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PART I

POLITICS OF MARKET GOVERNANCE

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Understanding Varieties of Market Governance in the Age of Globalization

Since the end of the Cold War in 1991, three decades of market reform and greater exposure to the international economy have introduced liberal economic tools in the largest emerging economies in the developing world. China, the world's largest autocracy, Communist by name and one-party authoritarian regime in practice, has liberalized its economy on the macro level and draws in more foreign direct investment (FDI) than any country in the world except the United States. India, the world's most populous multi-party democracy, following decades of economic socialist institutions in the post-Independence period, has also liberalized its macro-economy. Russia, after the breakdown of the Soviet Union, underwent massive economic liberalization, dismantling Communist institutions and launching democratic reforms.

Dominant theories in political science suggest that globalization and attendant economic liberalization positively affect growth and development and vary by regime type.[1] Furthermore, studies in comparative political economy debate liberal versus developmental state models of development.[2] Indeed, since the end of the Cold War in 1991, and even before that, these countries extensively enacted market reforms and exposed internal markets to the international economy during the height of neoliberalism. Moreover, China's, India's, and Russia's participation

[1] See Chapter 2 on the internal and external pressures faced by developing countries during global economic integration. Also refer Lake (2009b) on the various threads of the Open Economy paradigm and Przeworski et al. (2000) on the relationship between regime type and development.

[2] Section 1.1 of this chapter situates this study in these debates.

in global trade agreements, standards-setting bodies, and other international organizations have been touted as the beginning of these economic juggernauts playing by the rules of the global community.[3] They have maintained steady GDP growth and today boast some of the most competitive industries and companies in the developing world.

Beyond macro-economic indicators and simple observations that these are large and diverse developing countries shedding socialist economies, however, what is often overlooked is that these countries' developmental trajectories are nationally distinct *and* sectorally variegated. In 1978, the Open Door Policy unleashed China's integration into the international economy. Deng Xiaoping, in his famous "Southern Tour" in 1992, welcomed foreign investment and shortly thereafter dismantled many state institutions, which centrally managed industries. In today's globalized China, which leads the world in exports and ranks third in imports, a centralized sector-specific ministry directs fifth-generation technology standard (5G) telecommunications networks and semiconductor fabrication through state-controlled corporate shareholding and government-coordinated research and development (R&D). Yet local governments exercise discretion in regulating overexpansion in predominantly privately held and globally competitive technical textiles and apparel and clothing.

India began to liberalize its internal economy in the 1980s and, in 1991, the Congress Party (under the leadership of Narasimha Rao) launched India's global economic integration with Big Bang liberalization. Macro-liberalization introduced foreign-invested competition in telecommunications and boosted textile exports. Today, the Indian government monitors hypercompetitive value-added and mobile service providers with an independent regulator, and the judiciary arbitrates regulatory disputes. The actual amount and scope of FDI notwithstanding, telecommunications services and manufacturing are almost completely liberalized. In contrast, the Ministry of Textiles devotes resources to shelter rural, small-scale handlooms and power looms from liberalized trade and export-oriented industrialization, even while actual market coordination in the informal, unorganized sector remains decentralized and outside of central-level regulation.

Russia, today, has also experienced macro-level economic liberalization, followed by sectoral-level reregulation. Perestroika reforms, in the 1980s, introduced competition in light industries, including textiles.

[3] For example, see Steinfeld (2010).

Fast forward several decades, after the collapse of the Soviet Union and the post-1998 political centralization efforts pursued by Vladimir Putin, the textile industry, which was decentralized and deregulated during the Gorbachev era, has witnessed regulatory centralization, particularly in technical sectors. State-owned regional telecommunications landlines, which the government never privatized, became centralized into one corporate entity. However, amidst encroaching information control by the Russian government, privately-owned mobile and value-added services operate in fiercely competitive markets.

In the neoliberal era and beyond, these countries have experienced radically different industrial outcomes, trade composition, and contribution to output of labor and physical capital.[4] What is more, all three countries, differences in regime type notwithstanding, have witnessed political centralization and economic retrenchment, which vary by sector, before and after economic crises, such as the 2008 Global Financial Crisis. Where the International Monetary Fund (IMF), the World Bank, and the European Union debate the extent and scope of austerity measures and advocate some form of state intervention, China, India, Russia, and their internal industrial and subnational regional variations question conventional wisdom on the relationship between economic liberalization, the nature of state and market institutions, and the effects on political and economic development. Existing scholarship shows that advanced industrialized and developing countries alike have liberalized and reregulated as they responded to the global economy in the context of neoliberalism.[5] These perspectives debate uniform and linear liberalization trajectories and the specific modes of state intervention, which achieve corresponding types of developmental outcomes.

This book unravels the empirical and theoretical puzzles about the varying role of the state in market governance and sectoral-level patterns and developmental outcomes in the context of global economic integration. What explains intranational sectoral variation in the context of globalization? How do state goals and methods in market governance vary?

[4] Figures in this chapter and the rest of the book show national and sectoral variation in science and technology patents (1980–2015); patent publications in telecommunications and other information communications technology sectors (1992–2013); technology intensity of exports and imports (1990–2014); and other indicators of industrial development.

[5] Studies on developed countries include Vogel (1996, 2006) and Rodrik (1998); and on less developed countries include Rodrik (1999), Kurtz and Brooks (2008), Hsueh (2011), and Nooruddin and Rudra (2014).

How do we both examine the agency and capacity of the state and disaggregate it to identify the various actors and multidimensional motives and effects? To answer these questions, the book advances existing literature with three novel claims, which make general propositions demonstrated through case-specific findings. First, mediating the impacts of economic liberalization on industrialization are dominant national sector-specific patterns of market governance. Market governance structures comprise two dimensions: *Level and scope of the state in market coordination* and *dominant distribution of property rights arrangements*. Introduced in detail later in Chapter 1, the holistic typology developed in this book recognizes the various state and market authorities in coordination mechanisms and broadens measures of institutional quality beyond de jure private property rights and credible commitment.

Second, the Strategic Value Framework, elaborated in Chapter 2, contends that the values and identities of state elites, as they respond to objective internal and external pressures that are political and economic in nature, interact with micro-level sectoral structures and sectoral organization of institutions and shape dominant national sector-specific patterns of market governance. The unified theoretical framework, which builds on and extends my earlier scholarship, bridges materialist arguments with constructivism and historical institutionalism to show how market institutions, which vary by sector, are a result of *intersubjective* responses to *objective* material circumstances.[6] It theorizes that objective measures of what is strategic to state elite decision-makers as they define, make claims upon, and contest contemporary internal and external pressures associated with industrial development are interpreted intersubjectively.

Values and identities rooted in prior episodes of national consolidation shape and reshape *perceived strategic value*. Stable and dynamic overtime, these national narratives of how sectors are appraised differently shape state imperatives, and interact with *sectoral structures and organization of institutions*. The interactive effects of strategic value and sectoral logics determine the patterns and details of market governance. In the first step, in the context of internal and external economic and political pressures, the higher the perceived strategic value of a sector, the more likely the state will enhance its control, centralize bureaucratic coordination, and regulate market entry and business scope. The lower the perceived strategic value of a sector, the more likely the state will

[6] Hsueh (2011, 2012, 2016).

relinquish its control, decentralize bureaucratic coordination, and deregulate market entry and business scope.

In the second step, the Strategic Value Framework theorizes that the state is more likely to impart deliberate market coordination and enhance its authority when a service or product entails complex technology, when the drivers of producer-driven commodity chains are industrial capital, when R&D and production are core competencies, and when key network links are investment based. In contrast, decentralized or dispersed market coordination is more likely for products or services comprising linear technology, when the drivers of buyer-driven commodity chains are commercial capital, when core competencies are design and marketing, and when key network links are trade based. The domestic sector's global competitiveness and position in the global commodity chain also have effects.

Importantly, country-specific sectoral organization of institutions also shapes the political and economic resources available to economic actors during critical political episodes of domestic and global economic engagement. Institutional arrangements in specific moments in time (which have remained intact over time) influence the level and scope of the state in market coordination and ownership structures. The stakeholders of these institutional arrangements will need to be accommodated even if objective and perceived pressures dictate the radical transformation of market coordination and ownership structures.

The resultant *national configurations of sectoral models*, the third claim of the book, negotiate global economic integration with impacts on actual developmental outcomes. The national sector-specific pathways to globalization and development, presented in their full complexity in Chapters 3–11, uncover that the "global liberal order" of the post-Cold War era is as much a normative imagination as it is a reality with uneven implementation and developmental implications, which vary by country and sectorally (within country). To substantiate these arguments, building on my prior work's emphasis on the nation-state as an important unit of analysis and the industrial sector as another, this book adopts a multilevel comparative case research design.[7] Comparative case analysis at the national and intranational sectoral and subsector levels facilitates the identification of the macro-national and micro-sectoral agential, structural, and institutional factors shaping dominant national sector-specific

[7] Hsueh (2012, 2015).

patterns of market governance and their mediation in developmental outcomes. Illustrative company cases further demonstrate sector-specific patterns within a country.

Case-specific findings validate the *national configurations of sectoral models*, which depart from existing models of development and capitalism. Empirically, the book traces and compares (from sectoral origins) the developmental trajectories (historical and 1980–present, including the COVID-19 global pandemic) of capital-intensive telecommunications and labor-intensive textiles in China, India, and Russia, which are countries of comparable size and scale, federal structures, existing industrial bases, and geopolitical significance. Telecommunications and textiles and their subsectors are selected because of their different institutional legacies and structural attributes – the former a technologically advanced and knowledge-intensive industry with new political stakeholders and the latter a labor-intensive and politically and developmentally established industry.

The analytical approach and empirical strategy show that the conventional wisdom of national models (commonly justified by single-sector or single-country studies) in the open economy, developmental state, regime type, and policy sequencing perspectives falls short in identifying the factors, which shape diverging national sector-specific trajectories of simultaneous state- and market-building. Analysis at the subsectoral level (telecommunications services versus telecommunications equipment and apparel and clothing versus technical textiles) further substantiates the Strategic Value Framework. The multilevel comparative case studies incorporate in-depth, semi-structured interviews with key government and market stakeholders, qualitative and quantitative data, and primary and secondary historical documents conducted and collected, respectively, during iterations of in-depth international fieldwork.

Section 1.1 of this chapter situates the *national configurations of sectoral models* in existing debates on states and markets and their impacts on development. The discussion considers the analytical utility and theoretical contributions of disaggregating to the sectoral level, deliberated in further detail in Chapter 2. The sectoral level of analysis challenges the conventional wisdom of the neoliberal and developmental state models of development in the context of complex interdependence. Section 1.2 introduces an original conceptualization of market governance, comprising of market coordination and distribution of ownership dimensions, developed based on research findings. Section 1.3 characterizes the typology of market governance and codes the empirical cases. Section 1.4 provides the book's roadmap.

1.1 NATIONAL SECTOR-SPECIFIC VARIATION IN GLOBALIZATION AND DEVELOPMENT

Scholars have long debated the role of the state in confronting economic internationalization. Among scholars, some depict the retreat of the state; others argue the state has retained its capacity to make policy.[8] Yet other scholars have found cross-national variation in the state's responses to globalization and most agree governments today must contend with some form of global economic integration.[9] Existing models of development shed some light on the responses to and impacts of globalization.[10] The BRICS nations have departed from the developmental states of East Asia, which strictly regulated FDI in the post-World War II period during the Cold War.[11] These countries have also eschewed the historical experience of Latin American countries during a similar stage of development, whereby economic liberalization facilitated coalitions of FDI and local business interests, which exploited physical and natural resources.[12]

In 1980, shortly before initial economic liberalization, in our case countries (China, India, and Russia), with macro-level restrictions on foreign direct investment in place, FDI as a percentage of GDP was negligible and lower or comparable to the newly industrialized countries (NICs) of East Asia (Figure 1.1). Brazil, in comparison, experienced a higher influx of foreign investment. By 2005, a few decades into neoliberalism, China, India, and Russia have exceeded the East Asian NICs

8 See Strange (1996), Rodrik (1999), and Grande and Pauly (2005) on the former. On the latter, see Gourevitch (1978, 1986), Katzenstein (1978), Garrett and Lange (1995), Keohane and Milner (1996), Weiss (2003), Kahler and Lake (2003), Paul, Ikenberry, and Hall (2003), S. K. Vogel (1996, 2006), and Levy (2006).

9 See Zysman (1983), Kitschelt (1991), S. K. Vogel (1996, 2006), Hall and Soskice (2001), Guillen (2001), and Wilensky (2002).

10 On lessons drawn and departures from the developmental state and Latin American experiences, see Hsueh (2011) on China, Sinha (2005) on India, and Wengle (2015) on Russia.

11 First referred together by Goldman Sachs in 2001, the BRICS nations are Brazil, India, Russia, and China, with South Africa added to the group in 2010. Together they represent about 42 percent of the global population, 23 percent of GDP, 30 percent of the territory and 18 percent of the global trade, and were predicted to dominate the world economy by 2050 and potentially act as a political bloc. On the developmental state, representative studies include Johnson (1982, 1987), Haggard (1990, 2018), and Woo-Cumings (1999). See Hsueh (2011) on how China pursued a bifurcated strategy markedly different from the developmental state model.

12 On business politics and the state in Latin America's development trajectory during the post-WWII Cold War era, see Evans (1987, 1995), Schneider (2004, 2013), and Kurtz and Brooks (2008), among others.

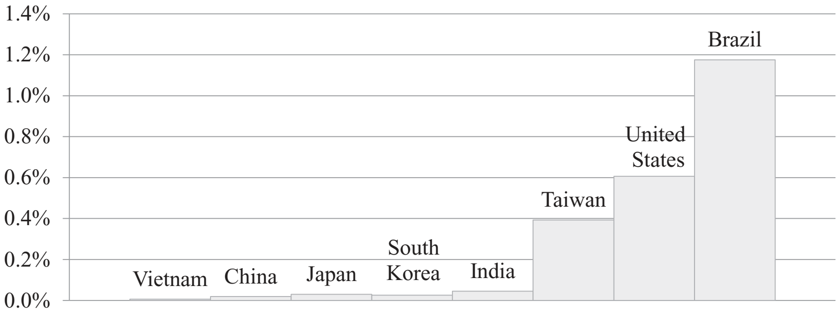

FIGURE 1.1. Foreign direct investment as % of GDP, various countries (1980)

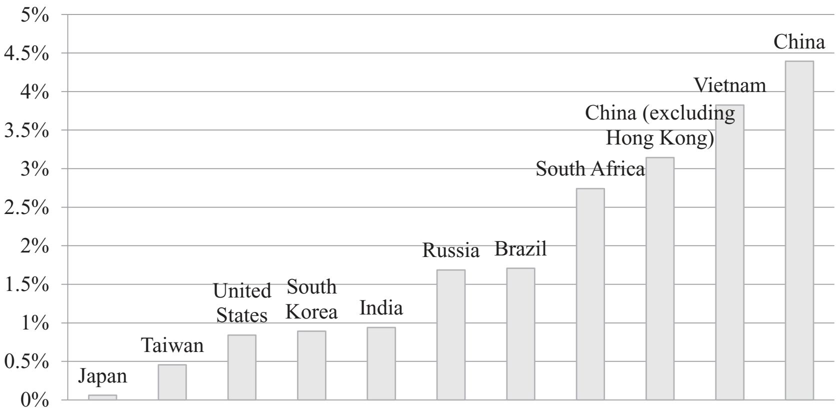

FIGURE 1.2. Foreign direct investment as % of GDP, various countries (2005)

and the United States in FDI as a percentage of GDP (Figure 1.2). A longitudinal view (1990–2019) also shows our case countries have drawn significant FDI in the last several decades, converging to similar proportions as a percentage of their respective GDPs (Figure 1.3). Moreover, all three countries have extensively globalized in terms of trade flows. With the exception of the 1990s, shortly after the collapse of the Soviet Union opened Russia to the outside world, the three countries' proportion of trade to GDP has been at comparable levels (Figures 1.4 and 1.5).

Marco-level FDI and trade flows, however, belie the *intersecting* reality of macro-level liberalization in response to global market pressures and ideological norms, and micro-sectoral-level variations in market governance and developmental outcomes, in the aforementioned large