies' (CMEs) of Germany, Japan and other northern European countries.[1] In recent years scholars in other areas, especially Asia, southern Europe and Eastern Europe, have been asking whether distinctive varieties of capitalism exist in these regions as well.[2] Although the comparative institutional analysis of capitalism in Latin America has a long tradition, new research has been sparse. Beyond helping to revive this tradition, a 'varieties of capitalism' perspective would bring several major innovations to the study of Latin American political economy. Most importantly, it incorporates labour relations and worker skills into analyses of business strategies; it shifts attention from states to firms; and it directs the empirical focus away from recent policy changes and towards enduring, underlying institutional features of capitalism in the region.

The study of distinctive forms of capitalism in Latin America has gone through several stages over past decades, before slipping down the list of research priorities. Early analyses began with the assumption that entrepreneurs drove capitalist development, then studied the behaviour and attitudes of Latin American capitalists and usually concluded that business-people were insufficiently entrepreneurial.[3] In the 1960s and 1970s this focus on individuals in a domestic setting shifted to a preoccupation with structures in the international economy, namely dependency theory. Here the problem with Latin American capitalism was that it was dependent, externally constrained, and lacked internal dynamism. By the 1980s the analysis of Latin American capitalism had shifted again, mostly towards the analysis of states and state intervention in the economy, and later to changing development strategies.[4]

[1] The original framework is from Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in Peter A. Hall and David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (New York, 2001), pp. 1–68. For more recent debates and extensions, see Robert Boyer, 'How and Why Capitalisms Differ', *Economy and Society*, vol. 34, no. 4 (2005), pp. 509–57; Colin Crouch, *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs* (Oxford, 2005); Bob Hancké, Martin Rhodes and Mark Thatcher (eds.), *Beyond Varieties of Capitalism: Conflict, Contradiction and Complementarities in the European Economy* (Oxford, 2007).

[2] See, for example, Bruno Amable, *The Diversity of Modern Capitalism* (New York, 2003); Hancké et al. (eds.), *Beyond Varieties of Capitalism*; David Lane and Martin Myant (eds.), *Varieties of Capitalism in Post-Communist Countries* (New York, 2007); Andreas Nölke and Arjan Vliegenthart, 'Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe', *World Politics* (forthcoming, 2009).

[3] See, for example, Albert Lauterbach, 'Government and Development: Managerial Attitudes in Latin America', *Journal of Interamerican Studies and World Affairs*, vol. 7, no. 2 (1965), pp. 201–25.

[4] Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, 1995); Stephen Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton, 1995).

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These successive literatures highlighted crucial aspects of capitalism in Latin America but also left important gaps. Firstly, they had little to say about distinctive forms of corporate governance in domestic firms. We know a good deal about the political activities of domestic business, and its relations with government and multinational corporations (MNCs), but much less about how local capitalists built and organised their firms.[5] The firm's-eye view of the world characteristic of 'variety of capitalism' analyses offers a useful corrective to other perspectives that either deduce firm behaviour or treat it as secondary and mechanically reactive to other forces. And, in practice, what has emerged in developing countries in the wake of market-oriented reforms of the 1980s and 1990s is neither state-led nor market-led development, but rather business-led development. Secondly, and similarly, the large literature on organised labour focuses more on its role in politics than in collective bargaining and firm-level intermediation. Lastly, the study of worker skills, education and training in Latin America has been left largely to a small group of policy experts, and the narrow literature on skills is rarely incorporated into general discussions of the performance of Latin American capitalism overall.[6] A 'varieties of capitalism' approach directs attention precisely to these neglected areas and the interactions among them.

The goals of this paper are several. Conceptually and theoretically, the goal is to extend the debate on varieties of capitalism beyond the narrow confines of developed countries and to consider the benefits of employing conceptual innovations such as the analysis of institutional complementarities to illuminate continuities in developing regions like Latin America. This analytic lens helps to generate hypotheses on the contours of a distinct variety of capitalism, a hierarchical market economy (HME), that seems to characterise most large countries of Latin America well.

Following the 'varieties' focus on corporate governance and labour relations, the four core empirical features of HMEs in Latin America would be diversified business groups, MNCs, atomistic labour relations and low skills. The dominant corporate form among large private domestic firms has long been the family-owned and -controlled diversified business group, normally known in Latin America as a *grupo económico* or *grupo*. In 1980, for example, the largest private domestic firm in Mexico, Banamex, was a sprawling, conglomerated, family-owned group. By 2000, the largest private firm in Mexico, in fact in all of Latin America, was the Grupo Carso, also highly diversified and family-controlled. Most of the rest of the large private firms

[5] Almost nothing like the extensive subdiscipline of business history in developed countries exists in Latin America. For an important exception, see Carlos Dávila and Rory Miller (eds.), *Business History in Latin America: The Experience of Seven Countries* (Liverpool, 1999).

[6] María Angélica Ducci, 'Training and Retraining in Latin America', in Albert Berry (ed.), *Labor Market Policies in Canada and Latin America* (Boston, 2001).

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were subsidiaries of MNCs. MNCs have long been dominant in manufacturing, but in recent decades they have also expanded into finance, utilities and other services. On the labour side, the main focus is on the absence of institutions both for intermediating employment relations within firms and for fostering greater investment in skills and training. Unions are small and represent a decreasing share of workers, in part because the informal sector is so large. Moreover, turnover is very high, so few employees establish long-term relations with their firms. Lastly, education levels are comparatively low, despite recent advances, and public and private investment in training is minimal.

In some respects HMEs resemble CMEs (for example, in non-market forms of corporate governance), and in others they tend towards LMEs (as in labour markets). However, HMEs are not simple hybrids or mixtures (what Peter Hall and David Soskice have identified as a possible Mediterranean variety).[7] Rather, both the major components, and especially the interaction among them, constitute a distinct variety, and closer examination of apparent features of coordination and markets reveals, in fact, much more hierarchical relations. The economies of Latin America are of course deeply penetrated by market relations and private property (and therefore have little in common with socialist, command economies). Yet, hierarchy pervades the core relations of capitalism more in Latin America than elsewhere. The term 'hierarchical market economy' is designed in the first instance to highlight differences among LMEs, CMEs and HMEs. In addition, the oxymoronic coupling of hierarchy with market also suggests that the institutional components may not fit together as smoothly as those in LMEs and CMEs, and may in some instances be dysfunctional.

The next section briefly analyses the empirical dimensions of the core features of hierarchical capitalism in Latin America.[8] The paper then considers some complementarities among these features, especially interactions between MNCs and diversified business groups, as well as mutually reinforcing tendencies between these forms of corporate governance and general underinvestment in skills. The paper concludes by considering some broader comparisons with other regions, as well as implications of this hierarchical variety of capitalism for understanding economic policy and performance.

[7] Hall and Soskice, 'An Introduction', p. 21.

[8] Elsewhere I elaborate on abstract conceptual and ideal typical distinctions among CMEs, LMEs and HMEs: Ben Ross Schneider, 'Comparing Capitalisms: Liberal, Coordinated, Network, and Hierarchical' (MS, 2008). In this paper the goal is more to use the varieties of capitalism framework to identify comparable empirical regularities in Latin America in corporate governance, labour relations and skills.

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Core Features of Hierarchical Market Capitalism in Latin America

An inductive survey of corporate governance and the organisation of production in the larger countries of Latin America over the past half-century reveals four enduring features: diversified business groups, MNCs, atomistic labour and employee relations, and low-skilled labour. The four core features of HMEs cover much of the ground that Hall and Soskice examine in their five spheres of strategic relationships: industrial relations, vocational education and training, corporate governance, inter-firm relations, and employee relations.

In these generic spheres in HMEs, hierarchy often replaces or attenuates the coordinated or market relations found elsewhere. For example, whereas post-secondary or on-the-job training is more market-based in LMEs and more negotiated in CMEs, it is often unilaterally decided by firms or business associations in Latin America. Such hierarchical relations also characterise employee relations more generally, where employees lack formal grievance procedures and representation and informally lack voice, because most of them are quite temporary. Unions have little influence on hierarchies within the firm, in part because so few workers are unionised, and in part because where unions do exist they are often distant from the shop floor. Finally, industrial relations are further structured by top-down regulations issued by national governments and enforced by labour courts.

On the dimension of corporate governance, relations in HMEs are even more clearly hierarchical because most firms are directly controlled and managed by their owners, either prominent families or foreign firms. On inter-firm relations, sometimes they are competitive, but other sectors are oligopolistic and others regulated by the state. Even in countries with strong business associations most inter-firm coordination focuses on politics and policies rather than narrower issues of sectoral (self) governance, as in CMEs.[9]

To simplify the exposition, the following discussion considers the broad contours of a single variety of capitalism in Latin America. And, in fact, in comparison to variations within regions like Western or Eastern Europe, these core aspects of capitalism in Latin America manifest greater homogeneity across the region.[10] Of course, there are major variations within Latin America, especially in terms of country size, commodity rents and the

[9] See Ben Ross Schneider, *Business Politics and the State in 20th-Century Latin America* (Cambridge, 2004). Nölke and Vliegenthart, in 'Enlarging the Varieties of Capitalism', also emphasise hierarchy as the core mechanism of allocation in the 'dependent market economies' they identify in Eastern Europe.

[10] Dorothee Bohle and Béla Greskovits, 'The State, Internationalization, and Capitalist Diversity in Eastern Europe', *Competition & Change*, vol. 11, no. 2 (2007), pp. 89–115.

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degree of integration with the US economy. Yet what is remarkable is that, despite these variations, the similarities on the four core features remain significant. In the conclusion and elsewhere I examine intra-regional variation in greater depth and the possibility of extending the HME framework to countries in other regions, but the goal here is to cover briefly common features across the larger and richer countries of Latin America, especially Argentina, Brazil, Chile, Colombia and Mexico.[11]

Diversified business groups

While most varieties of capitalism are characterised by a single dominant form of corporate governance, large companies in Latin America are divided between large domestic business groups and MNCs. There are four things to emphasise about large domestic firms in Latin America.[12] First, they are widely diversified into subsidiaries that have little or no market or technological relation to one another. Second, each large group maintains direct hierarchical control over dozens of separate firms. Third, small numbers of huge groups account for large shares of economic activity, estimated sometimes as high as a fifth or more of GDP. And, fourth, groups are mostly owned and managed by families, and often have been for several generations.[13] Comparable data are scarce, but available estimates give consistent indications throughout the twentieth century of the pervasiveness of diversified business groups. One of the most comprehensive recent studies of big business in Latin America begins by noting that the universe of large stand-alone firms 'is very small in the region. Big firms are, by a large majority, part of formal or informal groups.'[14] A rare comparative study of the five largest groups in eight countries of Latin America found that 34 out of 40 had

[11] Ben Ross Schneider, 'Economic Liberalization and Corporate Governance: The Resilience of Business Groups in Latin America', *Comparative Politics*, vol. 40, no. 4 (2008), pp. 379–98; Ben Ross Schneider and Sebastian Karcher, 'Labor Markets in Latin America: Inflexibility, Informality, and Other Complementarities' (MS, 2008); see also Boyer, 'How and Why Capitalisms Differ'. Most of the specific examples and illustrations in this paper are drawn from these countries, but much of the quantitative data and the secondary literature covers more or all countries of the region.

[12] Schneider, 'Economic Liberalization'; Ben Ross Schneider, 'A Comparative Political Economy of Diversified Business Groups, or How States Organize Capitalism', *Review of International Political Economy*, vol. 16, no. 2 (forthcoming, 2009).

[13] Although different from large firms in many LMEs and CMEs, such diversified business groups are common in most of the rest of the developing world: see Tarun Khanna and Yishay Yafeh, 'Business Groups in Emerging Markets: Paragons or Parasites?', *Journal of Economic Literature*, vol. 45, no. 2 (2007), pp. 331–72; Asli Colpan, Takashi Hikino and James Lincoln (eds.), *The Oxford Handbook of Business Groups* (Oxford, forthcoming).

[14] Celso Garrido and Wilson Peres, 'Las grandes empresas y grupos industriales latinoamericanos en los años noventa', in Wilson Peres (ed.), *Grandes empresas y grupos industriales latinoamericanos* (México DF, 1998), p. 13.

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diversified into four or five different sectors (out of five in total: primary, manufacturing, construction, services and finance).[15]

Contrary to expectations of convergence, diversified business groups survived and prospered through the liberalisation and globalisation of the 1990s and 2000s.[16] Competitive pressures of liberalisation did lead some firms to spin off unrelated holdings, but at the same time privatisation and regulation opened up other new opportunities for greater diversification. By the 2000s most business groups had significant holdings in regulated and non-tradable sectors. Even in Chile, the regional leader in liberalisation, diversified business groups flourished, especially those based in commodities and services.[17] As a top financial executive at the Grupo Matte (electricity, finance, forestry, construction and other sectors) explained, the group strategy was to be big in four or five 'sectors with high profitability, regulated, but also, as a consequence [*por lo mismo*], low risk and capital intensive'.[18] Another enduring characteristic of corporate governance in Latin America is family ownership and management.[19] In the early 2000s over 90 per cent of 33 of the largest groups in Latin America were family-owned and -managed.[20]

Both diversification and family control introduce more hierarchies into corporate governance. Diversification itself introduces hierarchies that do not exist where firms are more specialised and independent (as in LMEs). Block-holding (concentrated share ownership) in Latin America centralises control and rarely requires negotiation among multiple owners or stakeholders, as it does in CMEs. In addition, family ownership in Latin America typically involves multiple generations of managers and superimposes generational hierarchy on managerial relations. Lastly, the huge size of most groups, both in terms of overall proportion of GDP and market dominance

[15] Francisco Durand, *Incertidumbre y soledad: Reflexiones sobre los grandes empresarios de América Latina* (Lima, 1996), p. 93.

[16] Schneider, 'Economic Liberalization'. Business groups fared less well in Argentina and Peru than their counterparts elsewhere, and many sold out to foreign investors. However, the foreign investors were sometimes business groups from other countries of the region, which added a regional dimension to business-group dominance of the private sector. Some reports also suggested that new business groups were emerging in Argentina in the late 2000s: Diego Cabot, 'El repliegue de grandes grupos empresarios', *La Nación*, 11 January 2009.

[17] Fernando Lefort, 'Ownership Structure and Market Valuation of Family Groups in Chile', *Corporate Governance*, vol. 5, no. 1 (2005), pp. 7–13.

[18] *Qué Pasa*, 5 November 2005, p. 22.

[19] See Institute of Developing Economies/Japan External Trade Organization, *Family Business in Developing Countries* (Tokyo, 2004).

[20] Schneider, 'Economic Liberalization'; see also Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer, 'Corporate Ownership around the World', *Journal of Finance*, vol. 54, no. 2 (1999), pp. 492, 494.

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in certain sectors, means that relations with competitors, suppliers and clients are often unequal and imbued with a hint of coercive hierarchy.

Multinational corporations

Foreign firms, mostly from the United States, made massive direct investments in Latin America throughout the twentieth century: first in raw materials and railways in the early part of the century, then in other infrastructure and public utilities through the decades up to the Second World War, then into Fordist manufacturing (especially consumer durables), and, after market reforms in recent decades, back into infrastructure and services and expanding into finance. By the 1970s the foreign share of manufacturing was 24 per cent in Argentina, 50 per cent in Brazil, 30 per cent in Chile, 43 per cent in Colombia, 44 per cent in Peru and 14 per cent in Venezuela.[21] The percentages were usually higher in sectors like chemicals, electrical equipment and transport equipment than in consumer non-durables like food, beverages, textiles and clothing. By 1995, by another calculation, the stock of FDI as a percentage of GDP was on average 16 per cent for the four largest countries of Latin America (compared to 2 per cent for South Korea and 10 per cent for Thailand).[22] MNC presence was especially visible among the largest firms. The share of MNCs in the sales of the 500 largest companies in the region ranged between 30 and 40 per cent for most of the 1990s and 2000s, and the MNC share of the top 200 exporters grew to nearly half in 2000 before dropping back to a third in 2004.[23]

In terms of coordinating functions, MNCs administered, in hierarchical fashion, technology transfer, capital for investment, some relations with suppliers and customers, and especially trade. Although difficult to measure precisely, estimates of intra-firm trade between Latin America and the United States vary between one third and two thirds.[24] Although the patterns are similar for other regions, it is important to note that this trade is not a market exchange between independent buyers and sellers, but more a shipping order between members of the same corporate organisation. In addition, though not formally owned by MNCs, many export firms in Latin America

[21] Susan Cunningham, 'Multinationals and Restructuring in Latin America', in Chris J. Dixon, David William Drakakis-Smith and H. D. Watts (eds.), *Multinational Corporations and the Third World* (London, 1986), p. 46.

[22] Mauro Guillén, *The Limits of Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain* (Princeton, 2001), p. 126.

[23] Economic Commission for Latin America and the Caribbean (ECLAC), *Foreign Investment in Latin America and the Caribbean, 2005* (Santiago, 2006), p. 11.

[24] James Petras and Henry Veltmeyer, 'Latin America at the End of the Millennium', *Monthly Review*, vol. 51, no. 3 (1999), pp. 31–52; William Zeile, 'US Intrafirm Trade in Goods', *Survey of Current Business*, vol. 77, no. 2 (1997), pp. 23–38.

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are dependent on one or two international buyers in closely linked global commodity chains in which the inter-firm relationship is more vertical than horizontal.[25]

Before 1990, MNCs usually entered Latin America with greenfield investments in new plants and operations. After 1990 most FDI went into acquisitions of existing firms. In addition, new *translatinas* or *multilatinas* (business groups that expanded into other countries of the region) contributed to the wave of mergers and acquisitions. In combination with domestic acquisitions, this buying spree resulted in significant concentration and a reduction of firms listed on local stock exchanges (as new owners often preferred to buy up remaining shares and de-list their new acquisitions), and generally extended hierarchical control over a greater proportion of the economy.[26] For example, by one recent measure, the sales of the 63 largest firms in Chile in 2006 equalled 87 per cent of GDP, meaning that a few dozen hierarchies controlled a large proportion of economic activity.[27]

In sum, on the side of corporate governance diversified business groups and MNCs were the key conduits for organising access to capital, technology and markets through Coasian internalisation and hierarchy.

Atomistic employee and labour relations

Labour relations in Latin America are atomistic and often anomic because most workers have fluid, short-term links to firms and weak or no horizontal links to other workers through labour unions.[28] Among other things, worker turnover is high, few countries in the region have any special institutions for micro-coordination within firms, and 'organized labour … is extremely weak'.[29] As a result, labour and employment relations are individualised,

[25] Gary Gereffi, John Humphrey and Timothy Sturgeon, 'The Governance of Global Value Chains', *Review of International Political Economy*, vol. 12, no. 1 (2005), pp. 78–104.

[26] See Barbara Stallings, *Finance for Development: Latin America in Comparative Perspective* (Washington DC, 2006).

[27] This figure exaggerates the proportion of GDP controlled by these 63 firms, because it includes foreign sales. At the same time it underestimates the degree of concentration, because some of these 63 firms belong to an even smaller number of business groups: *América Economía*, 9 July 2007, p. 67.

[28] This discussion of labour markets draws heavily on my joint work with Sebastian Karcher: Schneider and Karcher, 'Labor Markets in Latin America'. This work analyses separately and in greater depth the several components that comprise atomistic labour relations. For a recent comprehensive overview, as well as more coverage on variations across the region, see Maria Cook, *Politics of Labor Reform in Latin America: Between Flexibility and Rights* (College Park PA, 2007). Labour markets in Latin America are segmented, and only a minority of workers have stable jobs with full legal protections and union representation. The focus here is more on median trends that characterise better the experiences of the majority of workers.

[29] Evelyne Huber, 'Conclusion: Actors, Institutions, and Policies', in Evelyne Huber (ed.), *Models of Capitalism: Lessons for Latin America* (University Park PA, 2002), pp. 458–9.

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Table 1. *Labour Markets in LMEs, CMEs and Latin America*

	LME	Latin America	CME
Union density (per cent)	28	15	45
Job tenure (median years)	5.0	3.0	7.4
Index of labour market regulation	1.0	1.8	1.4
Informal economy (per cent)	13	40	17

Source: Ben Ross Schneider and Sebastian Karcher, 'Labor Markets in Latin America: Inflexibility, Informality, and Other Complementarities' (MS, 2008).

disintermediated and consequently hierarchical (as employees have little leverage in relations with employers).

Table 1 summarises key differences in labour markets among different varieties of capitalism. Very high turnover (half of workers have held their jobs for less than three years) is a major factor contributing to atomised employment relations, since workers enter firms with few expectations of staying long. Once in the firm, most workers are unlikely to have plant-level union representation, both because union density is so low and because even where unions do exist, they often do not have much of a formal presence on the shop floor.[30] In addition, there are few other well-functioning mechanisms (like German-style co-determination) for mediating relations between workers and employers. Finally, many people work in the informal sector without unions or legal protections. Labour market regulations, in formal terms, are, surprisingly, more extensive on average in Latin America than in LMEs or even CMEs. However, the de facto reach of these regulations is limited, because they do not cover the large informal sector and compliance in the formal sector is uneven at best.[31]

Compared to labour unions in much of the developed world, organised labour in Latin America has tended to be more politicised and state-controlled, and less effective at collective bargaining or ongoing intermediation at the plant and firm levels.[32] The unionisation rate was relatively high in some countries in the mid-twentieth century, especially in concentrated industries like mining and capital-intensive manufacturing, but it declined

[30] Argentina is an outlier, as collective bargaining experienced a surprising and broad-based revival in the 2000s, to the point where a large majority of formal sector workers were covered: Sebastián Etchemendy and Ruth Berins Collier, 'Down but Not Out: Union Resurgence and Segmented Neocorporatism in Argentina (2003–2007)', *Politics and Society*, vol. 35, no. 3 (2007), pp. 363–401. Given recent volatility, it is hard to know if this trend will last.

[31] See, for example, Janine Berg, *Miracle for Whom? Chilean Workers Under Free Trade* (New York, 2005).

[32] Cook, *Politics of Labor Reform.*

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thereafter. By some estimates unionisation among wage earners fell over the 1990s from 67 to 39 per cent in Argentina, from 60 to 43 per cent in Mexico, and from 18 to 5 per cent in Peru.[33] Even where unionisation rates were high (sometimes due to compulsory membership), unions were not necessarily a useful institutional vehicle for coordination between workers and employers, due largely to political and state intervention. States intervened both structurally, in the sense of legislating levels and conditions of bargaining, and on an ad-hoc basis, through labour courts or direct intervention, so that both employers and union leaders often had stronger incentives to pursue their interests politically, with state actors, than with each other.[34] In Chile, for example, labour statutes imposed by the Pinochet dictatorship prohibit multi-union confederations from collective bargaining and thereby encourage them to engage in broader political activities, rather than in more concrete problem solving and ongoing dialogue with employers, as is common in CMEs. Labour statutes also forbid company unions from negotiating on anything but wages, thereby precluding precisely the kinds of discussions over work organisation, working time, training and other issues that are at the heart of plant-level relations in CMEs.[35]

In some respects, high turnover combined with weak unions and limited regulation (as in the informal sector) would all seem to infuse markets into labour relations. Indeed, many employment relations were like short-term spot transactions in open markets. However, most of these factors also shifted the balance of power in favour of employers and gave them more hierarchical control than is common in LMEs. For instance, translated into day-to-day relations, high turnover means that workers are almost always subject to dismissal, thereby enhancing employer leverage. Moreover, the absence of unions and weak enforcement of legal protections make workers even more vulnerable, and this vulnerability is even higher in the informal sector where workers, by definition, lack protection and representation.

[33] Adriana Marshall, 'Labor Market Regulation, Wages and Workers' Behavior – Latin America in the 1990s', paper presented to XXII Congress of the Latin American Studies Association, Miami, 2000, p. 12. By another calculation (as a percentage of the total workforce) union membership declined from an average of 25 per cent to 16 per cent in Latin America (and from 40 to 31 per cent in industrial countries) from the 1980s to the 1990s: Inter-American Development Bank (IDB), *Competitiveness: The Business of Growth* (Washington DC, 2001), p. 117.

[34] See Paul G. Buchanan, *State, Labor, Capital: Democratizing Class Relations in the Southern Cone* (Pittsburgh, 1995); John French, *Drowning in Laws: Labor Law and Brazilian Political Culture* (Chapel Hill NC, 2004).

[35] Berg, *Miracle for Whom?*; Kirsten Sehnbruch, *The Chilean Labor Market: A Key to Understanding Latin American Labor Markets* (New York, 2006); Louise Haagh, *Citizenship, Labour Markets, and Democratization: Chile and the Modern Sequence* (New York, 2002).

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Low levels of education and vocational skills

Educational levels in Latin America remain lower than those in developed countries and East Asia. From 1960 to 2000 the average educational attainment in the adult population of Latin America almost doubled from 3.3 to 6.1 years of school.[36] Yet by 2000 educational attainment in Latin America was lagging behind East Asia (6.7 years) and the developed countries (9.8 years), especially for secondary education, the level most relevant for technical education and vocational training, where 8.6 per cent of adults in Latin America had complete secondary education versus 14.8 per cent in East Asia. Moreover, governments in Latin America spent far less on training unemployed workers (an average of 0.04 per cent of GDP) compared with LMEs (0.26 per cent) or CMEs (0.51 per cent).[37] The Inter-American Development Bank (IDB) reported in 2005 that:

> in a study of 47 countries including most developed countries, six Latin American countries and a sampling of countries in Asia and Africa, Argentina was ranked 29th in productivity per worker, Mexico 34th, Chile 36th, Brazil 38th, Colombia 40th, and Venezuela 42nd. The reasons for these low productivity levels include slow progress in education, the failure of training systems, poor labor relations, and the absence of compensation mechanisms for workers who stand to lose their jobs or job standing due to innovations.[38]

What explains the low levels of investment in skills? The common fear of poaching discourages investment; if one firm invests in training workers, other firms can then poach and hire away the trained workers, so rational firms do not invest in training in the first place. This is a generic coordination problem faced by all political economies, overcome, when it is overcome, by either public provision or third-party enforcement of private provision. The further question for Latin America is why incentives for public provision and individual investment in education and training are weak. For fuller answers to this question, as well as a deeper understanding of why the other features persist, it is useful to examine complementarities among these features and reinforcing aspects of the broader context.

Compatibilities, Complementarities and Resilience in HMEs

Some of the core features, as well as other background factors, reinforce one another in ways that sustain many institutional aspects of HMEs in

[36] Robert Barro and Jong-Wha Lee, 'International Data on Educational Attainment: Updates and Implications', National Bureau of Economic Research, Working Paper 7911 (Cambridge MA, 2000), pp. 29–30.

[37] IDB, *Economic and Social Progress in Latin America: 2004 Report. Good Jobs Wanted: Labour Markets in Latin America* (Washington DC, 2005), p. 282.

[38] IDB, *Competitiveness*, p. 105.

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Latin America and impede convergence towards either LMEs or CMEs. For Hall and Soskice, 'two institutions can said to be complementary if the presence (or efficiency) of one increases returns from (or efficiency of) the other'.[39] In addition to such positive complementarities, HMEs also manifest negative complementarities and weaker reinforcing tendencies and compatibilities. There are numerous apparent complementarities among the four features of HMEs; this section concentrates on only a few crucial connections, especially those related to skills.

MNCs and business groups

Over the course of the second half of the twentieth century, the complementarity between MNCs and domestic groups was primarily negative. The existence of MNCs in higher-technology manufacturing reduced the returns that domestic groups received from investing in proprietary technologies and R&D generally, and increased the returns to groups that invested in other areas such as natural resources, commodities and services that used lower skills and technologies.[40] The few domestic firms that did invest in developing technologies were often in the end bought out by MNCs entering the market, thereby reinforcing the division of labour between MNCs and domestic groups. In addition, government policy towards MNCs encouraged business groups to diversify. Before the deregulation of foreign investment in the 1990s, governments often obliged MNCs to arrange joint ventures with domestic partners. These joint ventures usually pulled groups into new sectors and expanded the scope of their diversification. Even in the absence of specific policies, MNCs sometimes preferred partnering with domestic groups in order to tap into political (rather than technical or managerial) expertise and capacity.[41]

MNCs and domestic business groups impeded movement towards both markets in corporate governance and coordination in inter-firm relations. MNCs and groups substituted for domestic stock and financial markets, and thus slowed their expansion. In fact, as noted earlier, MNC acquisitions of domestic firms contributed to the fall in the number of listed firms in the 1990s, because MNCs often prefer to de-list local subsidiaries.[42]

[39] Hall and Soskice, 'An Introduction', p. 17.

[40] In one recent survey of Latin America, 'the most striking result [was] the low level of R&D conducted by firms': David de Ferranti et al., *Closing the Gap in Education and Technology* (Washington DC, 2003), p. 5.

[41] For instance, the directors of Banamex, a very diversified bank and the largest in Mexico until its nationalisation in 1982, were on the boards of most of the important business associations, so any partner of Banamex would automatically gain crucial representation: see Schneider, *Business Politics and the State*.

[42] Generally on financial markets, see Stallings, *Finance for Development*.

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Business groups too, because they internalise capital market functions, supplant stock and credit markets. Moreover, while many groups list subsidiaries or parent holding companies on stock markets, the family owners usually maintain voting control, so minority investors have fewer incentives to buy in to firms; this further depresses potential expansion in stock markets.[43]

In terms of inter-firm relations, MNCs and domestic groups impede coordination and, at times, other market relations. MNCs often join local business associations, but they tend to participate less actively and have difficulty coordinating with local firms because many management decisions are taken abroad. When managers are foreign, then language, culture and shorter time horizons further undermine potential coordination. At times, relations between MNCs and local firms degenerate into acrimonious divisions and, in extreme cases, splits into separate associations (as in the Chilean mining associations).[44] Subsidiaries of business groups may also make unreliable interlocutors: the top management of the groups is located outside the sector and may ultimately decide to exit (or attempt, as often happens, to use financial leverage to buy up other firms in the sector). More abstractly, sustained coordination is unlikely among the agents (managers in subsidiary firms) of distant principals (MNCs or business group owners) with opaque and diverse interests.

Because they substitute for financial markets, MNCs and domestic business groups constitute non-market forms of organising investment and technology, yet, in contrast to the effects of non-market coordination in CMEs, there are fewer institutional incentives for their investment to be patient. A crucial function of coordinating institutions in CMEs, for both labour and capital, is to lengthen time horizons.[45] In contrast, non-market organisation of investment in HMEs allows business groups and MNCs to respond flexibly and rapidly to market signals; both forms of corporate governance are well suited to managing swift entry and exit. The agility of closely controlled business groups in short-term adjustments and transitions in and out of sectors contradicts the arguments that dispersed ownership in LME corporations is a functional adaptation to the larger policy swings associated with majoritarian governments in LMEs and is a product of the need for firms to be able to accommodate quickly to these swings.[46] Hierarchy may be an even better adaptation for facilitating adjustment.

[43] Rafael La Porta et al., 'Investor Protection and Corporate Governance', *Journal of Financial Economics*, vol. 58, no. 1 (2000), pp. 3–27. [44] Schneider, *Business Politics and the State*.

[45] Margarita Estevez-Abe, Torben Iversen and David Soskice, 'Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State', in Hall and Soskice (eds.), *Varieties of Capitalism*, pp. 145–83.

[46] Peter Gourevitch and James Shinn, *Political Power and Corporate Control: The New Global Politics of Corporate Governance* (Princeton, 2005), p. 10; Hall and Soskice, 'An Introduction'.

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MNCs/grupos and low skills

Both MNCs and business groups had relatively low demand for skilled labour and weak incentives to press for widespread investment in education and training.[47] With MNCs dominating higher-technology manufacturing, domestic business groups concentrated in lower-technology commodity sectors and services had fewer incentives to invest in R&D, hire scientists and engineers, or train highly skilled workers.[48] R&D expenditures in Latin America have rarely exceeded the comparatively low level of 0.5 per cent of GDP, and over three quarters of that is public spending.[49] Even when they hire skilled workers, business groups do not hire very many; in the words of the IDB, 'with respect to other regions of the world, the large Latin American companies … generate little employment'.[50] Moreover, MNCs pay higher, sometimes much higher, wages than local firms, so MNCs can easily poach skilled workers. This reduces even further the incentives for domestic firms to invest in training.[51]

MNCs, for their part, have typically opted to invest in established product markets with stable technologies and predictable market demand (market-seeking rather than efficiency-seeking FDI).[52] By the 2000s, MNCs were investing virtually nothing in R&D in Latin America. According to a 2005 report, Latin America and the Caribbean ranked 'last out of all the world's regions in terms of percentage of research and development investment companies have made in the last three years or expect to make in the next three years'.[53] Intra-firm trade may also reduce incentives for MNCs to upgrade skills. In sectors characterised by low transport costs and decentralised production – electronics and automobiles, for example – MNCs can locate plants with varying skill requirements in areas where skills are readily available.

[47] See Janine Berg, Christoph Ernst and Peter Auer, *Meeting the Employment Challenge: Argentina, Brazil, and Mexico in the Global Economy* (Boulder CO, 2006); Koji Miyamoto, 'Human Capital Formation and Foreign Direct Investment in Developing Countries', OECD Development Centre, Working Paper 211, 2003, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=668505.

[48] In Brazil, for example, domestic commodity firms were split between capital-intensive sectors like steel and cellulose that had mostly skilled workers, although not many employees overall, and labour-intensive firms in sectors like meat processing with large numbers of unskilled workers: see Ben Ross Schneider, 'Big Business in Brazil: Leveraging Natural Endowments and State Support for International Expansion', in Leonardo Martinez-Diaz (ed.), *Brazil as an Emerging Economic Superpower* (Washington DC, 2009).

[49] Jorge Katz, 'Structural Reforms and Technological Behaviour: The Sources and Nature of Technological Change in Latin America in the 1990s', *Research Policy*, vol. 30, no. 4 (2001), p. 4.

[50] IDB, *Competitiveness*, p. 37.

[51] Berg, *Miracle for Whom?*

[52] ECLAC, *Foreign Investment in Latin America and the Caribbean, 2007* (Santiago, 2008).

[53] ECLAC, *Foreign Investment in Latin America and the Caribbean, 2004* (Santiago, 2005), p. 17.

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The lasting, negative complementarities of a low-skill trap or equilibrium are well known.[54] The basic coordination problem is that workers do not invest individually in acquiring skills because firms do not offer high-skill, high-wage jobs. Firms in turn have incentives to invest in production processes that do not require skilled labour, because skilled workers are scarce. This low-skill trap seems to hold strongly for Latin America.[55]

Atomistic labour relations and low skills

When labour turnover is high and unions at the firm level are weak, employers have even weaker incentives to invest in worker skills both because they expect workers not to stay long, and because they lack the institutional means for negotiating with workers an explicit distribution of gains over time from investing in training. For workers, short job tenure also limits their time horizons and lowers their interest in investing in firm-specific skills, or even in sector-specific skills if they move regularly among different sectors. Among Chilean workers who changed jobs in the 1990s, over half switched from one sector to another.[56] Moreover, the frequent movement of workers between formal and informal employment presumably involves shifting among sectors with different skill requirements. High turnover also reduces the incentives for both labour and management to invest in improving plant- and firm- level intermediation.

Low skills and business groups

The absence of a large pool of skilled workers has further discouraged domestic firms from investing in upgrading their production or in other higher-technology sectors, and instead encouraged domestic firms to target lower-technology investments where appropriate skills were abundant in the labour market. Studies in the United States have shown that technology acquisition did not lead firms to upgrade training and skills among their workers; rather, firms that already had skilled workers invested more in new technologies.[57] Lower-technology investment coupled with high labour turnover may also facilitate diversification. In other words, lower-technology investment and the management of homogeneous flows of temporary, low-skilled workers can become elements of, and increase returns to, economies of scope. Once a firm develops a successful strategy for borrowing one

[54] Alison Booth and Dennis Snower, *Acquiring Skills: Market Failures, Their Symptoms and Policy Responses* (New York, 1996).
[55] Schneider and Karcher, 'Labor Markets in Latin America'.
[56] Sehnbruch, *The Chilean Labor Market*, p. 127.
[57] IDB, *Good Jobs Wanted*, p. 188.

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technology and using it successfully with a flow of low-skilled workers, the barriers for replicating this strategy in other sectors are lower.[58]

Hall and Soskice also expect that 'nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well'.[59] Although they do not elaborate, the mechanisms promoting this isomorphism seem to differ between CMEs and LMEs. In CMEs, isomorphism is largely a positive function of learning: as economic agents realise joint gains from coordination in one sphere they will be more likely to replicate coordination into other realms. In LMEs, it seems to result more from managerial expectations and preferences. If relations in some spheres are market-based, then managers have incentives to press for flexibility in other spheres, or reasons to chafe at non-market constraints. A similar logic informs complementarities in HMEs. It is not so much the case that agents realise joint gains from hierarchy and agree to extend them to other spheres; rather, hierarchy is the default preference, especially for state and business elites, who have greater influence in initial institutional formation. Longer-term complementarities and path dependence arise from the fact that hierarchies impede movement to either coordination or markets. Overall, these complementarities and weaker compatibilities contribute to the stickiness of the core features of HMEs, but this resilience is less the result of internal equilibrium and more a matter of resistance to exogenous pressures for change.

Beyond the four core features and their interactions, capitalists faced other regular aspects of their economies – what Hall and Soskice call 'shared expectations' – that influenced longer-term strategies. Among the major shared expectations of businesspeople in Latin America, volatility, pervasive but weak state intervention, and socio-economic inequality stand out. Each of these further reinforce hierarchy in one or more of the four core features in ways that resemble the political underpinnings of LMEs and CMEs in particular electoral systems: majoritarian and parliamentary with proportional representation respectively.[60]

Economic and political volatility and endemic uncertainty, for instance, have encouraged defensive diversification precisely into unrelated sectors, a trademark of Latin American groups.[61] The annual IDB report for 2003 concluded that 'Latin America suffers from an extremely volatile

[58] See Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York, 1989).
[59] Hall and Soskice, 'An Introduction', p. 18.
[60] *Ibid.*; Torben Iversen and David Soskice, 'Distribution and Redistribution: The Shadow of the Nineteenth Century', Working Paper, 2007, available at www.people.fas.harvard.edu/~iversen/PDFfiles/Iversen&Soskice2008a.pdf.
[61] Schneider, 'A Comparative Political Economy'.

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macro-economic environment.'[62] For the period 1970–2000, volatility of output, terms of trade, and capital flows in Latin America were higher than in Asia and almost twice as high as in developed countries.[63] In addition, within particular firms and plants, volatility encouraged managers to maintain flexibility with regard to labour (given expectations that downsizing could be necessary at any moment), which reduced incentives for long-term employment arrangements, for investing in worker training, and for establishing enduring institutions for ongoing intermediation with employees. Volatility greatly shortened time horizons.

The state is the main external institution that historically reinforced the core features of HMEs as it regulated markets for capital, labour and technology. States invited MNCs into their countries and regulated the terms of their entry. States encouraged and shaped, directly or indirectly, patterns of diversification in business groups.[64] States, especially after the 1930s, intervened deeply in labour markets and initial worker training, and at the same time provided (low-quality) public education. Pervasive state intervention, especially in the twentieth century, both aggravated uncertainty and made the state the primary intermediary for labour. Restrictions on labour markets were extensive and have resembled CMEs in some dimensions, especially employment protections. However, in Latin America weak enforcement and informal employment undermined these protections. Moreover, the long history of deep state intervention may have 'crowded out', or inhibited the emergence of, other kinds of non-state, non-market institutions common in CMEs like lifetime employment or stronger unions and employers' associations. In general, states in Latin America have been supportive enablers of the core features of HMEs.

Finally, Latin America has long been a world leader in socio-economic inequality, which works in the contemporary period to reinforce hierarchies as well as to thwart efforts to promote education and investment in human capital. Without resorting to more cultural interpretations of class divisions, it is nonetheless plausible to hypothesise that vast differences in education, norms, ethnicity and sometimes gender and language create a gulf between workers and managers that makes both sides less inclined to engage in co-ordination and negotiation. Inequality also reduces incentives on both sides for incremental investment in education and training, because the gap between actual and desired skills is so great. Perversely, in Latin America the returns to education are lowest for poor households.[65]

[62] IDB, *Good Jobs Wanted*, p. 133.

[63] *Ibid.*, p. 116.

[64] Schneider, 'A Comparative Political Economy'.

[65] Guillermo E. Perry, J. Humberto Lopez, William F. Maloney, Omar Arias and Luis Serven, *Virtuous Circles of Poverty Reduction and Growth* (Washington DC, 2005). In terms of 'shared expectations', long-standing historical patterns (including slavery and forced labour) and

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In sum, numerous factors reinforce HMEs in Latin America. Some interactions, as in the low-skill trap, represent strong (negative) complementarities. In other instances, hierarchy is more a default that is at least compatible with other hierarchical components.[66] Other contextual factors like state intervention and volatility tend to reinforce hierarchy and the four core components. Even without reinforcement, hierarchies have some inertia and create obstacles to coordination and markets that would require extraordinary effort or circumstances to overcome. Yet, even taking all these factors into account, it would be overstated to conclude that HMEs are in immutable equilibrium. Change is possible on a number of dimensions, including state reform, lessening volatility and improving education, and might shift some of the HMEs of Latin America towards some other variety of capitalism. If so, incremental movement towards markets may be easier than transitioning to coordination.[67] Some recent developments in Latin America – growing stock markets, for example – may gradually displace more hierarchical corporate governance. For the time being, however, most large economies of Latin America are better characterised as HMEs than as emerging CMEs, LMEs or other possible hybrids.

Comparisons and Conclusions

This analysis has stressed commonalities among the larger countries of Latin America on the core features of HMEs, but there is, of course, wide variation across the region, and some countries deviate sufficiently from the mean to warrant consideration for separate classification. Venezuela's oil rents, for example, make it an outlier, especially in terms of the weight and role of the state in the economy. Venezuela still shares many HME features with other countries in the region such as low skills and large business groups, but analytically it may have more in common with other large petro-states like Indonesia and Russia as a variety of 'rentier market economy'.[68] Oil and gas rents in Ecuador and Bolivia have pushed their political economies in a similar direction.

cultural norms could be invoked to explain the lasting resilience of hierarchy. For the most part, however, the incentives are more immediate, although social acceptance of hierarchy may ease its imposition as new opportunities arise.

[66] Chilean training programmes provide an apt illustration. The government offers firms tax write-offs for spending on training and an additional deduction if the firm negotiates a training plan with its workers. But even firms that have created labour-management training councils choose to forgo the additional subsidy and make unilateral decisions on training: Sehnbruch, *The Chilean Labor Market*, pp. 181, 185.

[67] David Finegold and David Soskice, 'The Failure of Training in Britain: Analysis and Prescription', *Oxford Review of Economic Policy*, vol. 4, no. 3 (1988), pp. 21–53.

[68] Terry Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley, 1997).

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Beyond the petro-states, the other countries of the region often diverge on one or another dimension from the mean, but not significantly or consistently enough to conclude that they do not fit the general HME framework. Moreover, countries that diverge on one dimension are often close to the median on others. Country size, for example, affects the extent of FDI, as most FDI in the region flows to the larger countries. However, Intel and other high-technology MNCs are central to development strategies in Costa Rica, and global production networks dominated by MNCs are crucial to development elsewhere in Central America and the Caribbean. Moreover, most of the large firms in the region are located in the larger countries: three quarters of companies in the region with revenues over $1 billion are in Mexico or Brazil.[69] Yet the largest domestic firms in smaller economies, like those of Central America, still adopt the structure of diversified business groups.[70] Geography also differentiates countries of the region in terms of proximity to and integration with the US economy. Mexico and other countries of Central America and the Caribbean had stronger growth in manufacturing and FDI, mostly via integration into global production networks. However, the impact of this integration has yet to alter fundamentally the main HME features. The effect may also be transitory, as more outsourced manufacturing moves to Asia.

Another change that affected most of the larger countries is the significant expansion in equity markets that took place in the 2000s.[71] One hypothesis would be that the countries at the vanguard of this expansion, Chile and Brazil, are trending toward LME forms of corporate governance. Although there are some signs of more dispersed ownership and greater participation by institutional investors, both foreign and domestic, nearly all companies in both countries still have controlling block-holders, in most cases families. Overall, although these variations, more of degree than kind, do not yet warrant excluding countries from the HME category, they do help identify potential sources of future change and movement away from HME complementarities towards other possible types of capitalism.

Outside Latin America the core features of HMEs also seem prominent in some middle-income countries of South-East Asia and possibly Turkey and South Africa. Latin America and East Asia, especially Taiwan and Korea, differ greatly along all four dimensions, however. East Asia had higher educational and skill levels, as noted earlier, and lower levels of FDI and socio-economic inequality. The two regions also differed with respect to the presence of MNCs. In 1982, foreign affiliates of US and Japanese firms

[69] *América Economia*, 14 July 2006, p. 53.
[70] Alexander Segovia, *Integración real y grupos de poder económico en América Central: Implicaciones para el desarrollo y la democracia de la región* (San José, Costa Rica, 2005).
[71] Stallings, *Finance for Development*.

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controlled 19 per cent of manufacturing in Latin America versus 8 per cent in East Asia.[72] Diversified business groups dominate the domestic private sector in both regions, but Asian groups were more active in manufacturing and ultimately moved into higher-technology sectors.[73] Part of the explanation for this contrast lies in the lack of MNCs that boxed domestic firms out of higher-technology sectors in Latin America, and in relatively less volatility of the kind that led business groups in Latin America to diversify out of manufacturing and into finance, services and agriculture. A final difference is the stronger role of business associations and other forms of inter-firm cooperation in East Asia, usually enforced or subsidised by the state. Overall, despite some inter-regional similarities, countries like South Korea and Taiwan differ significantly enough to exclude them from the HME category (and to hypothesise that they may approximate CMEs more closely).[74]

One of the major analytical benefits of the comparative institutional perspective is its focus on enduring features of capitalist development. Most of the contemporary literature on the political economy of Latin America looks at various policy issues or changes in development strategy, aspects that have changed frequently and dramatically over the last century. Although these policy and strategy shifts often had profound effects on the functioning of capitalism – the transition from hyperinflation to low inflation, for example – they nonetheless divert attention from possible underlying institutional continuities, which in turn affect how economies are likely to react to different sets of policies and opportunities. The lacklustre performance of most economies of Latin America in the wake of the market reforms of the 1980s and 1990s confounded reformers' optimism and sparked a debate over what went wrong. The comparative institutional approach of a 'varieties of capitalism' perspective, with its emphasis on reinforcing complementarities, helps illuminate the institutional continuities that impeded greater progress, especially on jobs and skills, in the new market-oriented development strategy.

In the wake of the commodity boom of the 2000s and the resumption of moderate growth in the region, the debate over the shortcomings of market reforms faded. Most aspects of the new commodity-led development played to the relative strengths of HMEs. MNCs and business groups were well positioned to expand commodity production. Many of the largest business groups, such as Votorantim (aluminium, and pulp and paper) in Brazil, Grupo México (mining), and Luksic (mining) in Chile, were concentrated

[72] Alice Amsden, *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies* (Oxford, 2001), p. 209.
[73] Schneider, 'A Comparative Political Economy'.
[74] Schneider, 'Comparing Capitalisms'.

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in commodities prior to 2000, and some business groups, especially in Brazil and Mexico, leveraged commodity rents into aggressive expansion abroad. Hierarchical labour relations were not an obstacle to expansion; commodity production relies on fairly standard technologies, and bonanza prices reduced pressures to improve efficiency, so managers and workers had few incentives to seek more institutionalised forms of coordination. As the commodity boom progressed, skills shortages did emerge in some sectors, but for the most part commodity production is capital-intensive and requires few workers, skilled or unskilled. In Chile, for example, the copper sector accounted for some 15 per cent of GDP but employed less than 2 per cent of the labour force.[75] At the same time, as growth rates stabilised and currencies appreciated, the commodity boom reduced pressures to find higher skill niches in the global economy that could generate more and better employment. In sum, commodity-led growth seems compatible with, and likely to reinforce, most features of HMEs.

Finally, on a more theoretical level, a focus on hierarchy facilitates the incorporation of factors like the state and MNCs that have been so prevalent in most late developers, yet so absent in most analyses of varieties of capitalism.[76] While a firm's-eye view has some advantages over earlier statist perspectives, the state is rarely out of sight in Latin America. In addition, elements of hierarchy in several spheres of the economy, especially labour markets, are directly or indirectly reinforced by states. In terms of international influences, when scholars invoke globalisation, they often have in mind integrated markets for goods, services and especially finance, or the geographical contraction resulting from the spread of new information and communication technologies. These factors have had profound effects on developing economies, but for most people, especially workers, the palpable face of globalisation is the MNCs that organise, hierarchically, so much employment, investment and technology transfer. One of the neglected ironies of liberalisation in the 1990s is that market-oriented reforms in trade, privatisation and deregulation often resulted, in the end, in more hierarchy than market.

Spanish and Portuguese abstracts

Spanish abstract. El extenso debate académico sobre las "variedades del capitalismo" ofrece algunas innovaciones conceptuales y teóricas que pueden ser utilizadas exitosamente para analizar los fundamentos característicos del capitalismo en Latinoamérica, o de lo que se pudieran llamar economías jerárquicas de mercado (EJMs). Esta perspectiva ayuda a identificar cuatro características fundamentales de

[75] Sehnbruch, *The Chilean Labor Market*, p. 92.
[76] See Hancké et al., *Beyond Varieties of Capitalism*.

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las EJMs en América Latina que estructuran el acceso de las empresas a las aportaciones esenciales de capital, tecnología y trabajo: grupos económicos; corporaciones multinacionales; trabajo no calificado; y relaciones laborales atomizadas. Sobre todo, las relaciones jerarquizadas en ls grupos económicos y corporaciones multinacionales son esenciales para la organización del capital y la tecnología en Latinoamérica, y también son dominantes en las regulaciones del mercado laboral, la representación sindical y las relaciones laborales. Existen importantes complementariedades entre estas características, especialmente entre las corporaciones multinacionales y los grupos económicos, así como en las tendencias mutuamente reforzadas entre estas formas corporativas dominantes y una pobre inversión general en capacitación y en las relaciones laborales mediadas efectivamente. Estas cuatro características de las EJMs, la dependencia común en las jerarquías y las particulares relaciones entre ellas, conforman distintas variedades del capitalismo, diferente de las identificadas en países desarrollados y en otras regiones en vías de desarrollo.

Spanish keywords: variedades de capitalismo, Latinoamérica, grupos empresariales, corporaciones multinacionales, capacidades, trabajo, liberalización económica

Portuguese abstract. O extensivo leque de estudos que trata das "variedades de capitalismos" nos oferece inovações conceituais e teóricas que podem ser proveitosamente empregadas na análise das distintas fundações institucionais do capitalismo na America Latina, ou no que podem ser chamadas de economias de mercado hierárquicas (HMEs, do inglês *hierarchical market economies*). Esta perspectiva auxilia na identificação de quatro pontos-chave das HMEs na America Latina que estruturam o acesso dos empreendimentos às fundamentais entradas de capital, tecnologia e mão-de-obra, sendo os pontos: grupos econômicos; corporações multinacionais (MNCs, do inglês *multinational corporations*); mão-de-obra não qualificada; e relações de trabalho fracionadas. No geral, relações hierárquicas são centrais na organização de capital e tecnologia nos grupos corporativos e nas MNCs. Essas relações permeiam, também, a regulação do mercado de trabalho, a representação sindical e as relações de trabalho. Importantes complementaridades existem dentre estas características, particularmente entre MNCs e grupos econômicos, assim como tendências mutuamente fortalecedoras entre estas formas corporativas dominantes e o baixo investimento em capacitacão e em relações de trabalho bem mediadas. Estes quatro aspectos de HMEs, sua recorrente dependência de hierarquias, e as interações específicas entre elas somam para produzir uma variedade distinta de capitalismo, divergente daquelas identificadas em países desenvolvidos e em outras regiões em desenvolvimento.

Portuguese keywords: Variedades de capitalismo, America Latina, grupos corporativos, corporações multinacionais, aprimoramento profissional, mão de obra, liberalização econômica

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Transnationalization, Social Integration, and Capitalist Diversity in the East and the South

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Abstract This article analyzes the deep and shallow modes of international integration, semicore, semiperipheral, and peripheral profiles of global insertion, and the presence and absence of transformative state capacity and social cohesion, as interacting dimensions of capitalist diversity in post-socialist Eastern Europe and Latin America. On these grounds, it is argued that Cardoso and Faletto's dependent development paradigm maintains validity. When adapted to the new conditions, their approach is able to capture the overlapping and divergent aspects of capitalist development in both regions. Recent patterns of development demonstrate that although dependency, stemming from the unequal distribution of resources, roles, and opportunities, continues to be an important aspect of the international division of labor, it ceases to contradict even complex forms of industrialization. Similarly, notwithstanding the asymmetrical power relationships characterizing them, the new transnational integration regimes allow and sometimes help formation of new nation states with improved regulatory capacities. Finally, dependency does not necessarily undermine domestic social inclusion. Rather, it is up to the democratic competition to strike a balance between the requirements of promising international and socially acceptable domestic integration.

Keywords Transnationalization · Social integration · Capitalist diversity · Capitalist development · World market · Democratization

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Introduction

The noteworthy comparative study of capitalist development outside the most developed core countries was born when students of the "periphery" broke with the idea that a single set of externally imposed constrains determined the unequal distribution of roles and opportunities in the world market. The rejection of this imperialist version of dependency theory has opened up the way to assessment of the role played by a much more diverse set of domestic and external economic, social, and political factors helping or hindering departure from the periphery and setting countries in diverse developmental contexts.

The work of Cardoso and Faletto (1979[67]) in that sense was the forerunner to the study of capitalist diversity outside the northwestern core. Cardoso and Faletto explored different situations of dependent capitalist development as clusters of developmental constraints and enabling factors and argued that certain configurations allowed for development while others delayed a break with backwardness or locked countries in less promising paths. The inquiry into the "variability of the forms of integration to the world market," as Cardoso formulated it in his essay written 40 years later (Cardoso 2009), allowed for identifying specific constrains of, and alternative strategies for, development. Instead of searching for universal recipes, their approach focused on the factors that kept countries on separate developmental paths. The study of these paths was the key to learn about the room for domestic developmental agency, and with that to device strategies for changing specific situations of dependency. To reformulate, using a concept (re)invented nearly two decades later by students of comparative capitalism of the most developed core countries: development was path dependent (and was not solely a function of the relationship to the core; note the title of Cardoso's essay revisiting the theory of dependent development in this issue).

In this essay, we build bridges between Cardoso and Faletto's work and our own previous comparative studies in order to try and capture how global capitalism works and cross- and intra-regional diversity within systemic unity emerges in post-socialist Eastern Europe and Latin America. To start our analysis, we shall first demonstrate that the dependent development paradigm, the *search for patterned combinations of developmental constrains and enabling factors*, maintains validity. It is able to generate plausible new propositions on the political economy of both regions. It is particularly helpful in challenging both the pessimistic and optimistic generalizations on the limits and prospects of development, which attribute a homogenizing impact to the legacies of state-socialism, the dependency of "poor capitalisms", or globalization.

To substantiate these claims, we investigate four key dimensions, namely modes of international integration, profiles of global economic insertion, levels of domestic state capacity, and social integration. We take from Cardoso and Faletto and the debate induced by their work that roles and opportunities along these dimensions can interact to produce various, more or less promising, paths of late development in the global economy. In light of these configurations, the East European and Latin American capitalisms *overlap* in important aspects, such as specializations within the international division of labor and the overall large albeit varied extent of foreign capitalist and domestic state leadership in such roles. At the same time, *cross-regional divergence* prevails both

in the frequency of particular varieties and on a number of related dimensions, such as state capacity to foster development and reduce inequality or gains from regional integration.

On these grounds, we suggest an admittedly tentative map of the evolving clusters of transnational capitalism and trace their emergence to the interplay of domestic and external factors. A solid analysis of alternative paths is beyond the scope of our essay. Instead, we merely try to outline some of the conceptual spaces within which interesting questions about the diversity of late development can be asked. This way, we hope to point to new possibilities for cross- and intra-regional comparisons with opportunities for area specialists to learn more about their own field by taking cognizance of alternative experiences.

Dependency, Development, and Capitalist Diversity in the Global Economy

Is dependency, rooted in *the unequal distribution of resources*, *roles*, *and opportunities*, still an influential factor in the international division of labor at all? Does international inequality persist or is it on the decline? Clearly, these are very complex questions, and as the ongoing passionate debate attests, the jury is still out to judge whether the "rise of the rest" has indeed challenged the West (Amsden 2001; see the contributions in *Studies in Comparative International Development* 38 [1] 2003 Spring: 3–42).

Interestingly, however, while few would generally deny the salience of international contexts and factors for the prospects of late development and the obstacles it encounters, recently, scholars have been reluctant to analyze global economic integration in terms of dependency. Rather, as noted by Stallings, "[O]lder ideas about external influence have been too quickly abandoned. Ironically, just as international variables became especially important in the 1980s, they disappeared as the key factor from theories of development. As often happens, theory is out of phase with reality" (1992: 43).

But, is it not the case that globalization has fundamentally altered the way in which international inequality should be studied? Specifically, how has the new dynamics of world capitalism affected the validity and explanatory power of Cardoso and Faletto's "methodology for the analysis of concrete situations of dependency" (Palma 1978: 909)? Are current alternative theories not better prepared to address the problems and tensions of late development?

Our brief answer is that the key propositions of Cardoso and Faletto maintain validity. Many of the changing international and domestic aspects of economic expansion can be integrated into their framework, making it as useful a conceptual toolkit as it proved to be earlier. Thus, in our view, their paradigm can be fruitfully adapted to the comparative analysis of spatially and historically distinct contexts of current development in Eastern Europe and Latin America. Let us summarize the most important economic and political changes and the ways in which scholars inspired by Cardoso and Faletto's approach may cope with their complexity.

The first cornerstone of the dependent development paradigm is that countries embark on their paths *within the changing contexts of the capitalist world economy*, the historical shapes of which imply various risks and opportunities. Constituting diverse parts within this unity that is permanently transformed by the dynamics of

the capitalist core is the essence of the changing pattern of less-advanced countries' dependence. As put by Cardoso and Faletto, "[P]eripheral national economies fed into the different phases of the capitalist process... predominantly competitive or predominantly monopolistic. In the first case, chances are more favorable for local producers to find a place in the market. In the latter case, international monopolies usually try to control local production" (1979[67]: 25).

The main transformation of the world economy in the 1960s had been that as transnational corporations' (TNC) investment "has increasingly been directed towards manufacturing industry in the periphery, the struggle for industrialization … has become increasingly the *goal* of foreign capital. Thus dependency and industrialization cease to be contradictory" (Palma 1978: 909).

A related striking feature of contemporary capitalism is that the foreign-led (re) industrialization of less-advanced areas has not stopped ever since but has *spatially widened and functionally deepened*. TNC have incorporated an increasing number of less-advanced economies into their global commodity chains and production systems (Gereffi 1995). Indeed, via production relocation, a handful of late-developing countries has become major producer and exporter of complex manufacturing goods hitherto viewed for their intensive reliance on physical and human capital as the main sources of the advanced economies' comparative advantages. This new wave of complex manufacturing expansion has further transformed the nature of dependency. As we will discuss below, for the affected countries, the unequal distribution of roles and opportunities appears in new form and is inextricably linked to foreign capitalist leadership.

In our specific cases, the collapse of the socialist system resulted in the arrival of a large number of less-advanced latecomers to the global economy. While searching for new roles within the global division of labor, the former socialist and Latin American economies remain dependent, but their dependency occurs in new forms. Even if, to different extents though, fairly industrialized and rich in natural resources and/or labor, these countries have to rely on the advanced economies and TNC in their needs for *new technology and global entrepreneurial skills* including design, input sourcing, and marketing access and knowledge. However, this is not the sole difference between the current world economy and its earlier phases analyzed by Cardoso and Faletto.

Another important change is that similar to manufacturing TNCs, *core states today also appear to be more willing to integrate their semi-periphery than was the case earlier*. The European Union (EU) and the North American Free Trade Agreement (NAFTA), in that order, are cases in point. After the new millennium, for a variety of political, economic, and security reasons, the Central-East European (CEE) countries have been allowed to continue their efforts to catching up with the advanced northwest from within its most integrated economic and political area, the EU. Much more modest in scale and scope, NAFTA seems to herald a new age of north–south integration too. In consequence, the impact of diverse *transnational integration regimes* (TIR) must be factored in the conceptualization of late development, especially that EU membership and the very process of EU accession played a specific role in CEE (Bruszt and McDermott 2009).

The EU is similar to other regional trade agreements that have extended markets by way of negotiated distribution of gains and opportunities among members

typically based on highly asymmetrical power relations. At the same time, EU, in its impact on domestic states and regulative institutions, differs from other regional integration regimes including NAFTA. It imposes extended conditionality on aspiring members in order to upgrade their domestic state capacity and direct institutional change towards the standards typical to its West European core. Going beyond conditionality, the EU also employs assistance programs helping state, private, and civil actors to build extensive and effective regulative institutions in development-related fields. Finally, in the process of accession, EU has strengthened cross-border cooperation among varied domestic actors and their transnational networks aimed at monitoring compliance with EU conditionality.

Hence, our derived proposition is in line with the dependent development paradigm: *dependency and state building cease to be contradictory*. Indeed, even the formation of new *nation states* with improved capacities for sophisticated regulation and domestic social integration—that has been the agenda of so many East European countries after the breakdown of socialism—seems to be compatible with the goals of core economies, at least within the enlarged EU.

This leads us to assess the changes in the *internal* factors of development, the diversity and varied impact of which had been the second key proposition of Cardoso and Faletto. In our cases, while the new global context altered the range and type of risks and opportunities inherent to various developmental choices, these have remained conditional upon "the character of social organization…giving considerable importance to the effect of the diversity of natural resources, geographic location...of each economy" (Palma 1978: 909, 910). The importance of domestic factors can be assessed on two dimensions.

First, neither the post-socialist nor the Latin American countries have had uniformly good chances to capitalize on the relocation of complex manufacturing industries and/or increased willingness of global and regional superpowers to integrate their "backyards." Rather, they could rely on external impulses enhancing their potentials only to the extent that they were prepared and willing to do so.

Importantly, both the socialist system and Latin American capitalism encompassed economies at strikingly varied levels of development. Transnational complex industries are, however, rarely built "from scratch." Arguably, countries that specialized in complex manufacturing production already under late socialism in Eastern Europe or acquired "manufacturing experience" in successive waves of import-substituting industrialization (ISI) in Latin America could rightly expect more abundant inflows of the relevant foreign direct investment (FDI) than countries where such legacies were missing (Greskovits 2005; Amsden 2001).

Similar differentiation can be observed as far as overall social development is concerned. Comparing the "modernity" of CEE countries with that of the "third tier Asian tigers," such as Malaysia or Thailand, Commisso asserts that the "social indicators of modernization—urbanization, infant mortality, literacy rates, and life expectancy—remain higher in Eastern Europe...[and]...reflect differences between industrializing and industrialized economies" (1998: 3, 4). At generally lower levels though, Latin America exhibits similar disparities of social development. All in all, the diversity of internal economic and social circumstances underlines that the *concrete situations of dependency are consistent with widely unequal room for domestic developmental agency* across countries of the East and South.

Second—as demonstrated below—the large differences in achieved and maintained (or even enhanced) domestic social integration by welfare policies have not been homogenized by the new forms of insertion in the global economy. Rather, on this dimension, large differences prevail both between and within the East and the South, questioning the overly pessimistic assumptions of a worldwide "race to the bottom" of wages, employment, and especially social welfare provisions. Surprisingly, *increased global insertion and domestic social integration/inclusion do not appear as per se contradictory.* Even a path of dependent development "with a human face" seems to be possible.

This observation helps us to assess the third and most important proposition of the dependent development paradigm: it is only through their articulation in *domestic political competition and conflict that the interplay and developmental impact of international and domestic factors can be fully captured*. However, the outcome of such struggles is open, especially in democratic settings. Accordingly, tempered "possibilist" in the (Hirschmanian 1988) sense, Cardoso and Faletto rejected the fatalistic prophecies, which predicted similar predetermined positions for the southern countries within the capitalist "world system." Instead, they argued that domestic politics mattered a great deal for developmental outcomes. In our view, there is much to learn from their approach in this respect too. Let us highlight some of the contemporary contexts within which domestic politics seems to play a crucial role.

First, Cardoso and Faletto's contention sounds no less convincing in the global era than before: development in less-advanced countries is possible, but it is unlikely to occur unless it is rooted in *developmental coalitions* of transnational and domestic capital, the state, and labor holding a stake in it (for a path-breaking elaboration, see Evans 1979, and a first adaptation to post-socialist Eastern Europe Greskovits 2003). Specifically, national firms' restructuring and developmental capacities are handicapped if they cannot count on transfers of foreign technology, capital, and advanced marketing and management practices. Similarly, the absence of allies in domestic business may undermine TNCs' chances to secure local natural resources, labor, and entrepreneurship for the purposes of their own restructuring and expansion.

Both types of business, however, are dependent on labor's capability to adapt to new competitive conditions and responses to structural change. Furthermore, business and labor depend on the state as provider of public goods, such as favorable macroeconomic and legal environment, political stability, infrastructure, specific regulations, and incentives (e.g., infant industry protection). The same actors also rely on the state as an important organizer of their networks of cooperation. Furthermore, labor depends on the state as moderator of social, sectoral, and regional imbalances. Last but not the least, acting in a developmental coalition may help bureaucracies to develop the skills, select and test the policies, and build and fine-tune the institutions that might improve the chances for sustainable development.

However, the emergence of developmental coalitions is an inherenly *conflictual political process*. It implies coordination among widely diverging and often contradicting social objectives. How to distribute the gains in good times and burdens in hard times across so diverse a group of participants is the central political issue to be tackled. Translated to political program, this is a strategy that is closest to what Cardoso called "the globalised social democracy" (Cardoso 2009).

Second, the new politics of TIR further contributes to the complexity of the above political tensions and struggles. Unsurprisingly, the eastward relocation of west European industries, the immigration of low cost labor, and their social impact have become highly politicized issues in the course of EU's enlargement. Western leaders criticized transnational corporations for lack of patriotism and the new member states for social dumping. In their view, these factors had a potential to undermine western industrial relations and welfare states. In turn, East European politicians warned from new walls of protectionism within the united Europe and pointed out their negative implications for freedom and solidarity. Politically heated debates have erupted about the impact of NAFTA on the US economy too.

Drawing on the dependent development paradigm, we have identified a new pattern of dependency manifesting itself in the technological, management, and marketing leadership of core country TNCs, as well as in the asymmetric power relations inherent to the new TIR. We also proposed that in its new manifestations dependency should no longer be inimical to complex manufacturing (re)industrialization, building capable nation states or achieving domestic social integration, at least in a handful of successful late developing countries. How do our propositions play out when contrasted with the empirical evidence on East European and Latin American development in the early 2000s?

Deep Versus Shallow International Integration and Semi-Core, Semi-Peripheral, and Peripheral Specialization

The first dimension that we discuss is the mode of international integration. Over the 1990s, the CEE countries have become rapidly integrated in the global and European economy. They trade mainly with countries of the EU. The value of their foreign trade approximates or exceeds their GDP. Via substantial FDI inflows, their assets have been incorporated into global and European systems of production, commerce, and finance. In the early 2000s, foreign control is the norm in all major export industries and services. In the banking sector, foreign penetration has reached record levels, almost unprecedented in other parts of Europe and the world. This exposure to external influences has been further exacerbated by entry to the IMF, the World Bank, OECD, WTO, and, after lengthy preparation, the EU. In sum, CEE's internationalization and transnationalization has occurred via *multiple heavily institutionalized channels* also embedding domestic institutional change in a more complex TIR and can, thus, be termed "deep" (Bohle and Greskovits 2007b: 93, 94; Bruszt and Holzhacker 2009; on the comparison of TIRs, see Bruszt and McDermott 2009)

In contrast, the overwhelming majority of countries of the Commonwealth of Independent States (CIS) and Western Balkans have yet to achieve WTO membership, with EU and OECD membership currently beyond their reach. These countries have been more cautious in liberalizing trade and FDI inflows and maintained to a larger extent national ownership in their banking sectors than the CEE states. In contrast to the multichannel regional and global integration of CEE, the pattern of CIS and Western Balkans seems underinstitutionalized and "shallow" as it essentially occurs through a handful of *world markets*.

Deep and shallow modes of integration imply different regimes of transnationalizing domestic institutional change, meaning specific combinations of mechanisms of

transnationalization. Shallow integration implies transnationalization that is primarily based on incentives, on positive and negative sanctions of more liberal markets, and/or on (more or less strictly enforced) conditionality of an external organization. Deep integration implies a more complex transnational regime in which markets and hierarchies are complemented by dense transnational horizontal networks and various forms of foreign direct involvement that include assistance programs with the goal to change the capacities of domestic state and non-state actors. Also, deeper modes of integration include multiplex forms of monitoring and coordination that help negotiating domestic institutional change and better adjusting it to diverse local contexts.

The deep versus shallow integration patterns combine with very different world market segments and niches captured by these economies. The latter, together with different levels of FDI penetration, represent diverse concrete profiles of global insertion, our second dimension of transnationalizing capitalism (Appendix, Table 1). Most countries of CEE have integrated into European and global circuits of production and commerce through complex manufacturing industries that intensively rely on physical and human capital. They export to the West what the West usually exports to the rest of the world: chemicals, machinery, and equipment.

However, exporting cars or electronics equipment might involve different degrees of sophistication and skills in various economies. In this regard, available data on CEE paints a mixed and dynamically changing picture that signals the need for in-depth inquiry to arrive at solid judgments on the relationship between sectoral specializations and actual developmental status and prospects. Nevertheless, in light of the above data, we take the risk and propose that—to paraphrase the world systems terminology of Wallerstein (1979) without sharing all of its assumptions and predictions—the majority of the CEE states are on the trajectory of adopting *semi-core* features (for the original statement on and empirical substantiation of semi-core, semi-peripheral, and peripheral profiles of exports and FDI stock in Eastern Europe, see Greskovits 2005). While their newly achieved competitiveness in complex manufacturing industries is unquestionable, it has been inextricably linked to *foreign capitalist leadership*. Notwithstanding recent progress in technological upgrading, their actual productive roles still usually exhibit lower levels of autonomy, sophistication, and skills than the activities concentrated in the Western segments of the *same* transnational industry.

At the lower end of the CEE export-spectrum, the Baltic states as well as Bulgaria and Romania became locations of many export-oriented sweatshops producing textiles, clothing, footwear, furniture, food, and unsophisticated electronics parts for West European markets. They combine this specialization with exports in low-tech and medium low-tech heavy industries, such as iron, steel and non-ferrous metals, which are also key export sectors in Belarus and the Ukraine. In light of the less robust performance of complex manufacturing industries, these economies fall short of a semi-core status and are more properly viewed as *semi-peripheral*. The Baltic economies are also set apart by a shared specificity. As the westernmost enclave of the former Soviet Union now within EU boundaries, these states still earn a good part of their living from services related to Russian transit trade in oil and other resources (and goods imported by Russia).

Finally, most CIS countries exhibit yet a third pattern of global integration. With complex industrial products accounting for less than 10% and oil, gas, metals,

cotton, precious stones, and food for the bulk of their exports, they appear not as semi-peripheral (even less semi-core) but rather *peripheral*.

Table 1 in Appendix allows some cross-regional comparative references. Southern transnational capitalism seems to display similar diversity as the post-socialist market economy, since the Latin American countries have embarked on semi-core, semi-peripheral, and peripheral paths too. However, there are clear differences in the relative *frequency* of specializations. Compared with Eastern Europe, the Latin American economies mostly populate the lower ends of international and transnational division of labor.

All in all, while the substantial, albeit varied, reliance on foreign investment is characteristic to both regions, it is only in exceptional cases that FDI penetration has led to semi-core or at least semi-peripheral production and export profiles in Latin America. Large differences in the sectoral pattern of FDI are likely to explain this. In Latin America (just as in many countries of the CIS), there must be a generally stronger concentration of FDI stocks in resource-based or traditional low-skill/low-wage manufacturing industries, as well as services (see Bohle and Greskovits 2007a for data on the sectoral structure of FDI in CEE and the explanation of diversity adopted in this essay).

Generally, then, neither high nor low degrees of FDI penetration per se appear as the cause or remedy of unfavorable global specializations. Exactly *where* within the economy FDI accumulates seems to be more salient. But, notwithstanding its sectoral orientation, can foreign investment alone lead to success in the global economy? Conversely, can the large diversity in economic specialization tell us important things about the internal social and political organization and the strengths, weaknesses, and further prospects of altering developmental opportunities in the East and the South?

Transformative Stateness Versus "Statelessness" in the Semi-Core, Semi-Periphery, and Periphery

Given the above evidence, it is important to ask how far could the post-socialist East European and poor capitalist Latin American states retain or develop a degree of transformative and developmental "stateness," that is, a capability to assist "the economy to transform itself and to respond to changes in the global economic environment." (Stepan 1988; Gilpin 1987: 77; both cited in Shafer 1994: 11).

Our third dimension is about state capacities to effectively regulate the economy, control the corruption, and uphold the rule of law—measured by the quality of governance indicators of the World Bank (Kaufmann et al. 2004)—seem to fairly closely *covary* with economic specializations (Appendix, Table 2). We have tried to check the usefulness of World Bank data by correlating it with adequate EBRD data available for the CEE countries only and measuring regulative capacities in financial and capital markets as well as competition policies. In addition, we controlled the World Bank indicators using cross-regional data on regulations against labor rights violation (Mosley and Uno 2007). For their strong correlation with these alternative datasets, the World Bank measures appear to us as fair proxies of economic state capacity.

Looking at the relationship between state capacities and economic specializations, one simple "rule of thumb" appears to be: no high (or at least medium) quality of

governance, no semi-core profile. Conversely, the overwhelming majority of the least capable states has specialized in peripheral, largely resource-based export roles. Both findings seem to confirm one of the inspiring propositions of the literature on late development (Stallings 1990; Shafer 1994; Karl 1997). As put by Chaudry, the impact of financial assets "regulated exclusively by international market forces… such as oil revenues, labor remittances, and portfolio investments, radically differs from the impact of foreign investment, and international borrowing…that favor a large state role in negotiating, administering and allocating resources" (1997: 25).

Data in Appendix (Table 2) are consistent with our above differentiation between the deep versus shallow paths of development in both regions, and it supports the argument of Cardoso about the market making and market correcting role of the state (Cardoso 2009). A capable state that partly filters and partly helps to adjust to world market trends and shocks is much more characteristic to the first than the second bundle of paths.

However, Appendix (Table 2) also reveals interesting differences within and across regions. First, many semi-peripheral East European states (notably new EU members) appear to be as capable as the semi-core states. Second, overall peripheral specializations in Latin America seem to be consistent with much larger diversity in quality of governance than is the case in Eastern Europe. Indeed, some of Latin America's most and least capable states—Chile and Uruguay versus Ecuador and Venezuela, respectively—are, for us, all considered to be peripheral. Could perhaps a difference in initial institutional endowments account for the diversity within the East and the South?

As rapid economic transnationalization coincided with building new independent national states in the majority of CEE countries, the high quality of their governance remains puzzling. Apparently, their fragile new state institutions have not been trapped or undermined by international capital. In all likelihood, a crucial international factor, namely EU enlargement that allowed and even forced them to "import" the skills and institutions of good governance provides at least part of the explanation (Bruszt 2002).

In turn, the case of Latin American outliers seems to support the insights of Gereffi and Evans. In the world of transnational production, "it is not what you produce that counts so much as what role you play in producing it" (Evans 1995: 251 e.n. 16; for an elaborated concept, see Gereffi 1995). Accordingly, the economies of Chile, Uruguay, and Panama might have captured relatively high value-added world market segments and niches albeit *within their own* overall peripheral integration profile.

Is global specialization the only area where the state certainly has to be brought back in? We propose that maintaining or increasing the cohesion of domestic societies and limiting inequality through the provision of public welfare services should be added to the issue areas where stateness matters.

Domestic Social Integration

The issue of relationship between opportunities in the global economy and domestic social integration, our fourth dimension, is a contested one. According to the representatives of the neoliberal consensus dominating developmental debate at the beginning of economic reforms in the East and the South, trade openness to make

beneficial effects had to go hand-in-hand with downscaling of states' social role and depoliticizing of distributive issues. Representatives of endogenous growth theory, on the other hand, argued that countries might benefit differently from openness—depending on the level and characteristics of investment in human capital (Landa and Kapstein 2001). Redistributive policies aimed at alleviating inequality might have positive effects. In contrast, downscaling of public redistribution might lead to inequality and impoverishment dampening growth and/or undermining the opportunities for favorable profiles of international integration (Landa and Kapstein 2001). Cardoso, in his "New Paths" makes a similar argument when discussing the strategy of "globalised social democracy" (Cardoso 2009).

In order to identify diverse patterns of social integration, we have grouped the eastern and southern countries according to the level of their states' social spending proxied (for want of more detailed but scarce comparable indicators of social protection expenditure) by general government spending, and the level of inequality proxied by Gini coefficients (Appendix, Table 3). We count domestic societies in which higher level of state redistribution couples with lower level of inequality as better integrated, while societies that fare worse on these dimensions as poorly integrated.

Latecomer transnational capitalism's diversity appears as striking in light of this evidence. First, especially the CEE data indicate overall stronger capacity and/or commitment to integrating society through welfare services than is the case in Latin America. Second, within the East, semi-core international integration profiles seem to be compatible with costly and fairly effective public efforts at domestic social integration: about half of the CEE states that score high on the former, also perform well on the latter, dimension. Apparently, so far, these states have not been forced to make a choice between promising global economic specialization and the cohesion of domestic societies. In consequence, in the East, there is no clear evidence of a "race to the bottom." On the contrary, success in the competition for sophisticated FDI and complex manufacturing niches has not required meager welfare states, as advocates of the neoliberal developmental agenda would want us to believe (Bohle 2008). The fact that no country has made it to the semi-core without relatively better domestic social integration seem to support endogenous growth theory.

Third, neither is welfare-stateness characteristic to *the entire* East, nor is it restricted to the post-socialist cases. On the one hand, the bulk of East European peripheral states have failed to foster social integration just like many of their southern counterparts. Indeed, in terms of welfare effort, there is a considerable divide even among the new EU member states (Bohle and Greskovits 2007a). While the EU has played an important role in upgrading domestic states' economic transformative capacities, its influence has not led to convergence in their social functions. On the other hand, the varieties of East European and Latin American capitalisms overlap in terms of redistributive public spending. At the least on its margins, Latin American capitalist diversity seems to include a more "welfarist" variant too.

Fourth, however, the two regions radically diverge on a key "performance" variable, income inequality. Indeed, inequality is much higher in Latin America even in the handful of cases where the effort to mitigate it by public spending is comparable with CEE standards. This might be, in our view, partly explained by large differences in the initial levels of inequality. At the critical juncture of opening

up their economies to the world market, reformers in the egalitarian post-socialist societies had faced very different constraints than their counterparts in unequal Latin America, where diverse social groups had had highly uneven chances for making effective demands on the state (Karl 2006, 2008).

Finally, while inequality seems to be inversely related to the strength of public efforts to reduce it in CEE, a similar relationship is less evident in Latin America, where leaders in redistribution seem as plagued by social disparity as the laggards. This raises doubts about the efficiency of public welfare services (for a thorough analysis of social policies and inequality in Latin America over the 1990s, see Stallings and Peres 2000, esp. Ch. 5; and for a comparative analysis of welfare reform in Latin America, East Asia, and CEE, see Haggard and Kaufman 2008).

Evolving Forms of Transnationalizing Capitalism: A Map of Possible Clusters

We have above identified the modes of international integration, profiles of global insertion, and patterns in stateness and social integration as interacting dimensions of diverse transnationalizing capitalisms. Each of these four dimensions can have more enabling or more constraining values from the perspective of the distribution of more or less advantageous roles and opportunities in the global economy.

First, we considered the modes of international integration: whether economic internationalization has occurred via multiple heavily institutionalized channels setting enforceable transnational regulative frames to economic transactions and domestic institutional change or merely through global markets of resources and finance. This is a new and still understudied aspect of transnationalizing capitalist development. Deeper forms of international integration that combine direct involvement of supranational actors in domestic institution building might enhance capacities of domestic state and non-state actors while shallow forms of integration might conserve institutional status quo and even weaken domestic developmental agency (Bruszt 2002; Bohle and Greskovits 2007b: 93, 94; Bruszt and McDermott 2009).

Second, we viewed differences in the role played in the international division of labor and level of penetration by FDI as dimensions of varied situations of dependent development. We have also briefly hinted at the different forms of dependency and development that might be associated with such combinations.

Finally, moving from external to the internal dimensions, we have considered the dimensions of stateness and patterns of domestic social integration. In general, much in line with the work of Cardoso and Faletto, we hold that insertion in the world market on grounds of a more diversified and complex export base, with more capable state and stronger domestic social integration offers bigger room for domestic developmental agency (see also Cardoso 2009).

We also found that while the possibility for permutations among these dimensions is high, the number of actually existing patterns is limited. Hence, our proposition: these combinations represent different situations of dependent development and diverging forms of transnationalizing capitalism. Here, we can only hint at some of the patterns leaving their deeper discussion to further research.

In an imaginary four-dimensional property space combining external and domestic aspects that constrain or enable developmental agency, about half of the CEE countries would fall closest to the enabling and furthest from the constraining poles (see

Appendix, Table 4). These economies' thorough international institutional embeddings, semi-core specialization, and deep FDI penetration combined with relatively high economic state capacities and fairly deep social integration put them on a pathway that differs from the development of other countries in both regions not only in degree but also in kind. They might be the eastern versions of Cardoso's "globalised social democracy."

Countries in this first cluster face different kinds of constrains than those in the second including the rest of new EU member states. The situation of the Baltic countries, Bulgaria and Romania, is characterized by a combination of enabling and constraining factors on the external and domestic dimensions alike. Still deep international institutionalization and relatively high economic state capacities set them apart from the remaining cases, but these advantages combine with semi-peripheral external and weak domestic social integration capacities and performances.

Third, within Eastern Europe, Russia, and the Central Asian republics fall closest to the pole where external and domestic factors in combination seem to undermine development. In this corner, shallow international institutionalization and peripheral world market profiles are coupled with weak state capacities to assist economic development and maintain social cohesion.

Fourth, from the perspective of tempered possibilism, an interesting situation of dependent development characterizes those former Soviet republics where recently "electoral revolutions" erupted, such as the Ukraine or Georgia (Bunce and Wolchik 2006). Even if they started to move out from the corners where bad things go hand in hand, their position and dynamics are ambiguous on external and domestic dimensions alike. Still outside of the EU, the chance of being considered for membership has played a role in their commitment to radical political and economic reforms that might, if successful, provide examples for the strategy of *democratic bootstrapping*. That is, using democracy (and the promise of EU membership), they might liberate the state from the hold of oligarchic groups and thereby improve the quality of economic governance. All these might facilitate a shift to more promising developmental paths through deeper social integration.

As it is clear from the essay of Cardoso, several Latin American countries have walked in similar "boots"—except that a benign "big brother's" incentives and assistance in democratic bootstrapping appear to have been in shorter supply in the backyard of the USA than of the EU (Cardoso 2009). The examples of Chile and Uruguay and, to some degree, of Brazil testify that democratic bootstrapping is a feasible alternative path of development. Chile and Uruguay are still mainly hindered by lower levels of economic diversification, Brazil and Argentina by relatively weak state capacities, while social cohesion is a problem in all of them.

In turn, Costa Rica and Mexico, while displaying the CEE pattern of insertion in the global division of labor, are set apart by yet another configuration of constraints and opportunities. Lacking thoroughly institutionalized international embeddings, both countries must mobilize further domestic political and social resources to utilize the possibilities of their advantageous global insertion and cope with their particular problems and tensions: Costa Rica with still insufficient social integration and Mexico with weaker state capacity as well as social and regional disparity. Finally, we would place most of the remaining Latin American countries in the cluster populated by Russia and the states of Central Asia and Caucasus.

Tracing the Origins of Diversity

Let us offer few tentative propositions on the factors opening up new possibilities for developmental agency in some cases and locking others in vicious circles and developmental traps.

We start with the legacies of the previous state-led models. Not unlike in Latin America, diversity in economic development was not a new feature in Eastern Europe. Even before the political transformation in 1989, countries in the latter region have widely diverged in their patterns of industrialization, degree of industrial distortions, and structure of foreign trade. Some of the former state socialist countries stayed autarchic while others had gradually opened up their economies to the world market. Similar to the ISI in Latin America, communist developmental strategies were also more or less statist, as some countries experimented with market oriented reforms while others did not (for the variation of ISI, see Hirschman 1968, 1995; Gereffi and Wyman 2000).

Accordingly, after their fall, state socialist regimes have left widely diverse economic legacies both in terms of economic structures and institutions. On the Western periphery of the former Soviet block, some countries and Soviet republics had relatively diversified industrial structures with technologically sophisticated physical capital and human skills. Others were more vulnerable to market opening and had less developed institutions and human resources to cope with the challenges. Such differences in economic legacies have shaped the room reformers had to form diverse developmental alliances and have also played a role in the timing and the character of the coming of FDI to these countries.

Among the legacies, second, we also consider diversity in political organization. Similar to Latin America, patterns of political opposition and repression varied in Eastern Europe during the last few years of state socialism, shaping the way these regimes have fallen apart and leaving behind large divergence in political institutions and state-society dynamics (Stark and Bruszt 1998). While differing in forms and strength, political opposition was present in most of the CEE countries and has played a major role in institutionalizing political pluralism in the period of regime change. In contrast, in many former Soviet republics, the virtual absence of opposition led to transition from one type of autocratic regime to another. In countries like Russia and Ukraine, vocal oppositions were repressed and weakened in the late 1980s, leaving room for the emergence of regimes with strong concentration of political power.

These differences have played crucial role in shaping the nature of the new political institutions. They also determined the range of actors and interests, which gained effective representation when market reforms started, and the rules for the new private conomy were set (Bruszt 2001, 2002). We can find strong correlation between the presence of political pluralism at the critical juncture of the early 1990s and developmental situations in the early 2000s. Only those countries had strong economic state capacities in the late 1990s and the 2000s in which effective mechanisms of political accountability forced incumbents to take diverse societal interests into account during reforms (Hellman 1998). Political pluralism, diversified insertion to the global markets, and relatively higher level of domestic

social integration go hand in hand in Eastern Europe. Predictions about the forced choice between democratization and successful market-making proved to be wrong: in Eastern Europe, absent or weak political pluralism coincided with economic de-diversification, (semi-)peripherization, and low level of domestic social integration.

The failed predictions about the expected negative effects of the extension of democratic rights on the success in market making were based on two interlinked assumptions. The first was that once liberated, free markets will produce strong enough economic incentives to generate the right economic institutions. The second assumption held that the politicization of economic transition might prevent both the liberation of markets and the coming about of the right institutions. Because of their flat and inarticulate social structure, run the argument, the economic transformation would create too many losers and too rapid an increase in inequalities. The losers would not tolerate these changes and would use their newly acquired political rights to stop the process (for a critique of this approach, see Hellman 1998).

As it turned out, fears of the losers of market reforms proved to be exaggerated, while the dangers represented by the early winners of liberalizations were underestimated. The latter had strong incentives to set the rules of the private economy for themselves, and as a result of the fast privatization, they had concentrated economic power. In countries where states did not have institutionalized defenses in the form of checks and balances and political pluralism was weak, early winners could capture the state and use it to redistribute wealth and opportunities to themselves. Political competition and the presence of mechanisms extending the accountability of incumbents, on the other hand, have helped to strengthen state capacity to introduce public rules for the private economy representing complex exchanges and accommodating diverse interests (Hellman 1998; Bruszt 2002, 2006).

We cannot find this strong correlation between democracy and dimensions of development in Latin America. Part of the reason for the cross-regional difference, we think, might have to do with differences in legacies of previous state-led developmental models. The state socialist regimes of Eastern Europe have left behind societies with relatively low levels of inequalities and economies with low concentration of private economic power. When market reforms in the early 1990s brought about private economies with concentrated economic power, the presence or absence of political pluralism could set these countries in divergent pathways.

In Latin America, the diverse ISIs left behind extremely inegalitarian societies with highly concentrated economic power. Here, neoliberal reforms in the 1980s and early 1990s have further decreased chances of the weaker social groups to make effective demands on the state (Collier and Handlin 2005; Karl 2006). While in Eastern Europe, the absence or weakness of political pluralism could lead to state capture by oligarchic groups, several of the Latin American democracies might have been closer throughout 1990s to something that could be called “low equilibrium trap” (Bruszt and McDermott 2009). Potential beneficiaries of upgraded economic state capacities or more inclusive social policies lacked resources and channels to gain the sustained attention of the state (Collier and Handlin 2005; Karl 2006, 2008). Besides, entrenched groups did not have to corrupt the state since they could profit

from the mere perpetuation of status quo (Schneider 2004). In the absence of diversified societal demand, incumbents had weak incentives to experiment with encompassing reforms. Herein might lie the importance of the upsurge of democratic mobilization during the last decade in some of the Latin American countries mentioned by Cardoso (2009). Increased capacity of diverse domestic groups to make effective demands combined with inclusive policy making provide the bases for the alternative pathway away from (semi)periphery that we called democratic bootstrapping.

In addition to this cross-regional difference, we also find variation in developmental pathways among the CEE democracies with similar starting points. These differences, we argue, have largely to do with the way transformative policies treated legacies of the past regime perceiving them in some countries more as assets and as liabilities in others (Bohle and Greskovits 2007a). Neoliberalism, the dominant policy paradigm (Hall 1993) both in the East and the South during the 1990s, suggested drastic departure from past legacies by way of a "creative destruction." While the message was homogeneous all around the globe, the ideas of the dominating policy paradigm were translated in different, sometimes diverging ways to the several languages of domestic politics.

Here we stress the role played by political actors' perception of the legacies of the past, as assets and/or liabilities, have tried to mobilize political support behind their visions, creating new social and political cleavages and conflicts by grouping parts of the legacies and actors around them in different "in groups" and "out groups" and shaping developmental pathways in diverging directions.

As Bohle and Greskovits (2007a) established, in countries like Estonia, Lithuania, and Latvia where the remaking of economic institutions coincided with the remaking of nationhood and stateness, legacies of Soviet domination in economic assets were seen as threats. In these countries, incumbents could gather support for exclusionary identity politics combined with radical reforms. In Slovenia, where the quest for democratic and economic reforms preceded nation building and independence came with ethnic homogeneity, identity politics could become the framework for an inclusive polity. The adopted gradualist economic transformation strategies built more on the remaking than destruction of the legacies of the previous developmental model. In between these two extremes, countries like Hungary, Poland, Czech Republic, or Slovakia, the so-called Visegrad countries, could not use identity politics either for disenfranchising large parts of population or for mobilizing sustained support for transformative policies. Under the conditions of democratic competition, incumbents in these countries had to search for balances between going ahead with economic reform and selectively compensating more vocal groups while trying to silence the remaining ones.

Cardoso (2009) develops a similar argument for Latin America. Structural factors or external pressures might explain only part of the politics of economic transformation since these influences have interacted with demands for cultural and national identity and have shaped economic policies in divergent directions. But whereas in the case of Bolivia and Ecuador, as Cardoso describes it, demands for cultural identity of previously marginalized groups pushed policies away from neoliberal reforms, identity politics in the Baltic countries has pushed policies in the direction of more radical market reforms.

Differences in the institutionalization of politics, the distribution of resources among social players to make effective voice, and finally, policy choices on who and what counts in transformative policies, have set these countries in divergent developmental pathways. The effects of these domestic factors were partly reinforced and partly modified by diverse international influences, such as location choices of TNCs and the emergence of transnational integration regimes.

The location choices of TNCs were molded and molding the diverse domestic conditions and have resulted both in virtuous and vicious circles of foreign-led capital accumulation and reindustrialization in some countries and deindustrialization in others. Here, we use the example of FDI in complex industries that has preferred the Visegrad countries above all for the incentives stemming from a dynamic interplay between inherited and restructured industry profiles, market institutions, and special subsidy packages (Bohle and Greskovits 2007a). Through FDI, the complex industries of these countries gained access to much needed tangible and intangible factors of production, upgraded their activities, and developed competitive strengths even in the more demanding EU market.

As a result of differences of early policy choices and the consequent divergence in the evolution of their supply structure (e.g., presence or absence of technologically sophisticated physical capital and human skills), the Baltic countries could not compete with the previous countries for complex FDI. Deprived of the means of upgrading and restructuring, the same sectors that have propelled development in Visegrad countries have lost the intense global competition, their markets, factors of production, and policy influence in the Baltic states. While no significant amount of capital- and skill-intensive manufacturing FDI has entered the Baltic economies, the accelerating eastward migration of transnational light industries from the West transformed them into hosts of many of the low-cost assembly sweatshops of the EU (Bohle and Greskovits 2007a).

Finally, we stress two effects of TIRs on domestic institutional change and developmental pathways. First, besides offering widely diverging policy incentives, TIRs differ in the way they translate dominating global policy paradigms to diverse regional policy goals and shape domestic policy choices and institutional change. In Latin America, TIRs like NAFTA or Mercosur did not want or could not alter the dominating neoliberal policy paradigm. The primary way these TIRs could affect domestic institutional change was to embed these countries in a competitive market environment, leaving it to market incentives to alter domestic conditions.

The way the EU translated the dominating neoliberal paradigm to non-negotiable conditionality is unique and still unmatched by other transnational integration regimes. In addition to measures and policies aimed at trade liberalization, it extends to a variety of political, social, and economic domains. Candidate countries were required not only to incorporate the already extensive community legislation into national legislation effectively but even more importantly, to implement it properly in the field, via the appropriate administrative and judicial structures. This meant to combine adopting 80,000 pages of EU institutional standards and regulations with building up the institutional conditions for meeting EU demands detailed in 31 chapters or policy domains ranging from consumer protection to corporate governance, from banking regulation to state aid policies, and from environmental protection to public procurement. EU conditionality documents have made it clear that market making,

besides liberalization, means building up *institutional capacity*—remaking administrative and regulative state capacities and creating developmental state capacities (Bruszt 2002).

Second, TIRs also differ in the ways they affect evolution of the demand and supply side for domestic institutional change (Bruszt and McDermott 2009). While EU empowers diverse public and private actors, not simply via resources but particularly by enhancing their political and functional participation in institution building efforts, the emphasis on economic incentives in NAFTA provide weak bottom up pressure for altering the properties of regulations and of the regulative state. The limited breadth of conditionality of NAFTA focusing on trade liberalization and largely honoring the domestic regulative status quo (Duina 2007) conserves the position of the strongest domestic economic actors. At the same time, trade liberalization embeds domestic struggles for institutional change in a competitive market environment constraining the room of forces trying to diversify the interest and considerations that should count in the making of the rules of the economy.

By connecting political with economic conditionality and closely monitoring the upholding of political rights and the rules of fair political competition, the EU kept domestic voice constant, or it increased in some countries like Slovakia (Vachudova, 2005) and nearly all the Southeast European countries, giving at the same time a clear and unambiguous directionality to domestic bottom up pressure in the form of accession conditionality. Also, the near simultaneity of trade liberalization and the re-embedding of the domestic markets in a broad transnationally monitored regulative frame have strengthened the bargaining position of domestic states vis-à-vis rent seeking domestic firms or the TNCs. It has also improved the political opportunities of diverse weaker economic actors. The re-regulation of the rules of competition and corporate governance, changes in the rules of state aid or state procurement, altering the standards of environmental or consumer protection, just to name a few domains, transformed the properties of regulative fields, transnationalized them and increased the opportunities of the weaker actors to make legitimate demands for upgrading institutions and allowing them to participate in monitoring or rule enforcement. Finally, while TIRs in Latin America have very limited means to help to upgrade the supply side of domestic institutional change, the EU has built up a diversified and multiplex assistance program, With an overall budget of around 28 billion Euros, these programs have targeted capacity building both within and outside of the state and involved the direct participation of thousands of experts and policy makers from the EU member states.

Conclusions

Let us conclude with a few reflections on the changing nature of dependency, which also underline the current relevance of the search for patterned combination of developmental constraints and enabling factors.

1. *Dependency, rooted in the unequal distribution of resource*s, *roles, and opportunities, continues to be an important aspect of the international division*

of labor, but its nature has transformed. First, the late developing economies of Eastern Europe and Latin America still rely on the core countries and TNC for new technology and global entrepreneurial skills. Second, a handful of East European countries and Mexico have joined the EU and NAFTA, respectively, from an asymmetrical position vis-a-vis the advanced states, which dominate these TIRs.

2. Rather than prohibiting industrialization, the new forms of dependency appear as compatible with advanced industrial structures and institutions. Through production relocation from the core, the new global division of labor allows some of the late-developing countries to become major producers and exporters of complex manufacturing goods hitherto viewed, for their intensive reliance on physical and human capital, as the main sources of the advanced economies' comparative advantages. *Dependency, thus, ceases to be in contradiction with even fairly complex forms of industrialization*.
3. Reliance on the core bodies of the EU is not inimical to strengthening domestic states' developmental capacities. On the contrary, the EU fosters state building in its new members and candidate countries through conditionality, assistance programs, and incentives for networks of cross-border cooperation. Indeed, as the European examples attest, *asymmetrical relationships between core countries and countries moving away from the periphery does not contradict the formation of new nation states with improved ability to regulate regained or newly crafted political and economic spaces* - the key agenda of so many East European countries after the breakdown of socialism.
4. Far from setting in motion a uniform "race to the bottom," the new pattern of dependency seems to allow some room for a precarious and politically contested coexistence between the imperative of global competitiveness and varied levels of domestic social integration. That is, countries cannot automatically "buy" promising positions within the international division of labor by merely downsizing welfare expenditures and socially excluding large parts of their population. Thus, *dependency does not necessarily undermine domestic social inclusion*. Rather, it is up to the democratic struggle to strike a balance between the requirements of promising external and politically acceptable domestic social integration.

Appendix

Table 1 FDI penetration and profiles of global economic insertion (2006)

Profile of global economic insertion (complex export in per cent of total export) FDI penetration (FDI stock in per cent of GDP)	Semi-core: 40 per cent or more	Semi-periphery: 21–39 per cent	Periphery: less than 21 per cent
High: 50 per cent or more	Hungary (73,79), Czech R. (55,61), Slovak R. (55,57), Croatia (63,40)	Estonia (77,38), Bulgaria (66,22)	Azerbaijan (67,7), **Panama (75,6), Chile (55,6), Nicaragua (51,4)**
Medium: 25–49%	Poland (31,50)	Georgia (43,30), Latvia (38,26), Lithuania (37,35), Romania (34,37)	Kazakhstan (42,6), Moldova (40,11), Macedonia (39,10), Armenia (27,3),
	Costa Rica (32,51) **Mexico (27,62)**	**Argentina (27,21)**	**Bolivia (45,4), Ecuador (40,5), Colombia (33,15), Honduras (32,11), Venezuela (25,2)**
Low: less than 25%	Slovenia (20,56)	Ukraine (21,24), Belarus (7,30)	Tajikistan (23,3), Kyrgyzstan (21,13), Russia (20,8), Albania (15,5), Turkmenistan (14,7), Uzbekistan (8,20)
		Brazil (21,31)	**El Salvador (24,19), Uruguay (23,12), Peru (21,3), Paraguay (19,4), Guatemala (14,15)**

In parentheses: complex export in percent of total export. Source: Authors' calculation on the basis of World Investment Report and UN Tradecom Database (World Investment Report 2007: Transnational Corporations, Extractive Industries and Development United Nations Conference on Trade and Development http://www.unctad.org/Templates/WebFlyer.asp?intItemID=4361&lang=1

Table 2 Level of domestic state capacity and profiles of global economic insertion (2006)

Profile of global economic insertion (complex export in per cent of total export) Level of domestic state capacity (quality of governance indicators, per cent, normalized)	Semi-core: 40% or more	Semi-periphery: 21–39%	Periphery: less than 21%
High: 50% or more	Slovenia (68,56), Hungary (65,79), Czech R. (65,61), Slovak R. (64,57), Poland (58,50), Croatia (54,40) **Costa Rica (58,51)**	Estonia (77,38), Latvia (63,26), Lithuania (62,35), Bulgaria (52,22), Romania (50,37)	**Chile (76,6), Uruguay (60,12), Panama (50,6)**
Medium: 40–49%	**Mexico (49,62)**	Georgia (43,30) **Brazil (45,31), Argentina (40,21)**	Armenia (45,3), Kazakhstan (42,6) **El Salvador (46,19), Colombia (46,15), Peru (43,3)**
Poor: less than 40%		Ukraine (38,24), Belarus (29,30)	Moldova (38,11), Russia (37,8), Albania (36,5), Azerbaijan (35,7), Kyrgyzstan (32,13), Macedonia (28,10), Tajikistan (23,3), Uzbekistan (23,20), Turkmenistan (14,7) **Guatemala (38,15), Honduras (37,11), Nicaragua (37,4), Bolivia (34,4), Paraguay (32,4), Ecuador (31,5), Venezuela (27,2)**

In parentheses: quality of governance normalized, in percentages. Source: Authors' calculation on the basis of Kaufmann et al. 2007, and UN Tradecom Database (Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi, 2004. "Governance Matters III: Governance Indicators for 1996, 1998, 2000, and 2002" The World Bank Economic Review, Vol. 18.(2): 253-84; for UN Tradecom Database see http://comtrade.un.org/)

Table 3 Public spending and inequality (2000/2001)

Inequality (Gini-coefficient) Public spending (per cent of GDP)	Low: less than 35%	Medium: 36–45%	High: above 45%
High: above 40%	Croatia (51,29), Slovenia (49,28), Hungary (48,27), Belarus (47,30), Czech R. (45,25), Slovak R. (44,26), Poland (44,34), Bulgaria (38,29)		**Panama (51,56), Costa Rica (45,46) Colombia (41,59)**
Medium: 31–40%	Uzbekistan (36,27), Ukraine (34,28), Romania (33,31), Albania (31,28)	Macedonia (40,39), Estonia (35,36), Latvia (35,38), Russia (35,40), Lithuania (31,36) **Nicaragua (34,43), Uruguay (31,45)**	**Argentina (35,53)**
Low: less than 31%	Moldova (29,33), Kyrgyzstan (26,30), Kazakhstan (23,34), Armenia (21,34), Azerbaijan (19,19), Tajikistan (18,33)	Turkmenistan (21,41), Georgia (18,48) **Ecuador (29,44), Venezuela (30,42)**	**Brazil (30,58), Bolivia (30,60), Chile (23,57), Paraguay (19,58), Peru (17,55), Honduras (16,54), Mexico (16,49), Guatemala (14,55), El Salvador (14,52)**

Sources: authors' calculation on the basis of World Development Report and ECLA. (World Development Report 2006: Equity and Development downloaded from http://go.worldbank.org/XP2234QDV0)

Table 4 Evolving forms of transnationalizing capitalisms—a map of typical combinations of enabling and constraining factors

Mode of transnational integration	+	+	–	?	–	–
Concrete profiles of global insertion	+	–	–	–	–	?
Patterns of stateness	+	+	–	?	+	?
Patterns of social integration	+	–	–	–	–	–
Examples	CEE Semi core countries	Baltic countries, Romania, Bulgaria	Russia, Central Asian Republics, Latin American periphery	Variants for democratic boot strapping	Chile, Uruguay	Brazil, Argentina

(+) external or internal factors are more enabling than constraining, (−) external or internal factors are more constraining than enabling, (?) external or internal factors are ambiguous

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