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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).

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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).

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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.

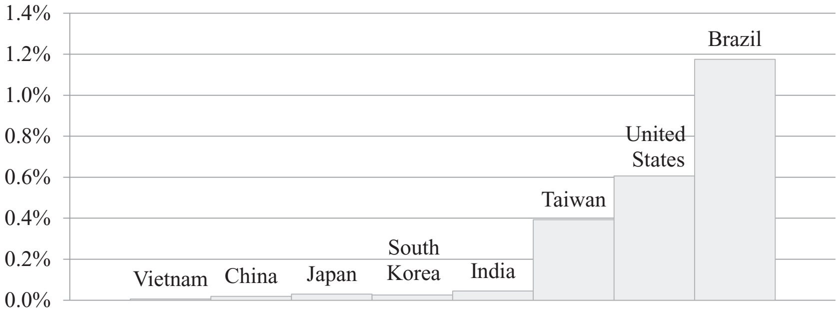

FIGURE 1.1. Foreign direct investment as % of GDP, various countries (1980)
Source: United Nations Conference on Trade and Development (2009); International Monetary Fund (2010).

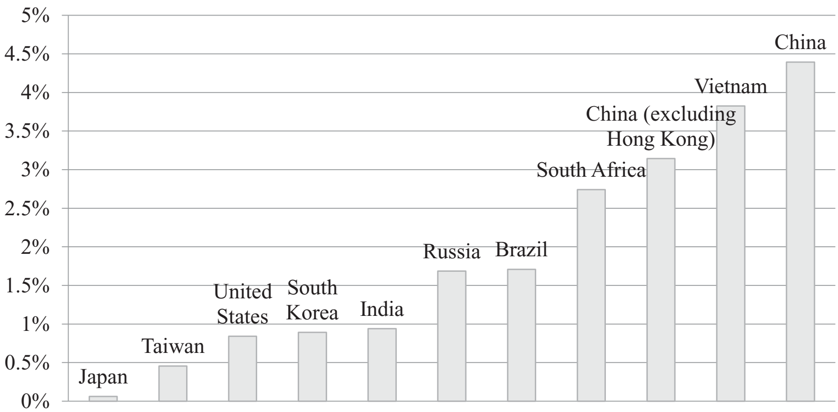

FIGURE 1.2. Foreign direct investment as % of GDP, various countries (2005)
Source: UN Conference on Trade and Development (2009); IMF (2010).

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 developing countries with existing industrial bases and complex internal

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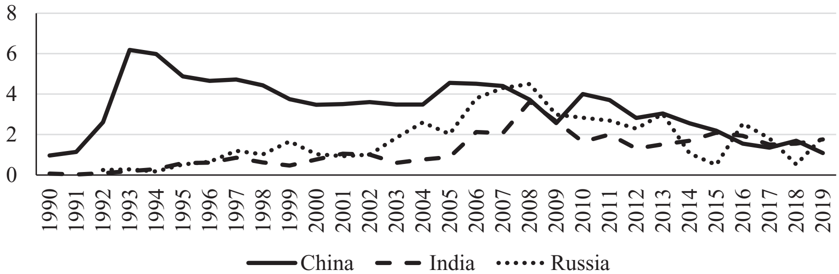

FIGURE 1.3. Foreign direct investment as % of GDP, China, India, and Russia (1990–2019)
Source: The World Bank (2021).

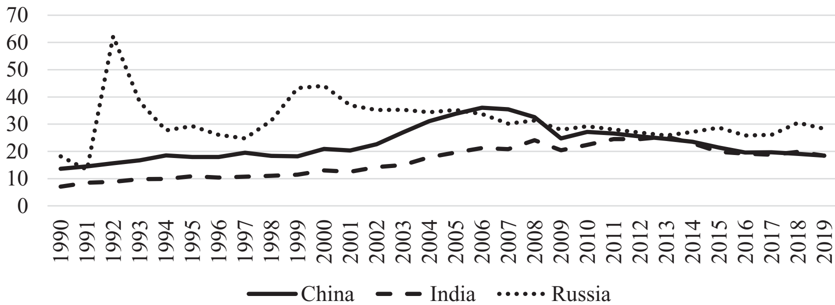

FIGURE 1.4. Exports of goods and services as % of GDP, China, India, and Russia (1990–2019)
Source: The World Bank (2021).

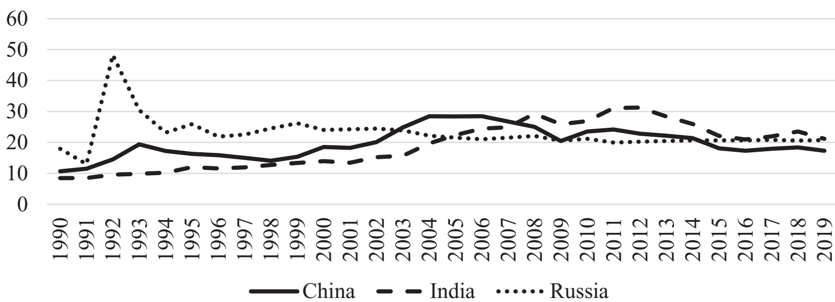

FIGURE 1.5. Imports of goods and services as % of GDP, China, India, and Russia (1990–2019)
Source: The World Bank (2021).

diversity. If we take quantity of science and technology patents as an indicator of developmental outcomes, we might draw the conclusion that China has far exceeded India and Russia in terms of technological advancement (Figure 1.6). Yet, when we disaggregate this measure, and

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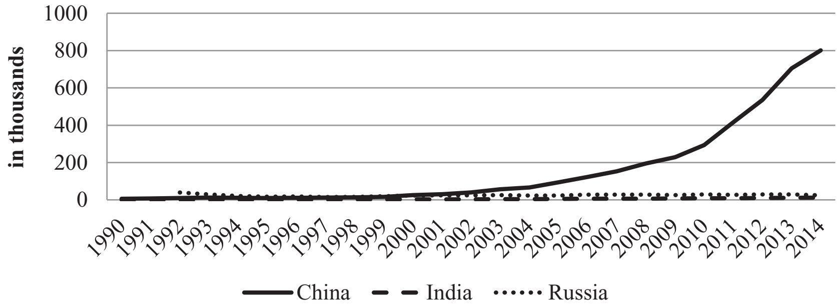

FIGURE 1.6. Science and technology patents, China, India, and Russia (1990–2014)
Source: World Bank (2015).

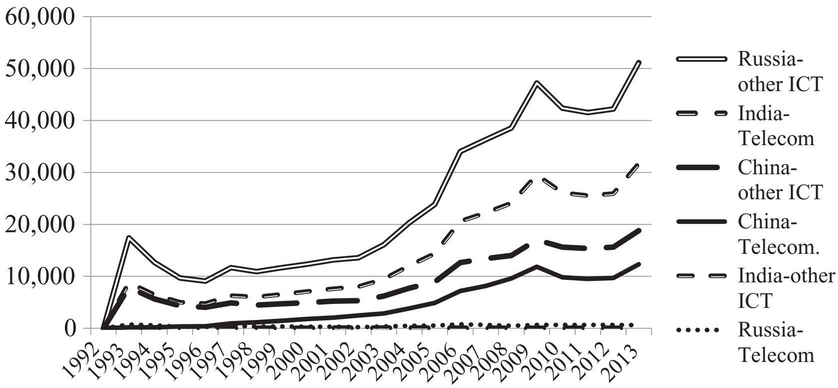

FIGURE 1.7. Patents: Telecommunication and other Information communications technology, China, India, and Russia (1992–2013)
Source: World Intellectual Property Organization (2015).

zero in on information and communications technology (ICT) and telecommunications, among the book's main sector case studies, the picture becomes much more complicated (Figure 1.7). For example, Russia leads in ICT patents but lags behind in telecommunications patents.

How do we explain intracountry sectoral variation, which appears to contradict our understanding about the relationship between economic openness and developmental outcomes in addition to conventional wisdom about national-level differences? The Open Door Policy launched in 1978 inserted China into the international economy at the height of neoliberalism and global market pressures. Macro-liberalization picked up in the 1990s, and Deng Xiaoping during his "Southern Tour" announced free trade zones and the liberalization of FDI. The Chinese government dismantled the Ministry of Textile Industry and ended the

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telecommunications monopoly in 1993. China joined the World Trade Organization (WTO) in 2001. Today, China is more open to FDI than the developmental states of East Asia (Taiwan, South Korea, and Japan) during a comparable stage of economic development.[13] Also, China has attracted higher levels of FDI as a percentage of GDP than its East Asian neighbors and other developed and developing countries of comparable size.

In 2020, however, despite liberalization commitments made in China's WTO Accession Protocols two decades earlier, state-owned carriers operate basic telecommunications services. Moreover, a centralized supraministry manages telecommunications infrastructural development and market access, but rather differently across services and equipment subsectors, including downstream digital retail, such as financial technology, and upstream semiconductors, respectively. Conventional wisdom focuses on the political centralization efforts of Chinese Communist Party General Secretary and President Xi Jinping for personal gain and authoritarian control since taking the helm in 2012; yet this explanation captures only half the story.

Chapters 3–5 reveal the reinforcement of the central state's role in strategic sectors, which contribute to the national technology base and have applications for national security, predates the rise of Xi. A former R&D executive of Motorola China explained, "The actual content of restructuring [in 2008] was rational. Integrated carriers address technological convergence issues."[14] "There are lots of reasons for controlling market entry in telecommunications, some technical speed issues, but mostly security, social stability, and state secrets," explained a former official of the Ministry of Post & Telecommunications.[15] Importantly, despite post-Xi political centralization, subnational governments and private regulation, including nongovernmental sector associations, govern market activities in textiles and other less value-added, labor-intensive sectors. "China Nonwovens & Industrial Textiles Association does not have a role in policymaking," explained Li Lingshen, chairman of the nongovernmental business association, the only textile organization designated a national-level association.[16]

[13] Lardy (2002), Guthrie (1999), Zweig (2002), Huang (2003), Steinfeld (2004), and Gallagher (2005). On the characteristics of the developmental state model, see Johnson (1982), Amsden (1989), Haggard (1990), Wade (1990), E. Vogel (1991), Evans (1995), and Woo-Cummings (1999).

[14] Interview on September 29, 2008 in Beijing.

[15] Interview on September 23, 2008 in Beijing.

[16] Interview on March 12, 2013 in Beijing.

After decades of pursuing insular economic policies, the Indian government began to relax its restrictive trade and FDI regime, in the 1980s, and unleashed economy-wide liberalization, in 1991.[17] The Gulf War and the Balance of Payment Crisis were the approximate causes of initial openness to the global economy following a decade of the introduction of internal market competition. Capital- and knowledge-intensive, value-added industries, such as telecommunications, represent the apex of economic liberalization and modernization in India. Today the Indian government haltingly monitors hypercompetitive value-added and mobile service providers with an independent regulator, detailed in Chapter 7. "The bidding process [for telecommunications spectrum] was not transparent and was ridden with controversy. Bidders bid high amounts because they thought they could negotiate with the Indian state later – a prisoner's dilemma. These new entrants thought they could manipulate the process, that they would be too big to fail later – so they thought."[18]

Dominant perspectives examine sources of liberalization and debate the agents and contents of neoliberal reforms, including the Bharatiya Janata Party of which the current prime minister Narendra Modi (who is a right-wing nationalist) is a member. These explanations, however, overlook that in labor-intensive, predominantly rural and small-scale industries, such as apparel and clothing and technical textiles, India is neither very globalized nor industrialized, as shown in Chapter 8. The Ministry of Textiles and subnational authorities allocate resources to buffer privately held rural, small-scale handlooms and power looms from liberalized markets. "We do not want big brands entering India to displace existing traditional shops and retailers," explained a textile merchant.[19] Based in Rajasthan, the textile merchant's family has sold textiles since India's pre-independence times. The country's independence was founded on rural and agrarian interests and cotton nationalism championed by Mahatma Gandhi. Tracing from sectoral origins, Chapter 6 shows that their role in the Indian nationalist imagination contributes to the high perceived strategic value of small-scale rural sectors for national development; whereas transnational elites shape knowledge intensive and globally integrated sectors.

[17] WTO reports show in 1990, 355 percent represented the top tariff rate in India. The average fell to 40 percent in 2000, 12 percent in 2007, and just over 7 percent in 2014.

[18] Interview on February 21, 2013 in New Delhi with Rajat Kathuria, chair of the Indian Council for Research on International Economic Relations.

[19] Conversation with a small-scale cloth maker and merchant on January 24, 2006 in Jaisalmer, India.

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The collapse of the Soviet Union in 1991 paralleled the newly formed Russian Federation's adoption of a program of "shock therapy," which entailed privatization, liberalization, and stabilization advocated by the Washington Consensus of the United States, the IMF, and the World Bank.[20] The prevailing view contends that new owners emerged overnight to helm state-owned companies where they previously served as state managers and workers. Simultaneous liberalization and privatization unleashed new and old political actors and ushered in foreign participation of all stripes (multilateral and nongovernmental organizations, Western governments, multinationals, and direct and portfolio investment).

This, however, characterizes the bird's-eye view. The Russia chapters, presented in Chapters 9–11, disclose how existing sectoral organization of institutions interacts with perceived strategic value and shapes sectoral variation in market governance in the post-liberalization era. "When the Berlin Wall fell, apparel and clothing had already experienced nearly a decade of deregulation under *perestroika*. With the supply chain during the Soviet era scattered across the union, raw materials were difficult to set up," exclaimed a global textile trader, who searched for T-shirt producers in the Russian countryside shortly after the collapse of the Soviet Union. "It costs a lot more to set up textile factories than to set up shop to sell telecoms equipment and services. The Russian textile industry never recovered."[21]

In contrast, "Russia kept the landline in the state's hands. Telecoms is a military sector. You can't just privatize fixed-line. But there isn't a connection between military and mobile. This is why there is so much market development and almost anyone can enter mobile, leading to the market behavior of operations witnessed today," explained a telecoms engineer.[22] In the Putin period and beyond, "[mobile and value-added service providers] must contend with the rules and regulations of the national security laws on data collection and storage." Since the early 2000s, Russia outranks China and India by mobile subscriptions per 100 inhabitants (Figure 1.8). In contrast, Russia's landline subscriptions are closer to China's numbers despite having a much more extensive cross-country fixed-line networks under the Soviet Union (see Figure 1.9). Nevertheless, Russia witnessed growth in fixed-line networks after the Communications Law of 2004 (enacted during the Putin era) further centralized the role of the state in market coordination. The law

[20] Aslund (1995), Stiglitz, (2001), and Sachs (2005).
[21] Interview with Guy Carpenter on May 27, 2015.
[22] Interview on June 10, 2015 with Alexander Akhmataev, Project Director, Rostelecom.

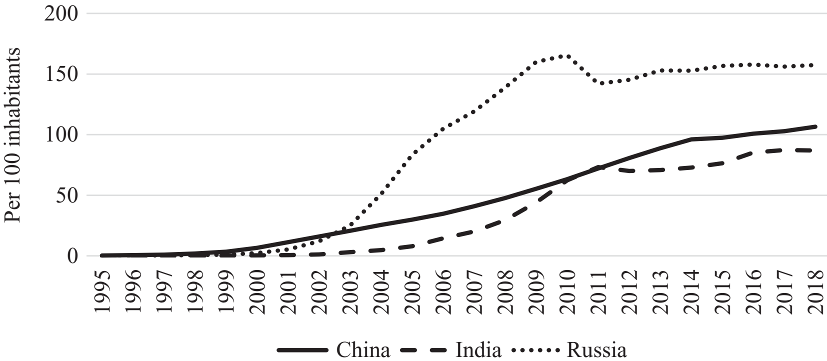

FIGURE 1.8. Mobile subscriptions per 100 inhabitants, China, India, and Russia (1995–2018)
Source: International Telecommunication Union (ITU) Statistics, 2020.

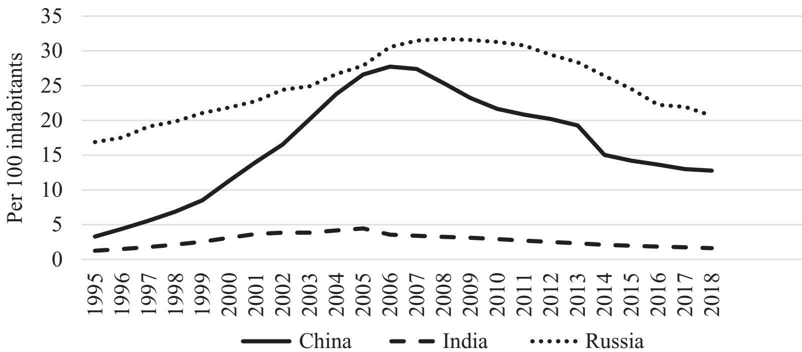

FIGURE 1.9. Fixed-line subscriptions per 100 inhabitants, China, India, and Russia (1995–2018)
Source: International Telecommunication Union (ITU) Statistics, 2020.

maintained state-owned Rostelecom's monopoly position and control of Internet Service Providers (ISPs).

1.1.1 Disaggregating to the Sector: Challenges to the Neoliberal and Developmental State Models

The decline of the modified gold standard in 1973, which upended the Bretton Woods system of monetary management, and the exogenous shocks and debt regimes of the developing world in 1979, became the pretext for the rise of market ideologies in the advanced industrialized world and their enforcement via loan and aid conditionality to developing countries by the IMF and World Bank.[23] Even in the context of successful development, none of the developmental states of East Asia or Latin America, for that matter, established regulatory institutions that resembled the independent administrative agencies tasked with ensuring a competitive equal playing field witnessed in the wealthy western democracies.[24] Economic nationalism, a "soft authoritarian" political system, and auspicious Cold War politics – which provided a context for foreign capital flows absent of conditionality – characterized "state-directed development" of East Asia.[25]

Elsewhere in the developing world, Peter Evans has shown, countries were unable to calibrate the "triple alliance" relationship between the state, local capital, and foreign capital in ways that contributed to local development, and the autonomous state "embedded" in society never emerged to engage the global economy to achieve state goals in quite the same way.[26] Rather, in response to domestic and global conditions and neoliberal ascendence, the state, in Latin America in varying ways and degrees, incorporated the demands by activist labor movements and industrial elites nurtured by import substitution industrialization (ISI) policies, with social welfare and export-oriented economic and trade policies, respectively. Thus, emerged what Sarah Brooks and Marcus Kurtz termed "embedded neoliberalism."[27] Still, analysts blamed the lack of regulatory institutions for the sufferings endured by East and Southeast Asia in light of the 1998 financial crisis, even as such scholars as Robert Wade argued that "deeper causes of the Asian crisis lie in the core economies and their governments, especially that of the U.S., and in the kind of international financial system they have created."[28]

The diverse economic and industrial outcomes, which vary by country and by sector within country, challenge the Keynesian notion that the state has the will and capacity and can be good for industrial planning purposes, personified by the phenomenal growth of the developmental

[23] Stiglitz (2001).

[24] Vogel (1996) finds that even among advanced industrialized countries, the actual nature and scope of market regulation varies remarkably due to existing ideas, institutions, and interests.

[25] Johnson (1982), Cheng and Haggard (1987), Amsden (1989), Wade (1990), Woo-Cumings (1991, 1999), Evans (1995), and Kohli (2004).

[26] See Evans (1979 and 1995).

[27] See Kurtz and Brooks (2008). Also, see Murillo (2009) on the partisan origins of this new politics, and Etchemendy (2011) on the role of policymaking styles and the compensatory measures that explain cross-national variation across Iberian and Latin American countries.

[28] See Wade (2000).

state in the 1960s and 1970s and conventional wisdom about China in the 1990s and beyond. At the same time, they also defy the neoliberal view that interventionism produces inefficiencies and inefficacies, which adherents claimed was shown by the apparent cronyism and feeble responses of some of the NICs to the Asian Financial Crisis in the 1990s, and India under Nehruvian socialism. Furthermore, China's pursuit of industrialization of the entire economy by liberalizing FDI rather than focusing singularly on foreign aid and protectionism calls into question the dependency paradigm that FDI is necessarily exploitative and leads to dependent development and that only aid can get societies out of the cycle of poverty when savings cannot.

Through FDI and exposure to technology and knowledge transfers in exchange for market access, China has developed high-tech, high-value-added products, such as semiconductors and manmade nonwoven fabric. Yet China's continued strength in low-value-added production, such as those in undergarments and other apparel, forces a re-examination of the idea that countries should emphasize competition in the production of higher value goods by producing better and more efficient ones. In fact, China's FDI-cum-import-substitution strategy, shown in Chapters 3–5, to govern markets questions the neoclassical view that countries should focus on absolute strength (which is after all, context specific and time dependent) to obtain optimal efficiency. China's pursuit of both comparative and competitive advantage shatters the notion that countries should focus energies and resources only on leading sectors because growth is significantly faster in some segments of the economy. And that pursuit appears to resolve, along with a strictly regulated currency regime, the gap between imports and exports, which plagues many developing countries.

The global structural contexts in which the Chinese model has defied conventional wisdom on the promises and pitfalls of both state intervention and deregulation cannot be disconnected from China's recent economic development. China opened its door to the world as the Cold War came to an end. The country integrated into the international economy during neoliberal ascendance, which replaced Cold War politics when the Soviet Union and its satellites collapsed. During this period of transnational rule-making by multilateral organizations, such as the WTO, and global sectoral alliances, such as the International Telecommunications Union, China joined the game and adopted the prevailing norms rather than turn the other way. In this effort, China has welcomed foreign influences and joined regional and transnational forums, even while maintaining control of its economy through a bifurcated strategy of market liberalization and reregulation, which varies by sector.[29]

Yet what then does China's development model imply for developing countries seeking to fast-track industrialization even while opening up to the outside world? Can these countries succeed if they pursue a bifurcated strategy of growth and development, or, at the very least, get policies just right?[30] The mixed industrial and economic effects witnessed in China's strategic and less strategic industries as shown in the book's case studies oblige us to move away from simplistic ideas of the mutual benefits of liberal markets and trade and the macro-level economic indicators that measure them. Sequencing or combining strategies of import-substitution and export-orientation, or specifying the optimal relationship between government and business might not do the trick either. Russia's market-based import-substitution strategy in previously decentralized and deregulated sectors, as shown in Chapter 11 on Russian textiles, have witnessed limited success.

The internal and global contexts in which states balance sectoral attributes and country-specific sectoral institutional characteristics with state imperatives deserve critical consideration. Many developing countries have experienced less-than-desirable side effects from the internationalization of finance and neoliberal policies. The BRICS nations have globalized in the context of the adoption of neoliberal policies advocated by the Washington Consensus, the influence of economic groups vis-à-vis the state during the rapid disintegration of the Soviet Union and related dismantling of the Communist state, and relatively high growth rates in China and India. Recent studies in the political economy of development highlight the role of state capacity, policies to upgrade human capital and innovation, coalitional dynamics, and resource endowments.[31] In their emphases on state agency, pluralistic dynamics, or structural constraints, these studies pay less attention to the constellation of path-dependent values and institutions negotiated by political economic elites during significant moments in developing

[29] Hsueh (2011).

[30] To maximize the benefits of economic globalization, Rodrik (2007) suggests solutions to get out of poverty "usually requires following policies that are tailored to local economic and political realities" and Harrison and Rodríguez-Clare (2010) call for a soft industrial policy, "whereby government, industry and cluster-level private organizations can collaborate on interventions to increase productivity."

[31] For example, Doner and Schneider (2016), Smith (2007), and Dunning (2008), respectively.

countries' attempts at national consolidation. They are also less informative in explicating the extent and scope of market governance (and attendant socioeconomic development).

Development is not as simple as adopting best practices or creating robust conditions, such as state capacity and social network institutions, to increase trust, incentives, satisfaction, accountability, quality, and citizen engagement.[32] The dominant patterns of market governance identified in this book shed light on the complexity of development trajectories, which vary by country and sector. They expose development as complex and non-linear and varies by country and sectors within country. In doing so, the book's findings extend beyond existing works, which have characterized institutional adaptation and the coevolutionary process of markets and governments.[33] These studies examine micro-institutional foundations and identify important subnational variations and explicate the complexity of institutional change. Without explicitly linking micro-institutional change to macro-level processes, however, they do not capture the full story of change and continuity. Moreover, while adaptive institutional and coevolutionary accounts have examined subnational geographical variation, they pay less attention to the impacts of *sectoral structures and organization of institutions*.

In the context of neoliberal ascendance and open economy politics, it is at the industrial sector that countries today are exposed to the global economy. Sectors, defined as structural technological attributes, sites of global division of labor and global value chains, and nation-specific forms of industrial organization, and their impacts hypothesized in Chapter 2, therefore, play an important role in shaping market governance. This book's historical process-tracing from sectoral origins in Chapters 3, 6, and 9 (China, India, and Russia, respectively) shows that political dynamics during the founding of national and sectoral institutions develop identities and values, which affect economic decision-making in subsequent exposures to the global economy and rounds of market reform. They have lasting effects in the context of interacting endogenous and exogenous forces. Regardless of the extent and scope of state control and deregulation and reregulation of economies, all markets are embedded in complex national configurations deeply intertwined with *perceived strategic value,* which interacts with *sectoral structures and organization of institutions* and shapes the political logic of market institutions.

32 Khemani et al. (2016) and Andrews, Pritchett, and Woolcock (2017).
33 Tsai (2006, 2016), Dimitrov (2013), Naughton and Tsai (2015), and Ang (2016).

The sector-specific chapters show that the impacts of the *national configurations of sectoral models* on actual developmental outcomes are as multifaceted as the contributions and limits of neoliberalism.[34] For example, deregulation in China (in what are perceived as less strategic sectors for national security and the national technology base) in the aftermath of the Tiananmen Square Incident in 1989 empowered private market actors to engage in economic activities, which modernized the mass production of advanced textiles. Yet, it also led to market over-expansion and environmental degradation. Likewise, the Chinese state's coordination and investment in R&D and courting of FDI facilitated the modernization of the telecommunications infrastructure to wire the nation. In doing so, the authoritarian state also acquired the technology and knowhow to build the Great Firewall of China and engage in cross-border cyberwarfare.

The book calls into question the lessons of cookie cutter development models that could be lifted as blueprints. Without understanding the interacting perceived strategic value and sectoral structural and institutional logics driving state goals and state methods, we may simply believe there are portable developmental models that all countries undergoing development can easily emulate without consequence. The national and sectoral case studies show how and with what methods, and to what effects global ideas and economic reverberations (be they neoliberalism, the 1990s economic crises, the 2008 global financial crisis, or the 2020 COVID-19 global pandemic) are reflected and refracted. Different types of market coordination and property rights arrangements as a function of strategic value and sectoral logics have shaped country and sector-specific infrastructural development and technological innovation and their varied consequences associated with different stages of industrial upgrading.[35] Simply put, whether a country can resolve "the trilemma" identified by Dani Rodrik and simultaneously enjoy an open economy, attune to national imperatives, and respond to mass politics, will vary by nation because of sectoral variation within a country.[36]

[34] For neoliberalism, these are individual freedom and market competition, on the one hand, and limits on state power and institutional void, on the other hand (Deane 1978, Hall 1989, Vail 2018).

[35] Cammett (2007).

[36] Rodrik (2007) characterizes the "trilemma" as the inability of countries to simultaneously maintain independent monetary policies, fixed exchange rates, and an open capital account.

1.2 DIMENSIONS OF MARKET GOVERNANCE: MARKET COORDINATION AND PROPERTY RIGHTS

Amartya Sen has characterized development as an "integrative process of expansion of substantive freedoms that connect with one another."[37] Sen further contends that recognizing development as a process requires an investigation of the role markets play in contributing to economic growth and progress. The market, in an economistic understanding, is the arena in which exchanges of goods and services, based on demand and supply, between buyers and sellers take place. Markets, however, do not only always operate to facilitate the freedom of exchange and transaction in the Adam Smith ideal, nor are they neutral and natural institutions operating freely on their own.

Rather, in his classic work, Karl Polanyi contends that an institutionalist understanding of markets reveals the complexity of how markets actually operate and the role the state plays in that fact.[38] Moreover, Pranab Bardhan and other scholars have shown that across the developing world, the complex interaction of markets with agential and structural forces, positive or negative, departs from the economic orthodoxy of neoliberalism and the developmental state.[39] The state does not always play a positive role in promoting growth and equity, but it is central in the politics of the economic organization of markets.

In order to examine the true impacts of the global movement to liberalize, and other internal and external pressures, including the various political backlashes against neoliberalism, this study understands markets in the context of the state and its existing power structures, and how those power structures are multidimensional and manifest in many guises.[40] The book, thus, conceptualizes and operationalizes, based on research findings, market governance structures as having the following two dimensions, first distinguished and combined in this conceptualization in Hsueh (2016). The study identifies the *role of the state in market coordination* and the *dominant distribution of property rights arrangements* as separate but equally important dimensions of market governance.

[37] Sen (1999), 8. [38] Polanyi (1944).
[39] Chaudhry (1993), Bardhan (2010), and Hsueh (2011).
[40] The focus on the state builds on the existing scholarship on market reform in developed and developing countries by S. K. Vogel (1996, 2018) and Chaudhry (1993, 1997) and Hsueh (2011, 2016), respectively.

This holistic and multidimensional understanding of market governance identifies the various state and private authorities in coordination mechanisms and broadens measures of institutional quality beyond de jure private property rights and credible commitment. These dimensions identify what Janos Kornai calls "system-specific attributes … [and] observable traits" and "not [taking] a normative approach … [to] characterize [political economic] systems."[41] This approach allows for understanding, through comparative analysis, the actual and various imperfect market governance structures as they occur in practice, what explains them, and their mediating impacts on development.

Distinguishing the distribution of property rights arrangements, in addition to the role that the state plays in the rules of the game, whether it pertains to market entry and exit, competition, or production and service processes, facilitates the understanding of whether the state or the market is undermined or enhanced, how, and why in the context of global economic integration. Steven K. Vogel has found that explicit actions taken by the state to liberalize markets sometimes undermine the role of the state and enhance markets.[42] Other times, explicit actions taken by the state to introduce competition involve reregulation – the reformulation of old rules and the creation of new ones – to enhance state control.

1.2.1 Role of the State in Market Coordination: Extent and Scope of State Control

The study first distinguishes the role of the state in coordination mechanisms to delineate the complexity of who possesses economic and political authority, concerning which issue areas, and with what mechanisms in the coordination of entry and exit, demand and supply of production and services, and related effects. Identifying the role of the state in market coordination provides critical information about the state capacity and authority required to govern markets, which developing countries, democratic or authoritarian, often lack.[43]

Kiren Aziz Chaudhry has emphasized that creating and regulating markets requires the state capacity to sustain myriad financial, legal, and civil institutions engaged in stable and long-term commitments to regulate the action of producers, importers, and labor; enforce contracts;

[41] Kornai (2000). [42] S. K. Vogel (1996, 2018). [43] Chaudhry (1993), 252.

and ensure the free exchange of information among economic groups. The state must also maintain a primary repository of information on the private sector in order to tax, regulate, and provide information to reduce transaction costs and ensure confidence and trust in investment decisions. To do so, political authorities require the tools to provide incentives and disincentives for economic actors in concert with collective social goals.

Thus, this conceptualization identifies *extent and scope of the state in market coordination.* On the one hand, *high extent and scope of state control* in market coordination captures the different empirical manifestations of state control. These include direct and indirect nature, formal and informal nature, and level of government, as shown in Table 1.1. On the other hand, *low extent and scope of state control* captures decentralized state, public–private coordination, and private–private coordination. Indicators are the various mechanisms employed by the state in market coordination: Rules and regulations, such as registration, licensure, permits, standards, corporate governance, labor laws, and environmental laws, on market entry, business scope, and investment level.

The actual match between the operationalized role of the state and the sector in question sheds light on whether the state has the administrative capacity to accomplish specific tasks required due to sectoral specificities and particularities. Findings of this book show that not all states possess the necessary administrative capacity; and if and when such administrative capacity exists, it is unevenly exercised and distributed across industrial sectors. The questions become, first, given finite resources in developing countries, even if the political will exists, what explains when and why the state exercises administrative capacity? Second, in which sectors and issue areas is such administrative capacity exercised? Thirdly, how does the state obtain its sources of political legitimacy? The Strategic Value Framework in Chapter 2 introduces a unified theoretical model to answer these questions.

1.2.2 Property Rights: Public/State Stakeholders and Private Stakeholders

Identifying the distribution of ownership arrangements further uncovers the extent and scope of the state's power *and* the role of other market actors in the process of development. As defined by Charles Lindblom, property is a set of rights to control tangible or intangible assets – to refuse use of them to others, to hold them intact, or to use them up – and are grants of authority made to persons and organizations, both public

TABLE 1.1. *Dimensions of market governance: Conceptual and operational definitions*

Role of the State in Market Coordination	Property Rights Arrangements
• *Conceptual Definition:* Extent and scope of the state (who, how, and with what mechanisms) in the coordination of entry and exit, demand and supply, and effects • *Operational Definition:* High state control, low state control • *Who*: Central-level or decentralized or mixed government authorities: Bureaucracy, regulator, government sponsored or nonstate bodies • *How*: Regulate, buy, sell, produce, or provide services or influence decisions on purchase, sales, and production • *What mechanisms*: Rules and regulations, such as registration, licensure, permits, standards, corporate governance, labor laws, and environmental laws, on entry, business scope, and investment level • Actual match between operational definition and sector in question conveys information about *state capacity*	• *Conceptual Definition:* Type of market actors with the rights to control tangible or intangible assets (any level of government and/or those who represent nonstate economic actors) • *Operational Definition*: Public/state stakeholders, private stakeholders • *Who*: Controlling interests (government or private stakeholders or mixed ownership) in any given sector, subsector, market segment, or firm • *How:* Grants of authority, made to persons and organizations, both public and private, and acknowledged by other persons and organizations, of property use and control rights and responsibilities • *What mechanisms:* De jure or legally conferred, or de facto, i.e., what happens in practice, set of rights to control assets: To refuse use of them to others, to hold them intact, or to use them up

and private, and acknowledged by other persons and organizations.[44] Property rights can be de jure or legally conferred, but it can also be de facto, i.e., what happens in practice. The type of actors with the rights to control assets can be any given level of government and those who represent private economic actors in the market. The operational definition captures the dominant controlling interest (government or private) in any given sector, subsector, or market segment, and the measure indicators can be more precise and capture actual percentage of shareholding.

44 Lindblom (1977).

Public/state stakeholders range from wholly state-owned companies to companies with state-shareholding in mixed ownership types. *Private stakeholders* are wholly privately owned producers and service providers and other nonstate shareholders, including foreign investors. *Mixed ownership* types are independently incorporated joint ventures with shareholding arrangements involving state-owned or state-shareholding enterprises and privately owned enterprises or individuals. In which category an ownership arrangement falls depends on whether the state or the private sector is the controlling interest.

Understanding the different types *and* the political significance of property rights holders are important because they constitute the contextual circumstances, which influence firm-level behavior and developmental outcomes. The book asserts that the dominant distribution of property rights arrangements in concert with the role of the state in market coordination are the micro-institutional foundations of capitalism. They vary by country and sector within country and are shaped by historically rooted values and path dependent sectoral organization of institutions that structure the state elites' responses to internal and external pressures associated with global economic integration. Table 1.1 shows the analytical conditions of the two dimensions of market governance (*role of the state in market coordination* and *dominant distribution of property rights arrangements*).

1.3 TOWARD A TYPOLOGY OF MARKET GOVERNANCE

The multiplicity of property rights arrangements and their meaning for the political economy must be understood in the context of the role of the state in market coordination and vice versa. These dimensions of market governance reveal the myriad ways in which the state can direct the development of an industry and markets with or without prohibiting private ownership and market entry as a growing law literature has also noted.[45] They further acknowledge the reality that the state's various and multidimensional roles in the market include acting as a regulator, operating as a controlling interest, and engaging in actual production or service and market creation.[46]

[45] Milhaupt and Zheng (2015) makes a similar argument about the role of the state beyond ownership.

[46] Zheng (2017) identifies in American constitutional law, anti-trust, and international law where these roles have become tests for demarcating the market-versus-state divide.

On the one hand, the state can introduce competition, yet maintain control of physical resources and infrastructure by retaining state ownership or restricting market entry in key market segments. A low degree of state control in market coordination does not necessarily translate into private ownership. On the other hand, private ownership and market entry can go hand in hand with centralized control of other issue areas, including business scope and capital investment, to direct the development of an industry. A high degree of government coordination in industrial development does not necessarily translate into state ownership or controlling interest of infrastructure and resources.

The two dimensions analyzed together establish a typology, which captures the empirical reality of varieties of market coordination and mixed ownership in developing countries across regime type and political economic system (including the book's case countries and sectors) and their various meanings.[47] As shown in Table 1.2, variation along these dimensions creates the following types of market governance structures. Also shown, the typology differentiates and identifies the country and main sector cases, including across time, examined in the rest of the book.

Centralized governance involves sector-specific regulation and high degree of state coordination, with the state acting as an important property stakeholder. This type of market governance, whereby the scope and content of market regulation to achieve state goals is just as important as the government's ownership of tangible assets, manages basic telecommunications services owned by the state in China and state-owned fixed-line networks in Russia. The Chinese government's intervention in the corporate governance of privately owned, state-funded companies in semiconductors to build indigenous technological capacity also exemplifies this type of market governance. The creation of the Ministry of Textiles in India has introduced competition and deliberately intervened in market developments, such as the state-owned National Textile Corporation's periodic undertakings of failing large-scale textile mills and protectionist policies for the predominantly privately owned small-scale, labor-intensive textile sectors.

Regulated governance comprises regulation and a moderate degree of state coordination with predominantly private stakeholders. This is an

[47] See Whiting (1999), Clarke, Murrell, and Whiting (2006), and Hou (2019) on the variety of property rights in China; and Hsueh (2011, 2012) on the relationship between state goals and rules and regulations with effects on property rights as the means to those ends in China and India.

TABLE 1.2. *Typology of market governance and empirical cases*

Dominant Property Rights Arrangements	**Public/State Stakeholders** • Public/State Ownership • State Shareholding • State Sponsorship	**Private Stakeholders** • Private Ownership • Holding Company/ Business Group
Extent and Scope of State Coordination		
High State Control • Centralized State • Direct or Indirect • Formal or Informal	**Centralized Governance** **Telecoms in China** **Telecoms in Russia** **Textiles in India** *Next Generation Technology in China	**Regulated Governance** **Telecoms in India** *Non-Defense Telecoms Equipment in Russia *IT/Software Services in Russia
Low State Control • Decentralized State • Public–Private • Private–Private	**Decentralized Governance** **Textiles in China** *Technical Textiles in India *Technical Textiles in Russia	**Private Governance** **Textiles in Russia** *Apparel and Clothing in China

***Denotes subsector variation.**

institutional environment whereby state goals of market competitiveness are paramount and the government serves as a minority stakeholder of property. This type of market governance is represented by the regulation of central-level bureaucracies of state-owned landlines and the predominantly private enterprises in India's mobile and value-added telecommunications services. Regulated governance also administers nondefense telecommunications equipment in Russia, which separately manages service provision with greater state scrutiny and oversight. The actual degree of regulatory independence from political forces varies by perceived strategic value and regime type.

Decentralized governance characterizes a mix of sector- and nonsector-specific regulation and low to moderate degree of state coordination with the state involved in some capacity as a property stakeholder. Empirically this is a mix of market coordination by state and subnational government bureaucracies or public–private coordination arrangements at varying levels of state capacity. In India, subnational governmental promotion of predominantly privately owned small-scale technical textiles, which facilitates trade and market liberalization, falls within this type. Decentralized governance also characterizes the central state and subnational government sponsorships of technical textiles in China and their counterparts involving oil and gas assets and petrochemicals in Russia.

Private governance comprises non-sector-specific regulation and low degree of state coordination with predominantly private stakeholders. This is characterized by incidental supervision and management by subnational government authorities and nonstate economic actors with limited state intervention of a predominantly privately owned market. Market coordination by predominantly privately owned enterprises, in apparel and clothing in China and Russia, represents private governance. This does not necessarily mean, however, that there is no role for the state or that it is not in the state's strategic interests to decentralize. The central state in China has decentralized state control to local governments and nonstate actors in order that textiles can benefit from global economic integration. Such state actions, as the study shows, have context-dependent political and economic consequences.

1.4 ROADMAP FOR THE REST OF THE BOOK

The two chapters in Part I of the book establish the groundwork for understanding the politics of national sector-specific market governance in global development. The first chapter has articulated the empirical and theoretical puzzles and situated the study in research on globalization and development models. It has also previewed the multilevel comparative sectoral analysis adopted by the book as well as conceptualized and operationalized the market coordination and property rights dimensions of market governance and the different ideal types of market governance structures based on research findings.

Chapter 2 presents the Strategic Value Framework, which identifies the interacting impacts of the *perceived strategic value* of state elites and *sectoral structures and organization of institutions* during critical moments of exposures to the global economy. These are the factors which explain why developing countries facing internal and external pressures, which apply to all sectors within individual countries, adopt national sector-specific patterns of market governance structures. They extend and build on my previous scholarship on China's regulatory state, Chinese style capitalism, and comparison of China and India at the sectoral level of analysis. The book's research design tests and refines the theoretical model and market governance conceptualization and typology.

Part II of the book presents the systematic overtime comparisons of the main case countries of different regime types (China, India, Russia) and sectors (services and manufacturing of telecommunications and textiles at varying levels of capital, knowledge, and labor-intensity). The multilevel comparative case studies, which include illustrative company case studies, disaggregate the national and investigate the sector and subsector to show how the identified sectoral variations shape political and economic development. On the one hand, by comparing countries and sectors, the book shows when and how national factors have held constant in spite of differences in sectoral structures and organization of institutions. On the other hand, cross-time process-tracing at different levels of analysis shows the precise nature of macronational and microsectoral interactions and the when and how of change and continuity.

The historical process-tracing of the origins and evolution of perceived strategic value and sectoral structures and organization of institutions presented in the first chapter of each set of country and sector case studies establishes how state elites respond intersubjectively to objective internal and external pressures during critical moments of national consolidation. Each country's next two chapters process trace from 1980 to 2020, including initial responses to the COVID-19 pandemic, the dominant intranational sectoral patterns of market governance, which vary by perceived strategic value and sectoral characteristics.

Part III of the book contends national sector-specific patterns of market governance shed light on understanding global reregulation in post-neoliberalism, with the rise of reactionary politics globally. Chapter 12 also assesses developmental outcomes and emergent capitalisms in light of the *national configurations of sectoral models*. It analyzes how the Strategic Value Framework and the micro-institutional foundations of capitalism in China, India, and Russia uncover the ways in which these countries have responded to pressing global issues, such as the U.S.-China trade war, cross-border cyberwarfare, and COVID-19 pandemic, and implications for the future of global conflict and cooperation.