The diversity of emerging capitalisms

Globalization, institutional convergence and experimentation

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Analysing the capitalisms of developing countries: What's the point?

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1.1. THE RISE OF NEW CAPITALISMS

The world economy is currently undergoing a major revolution: non-OECD countries' contribution to world GDP has started to overtake that of mature industrialized countries for the first time since the late 18th century, when China and India were dominating world manufacturing (OECD, 2010). Despite the recent slowing down of this trend, this upheaval marks a turning point for a group of fast-growing developing economies, with countries like China, India or Brazil, and smaller ones like Vietnam or Botswana, being brought to the fore by the second historical wave of globalization that was to accelerate in the 1990s. Such countries are now well on the way to accounting for an ever-increasing share of world income. Besides such well-known causes of their rapid growth as high rates of capital accumulation and low production costs, the original forms of socioeconomic organisation currently being developed in these emerging countries probably also explain their economic success. Surprisingly, however, these recent Asian, African and Latin American economic miracles have been bolstered by institutional configurations far removed from those prescribed by the extended Washington consensus model (Rodrik, 2008a). An apt illustration of this point is provided by China's original articulation of market-friendly incentives and decentralized Statist capitalism, which simultaneously allows for high-level technological skills, low labour costs and high-performance exporting firms (Bardhan, 2010; Qian, 2003).

Although they have become ubiquitous on commodity and goods markets, in global governance arenas, as well as in business magazine columns, these emerging capitalisms have, somewhat curiously, seldom been considered in their own right. Admittedly, experts might well have expected their capitalisms to converge towards those of the OECD mature countries since they had, after all, undergone years of standardized liberalization reforms and globalization-led inflows of Western technological and institutional influence. The assumption of a "race to the bottom" driven by the generalized trend of social protection spending retrenchment imposed by an environment of globalized competition was also put forward early in the nieneties (Ohmae, 1992). Yet, national systems of rules, regulations, and policies have remained significantly differentiated across industrialized and non-industrialized economies. Consequently, both the hypotheses of a "race to the bottom" and of a convergence of national institutional systems under the harmonizing forces of globalisation and technological change[1] have been challenged by the systematic divergence thesis underlying the comparative political economy approach.

Although a comprehensive comparative analysis of economic systems, including both industrialized and emerging countries, would seem useful for understanding current globalization trends, such analysis has generally been restricted to mature developed economies. The convergence thesis has been essentially challenged by a resurgence of comparative analyses of OECD countries' capitalist systems with respect to such dimensions as social protection (Esping-Andersen, 1990), market coordination (Hall and Soskice, 2001), as well as education and finance (Amable, 2003). There have been far fewer typological or analytical propositions concerning developing countries, which are undoubtedly, at least for the middle income ones, involved in capitalist modes of production and distribution. Two significant exceptions to this general neglect are China and, to a lesser extent, India. Whereas China's apparently open-ended rise has engendered an ever increasing number of analyses by both scholars and experts involved in development and globalization issues, this has not been the case for other developing countries[2]. Although some emerging national capitalisms in Africa or Asia, like Botswana or Vietnam, are increasingly being signaled as models by international financial institutions or private advisors, the majority of the developing economies have never, or seldom, been studied as *sui generis* capitalist systems. It is therefore somewhat puzzling to realize how much emerging capitalisms' originality and heterogeneity went unnoticed for so long before the present book. Very little academic research has been explicitly geared towards identifying emerging models of capitalism and then comparing them to the mature ones[3].

Analyzing developing countries' capitalisms as internally consistent systems of rules governing markets and sectors is, nevertheless, as legitimate as it is in the case of developed economies. An approach of capitalisms based on the observation and comparison of the systems of institutions and regulations underlying the working of markets and organizations in each national economy, whatever its level of economic development, would leave the institutional convergence issue undetermined *a priori*. Systems of institutions govern markets and economic sectors through the incentives and constraints they impose to economic agents, with these institutions being the joint product of historical initial conditions and critical junctures, cultural preferences and values and sociopolitical conflict (North, 1990). Consequently, we can anticipate that different historical and political trajectories will reflect in clearly differentiated ways of organizing markets, state and businesses across countries that need to be identified and compared. This is exactly what we aim at doing in the present book.

The comparative approach of institutional systems we have chosen to adopt in this book precisely investigates the diversity of emerging forms of capitalist by looking at the systems of sectoral modes of regulations to be observed across a broad range of developing

[1] The most quoted reference to the institutional convergence hypothesis is certainly Fukuyama (1992). As for economists, Benabou (2006) has provided a formal demonstration of this convergence mechanism. Acemoglu et al. (2012) have however recently shown that the persistence of different systems of capitalism is explained by the complementarities in terms of specialization and demand.

[2] For a simple request using China and Capitalism as keywords, a well-known on-line book reseller gave no fewer than 1,243 references classified under the heading "Politics and Social Sciences", and 593 under the "Economics" heading. A similar request gave 204 references for India under the heading "Economics", 88 for Brazil, and only two for one of the most widely acknowledged African models of emerging capitalism, Botswana. It should be noted that whereas Japan, the oldest Asian "former" emerging capitalism, has 811 references, Korea has only 135.

[3] Similarly, the question has only received scant attention from Development Studies, with the political economies of emerging and developing countries simply being treated as either more or less identical, or else being considered as too diverse and *sui generis* to be subsumed into models. Those rare attempts are surveyed in Chapter 2.

countries. Our analysis finally ushers in a wide range of questions. How can we first assess institutional systems empirically, and then compare them? Is there an institutional pattern common to all emerging and developing countries? If not, do individual institutional configurations cluster into a limited number of models? What are the main long-term determinants of these models, and what specific patterns of socio-economic outcome are associated with them? What paths of institutional formalization are open to countries trying to escape the poverty trap? All these questions are of deep interest for all of us who try to anticipate what the world economy will look like within the next two decades. Addressing them is also crucial for the social scientists (economists, political scientists, sociologists) investigating how economies, polities and societies interplay and self-organize in a globalized world. This book is our contribution towards this goal.

1.2. VARIETIES OF MATURE CAPITALISMS: WORKING OUT THE ELEMENTS OF A SYSTEM-BASED METHOD

National variations of capitalism have been examined by comparative capitalism (CC) literature throughout the last two decades, essentially by implementing a systematic comparative approach to mature economies' institutional systems[4]. National capitalist economies are generally characterized by distinct institutional configurations, sets of complementary institutions generating a particular systemic "logic" of economic action. Five main sectors, and the institutions regulating them, are usually analyzed: (1) *industrial and labour relations*, either more or less individualized or else collectively negotiated, with varying rigid hiring and firing regulations; (2) *corporate governance and finance*, generally pitting stock-market reliance against dependency on banks; (3) *product market regulation and inter-firm relations*, including firm strategies, trade and competition policies and the degree and quality of regulation; (4) *training and education systems*: opposing general knowledge and specific skills training; and (5) *the level and type of social protection*, generally opposing generous socio-democratic and mixed public-private schemes[5]. Models of capitalism are then depicted as simultaneously singular and consistent articulations of these sectoral regulations. It is generally inferred from the ensuing capitalism models that different institutional arrangements have distinct strengths and weaknesses for different kinds of economic activity. Consequently, Comparative Capitalism proposes an explanation of performance heterogeneity based on institutional diversity, and not, as was contended by international organizations like the World Bank until the mid-2000s, based on the simple distance from an institutional frontier incarnated by the liberalized market economic model.

Obviously, emerging and developing countries' institutional systems do not fit neatly into the fully complementary institutional configurations that have been honed for mature industrialised countries. Nor do they conform to the institutional model inspired by the Washington consensus, with markets and organizations being supported by a minimal set of regulations and a minimal perimeter of state intervention in the economy. That is why some CC scholars have come to consider that the capitalisms emerging in Eastern Europe and Latin

[4] Hall and Soskice (2001) is probably the most cited reference inside and outside this strand of literature. For an exhaustive survey, see Jackson and Deeg (2006).

[5] There is no such thing as a definitive list of the institutional domains to be found in the literature. For example, the status that must be given to the state's direct intervention remains subject to debate. By the same token, there is uncertainty as regards the optimal degree of disaggregation within each "domain" (Deeg and Jackson, 2006). Domains like labor market and education are, for example, sometimes aggregated into one single institutional dimension. Furthermore, typologies of capitalism generally consist in "typologies of typologies", namely assemblages of institutional domain typologies (Deeg and Jackson, 2006). Had there been an agreement on which domains to include, typologies that are used to describe governance within those domains would still be so different that they would generate different national typologies.

America, as well as those in China and India, should be grouped together as an "emerging" capitalism ideal-type (Hancké *et al*, 2007: 4). Still, these isolated attempts to typify a variety of capitalism for all developing countries tend to consider only a limited number of regions and generally fail to address capitalism heterogenity within each region. Moreover, these studies are generally based on *a priori* ideal-types of mature OECD capitalisms, subsequently used as yardsticks for comparing emerging capitalism models, with these being merely catalogued as deviant or intermediate avatars of OECD well-identified models. Lastly, by predefining their ideal-types as internally consistent complementary institutional configurations, CC scholars seldom discuss the possibility of hybrid systems having their own form of efficiency, especially as regards countries whose capitalism is emerging from "archaic" forms of relation-based governance mechanisms.

Comparative capitalism has not, in fact, really attempted to analyse *per se*, and for a comprehensive sample of coutries and regions, the institutional configurations that support the formation of emerging capitalisms in Asia, Africa and Latin America. The exclusive focus of the CC literature on OECD countries fundamentally stems from the common belief that capitalist systems of emerging countries are not yet fully stabilized institutional systems, with their transitional configurations being destined to converge ultimately towards one of the well-identified mature forms of capitalism. These emerging capitalisms might, accordingly, not attract scientific interest since they would be envisaged as just shifting from one transitory form to the next more formalized ones. However, this reluctance to consider developing country's institutional systems in their own right neglects, in fact, two crucial and related points.

First, in a globalized economy, all capitalist systems undergo constant pressure for change. Two rival views have structured the literature. The first view sees globalization as the main driver of a race to the bottom in what concerns social regulations that may, ultimately, prompt a convergence of institutional systems towards the most globalization-friendly model. According to Freeman (2000) and Benabou (2006), globalization and information technologies have strengthened the single-peak view of the world. Labour market flexibility, or a modest welfare state, can help advanced economies attain higher competitiveness in an open world (Benabou, 2006). But globalization may also drive developing countries to adopt lower labour standards and levels of social protection, with social dumping exerting, in turn, unfavorable effects on socioeconomic development (Rodrik, 1997; Rudra, 2007). So, similar trends seem to affect emerging and advanced capitalisms, since globalization and technological diffusion expose all capitalist systems to similar pressure[6]. Yet, since they will not cope with these pressures by adopting similar economic and social regulations, more attention should be paid to investigating how developed and developing economies simultaneously and strategically adapt to globalization, knowing thatthe latter may, in turn, be strongly endogenous to these adaptation choices.

Second, most of these emerging capitalisms have reaped significant benefits from globalization, with their firms and exports now increasingly challenging the more mature industrialized economies. They have also succeeded in significantly reducing poverty and in shifting their reform agenda towards social inclusiveness, but in their own way. Despite the globalisation-led pressure for institutional convergence, with the concomitant risk of a

[6] The thesis that capitalist systems are converging towards a minimal form of globalization-compatible welfare model has also been criticized by Rudra (2007, 2008) and Acemoglu et al. (2012) who both show, although they use radically different approaches, that diversity of national socio-economic models can be maintained and even strengthened by globalization because the different capitalisms are actually complementary. Equally, for Hall and Soskice (1999), institutional diversity can be maintained since each singular variety of capitalism embodies specific institutional comparative advantages, with these comparative advantages being, in turn, reinforced by the intensification of trade.

political backlash, both the diversity of institutional models and integration within the world economy have proven to be remarkably compatible across emerging capitalisms. The contrast with mature capitalisms is so striking that an influential periodical like *The Economist* recently brought out a special issue, entitled "The visible hand", which deals with these new forms of non-liberal State-coordinated capitalism that are currently emerging in developing economies. Not only are they in competition with the mature economies but, it is argued, their different models of State support of industrialization nd growth could, even more surprisingly, prove a possible source of inspiration for those mature capitalisms, which seem to be durably stuck into a structural crisis mode (*The Economist*, 2012). This affirmation comes over as a condemnation of the all too frequent quasi-evolutionist vision of emerging capitalisms as being merely unstable transitory forms.

Although development economics and comparative capitalism scholars would be right to put this topic on the agenda, the large, fundamental differences that exist between regional and national forms of emerging capitalisms still need to be fully addressed[7]. As explained in the next subsections 1.3 and 1.4, this necessitates adopting a multidimensional vision that simultaneously builds on existing works dealing with the role of institutions in economic development and the variety of capitalist economic systems, whilst going beyond their shortfalls by developing an appropriate perspective and method. It should notably be borne in mind that these differences have to be assessed and understood in connection with the specific context of developing countries as will be documented in the section 1.5. `

1.3. ANALYSING DEVELOPING COUNTRIES' CAPITALIST SYSTEMS THROUGH THE LENS OF INSTITUTIONAL CLUSTERS

According to Acemoglu and Robinson (2012: 68), explaining economic development gaps between nations requires understanding why "some societies are organized in socially inefficient ways". Since North's (1990) path-breaking book, economists generally consider that socio-economic organization is more efficient when transactions and conflicts across individuals and groups of individuals are better-governed. At the scale of the nation, governance is defined as (i) the set of goals collectivelly desired and (ii) the set of processes and instruments by which a given group chooses to manage its affairs towards these goals (Baland et al., 2010). Among these instruments, institutions, commonly defined by economists as humanly devised constraints on individual decisions constitute the building blocks of political, economic and social governance by framing social, economic and political interaction. Taken together, all these institutions carry governance to the targeted population by enabling individuals to reach their individual and collective goals through any sort of transactions as well as through the formation of organizations.

Neo-institutionalist scholars have regularly pointed out the systemic nature of institutional governnance. A given institution's capacity to provide a convenient set-up to individuals and organizations fundamentally relies on the pattern of its articulation to other complementary institutions. In the words of North (1991: 109):

> *"The institutional matrix (…) consists of an interdependent web of institutions and consequent political and economic organizations that are characterized by massive increasing returns. That is, the organizations owe their existence to the opportunities provided by the institutional framework. Network externalities arise because of the initial setup costs, the learning effects described above, coordination effects via contracts with other organizations, and adaptive*

[7] A similar point is made by Becker (2009: 61).

expectations arising from the prevalence of contracting based on the existing institutions."

Surprisingly, although strongly influenced by the aforementioned North's statement, neo-institutionalists have tended to disregard the systemic nature of institutions in order to explain economic development. From the mid-1990s onwards, a growing number of empirical papers started to point out the impact of current and past institutions on economic development[8]. These papers were generally based on a simple assumption: institutional differences across countries help explain the persistence of large income gaps, because different institutions generate different economic incentives for agents (North, 1990; Djankov *et al.*, 2003). Put simply, badly or weakly enforced institutions and legal economic and political governance explain African countries' persistent poverty, while strongly enforced and highly protective and inclusive institutions create the conditions for long term social and economic development in affluent countries. Empirical studies supporting the hypothesis that institutions are crucial determinants of economic development differences have grown apace ever since the turn of the 1990s. Although addressing more specialized types of institutions, such as those regulating finance, competition or labour market, these studies still predominantly mobilized one-dimensional approaches, with their empirical analyses being mainly motivated by efficiency issues, i.e. measuring the degree of functional attainment of various degrees of regulation. For example, they merely investigated the effect of an increased finance deregulation on financial development (La Porta *et al.*, 1998, Beck *et al.*, 2003) or of more flexible labour regulations on labour market efficiency (Botero *et al.*, 2005). Consequently, they did not prove of great help in analyzing the economic systems of sectoral institutions. Only very recently have several papers attempted to identify more explicitly the clusters of institutions that matter most for economic development (Rolland and Jellema, 2011; Besley and Persson, 2011). But their approach does not really address the full set of complementarity characterizing institutional systems, as exposed in Chapter 2[9].

In fact, analysing national capitalisms' institutional governance would require investigating the extent to which the national system of institutions effectively reaches the collectively desired goals. According to Baland et al. (2010), however, governance is too vague a rhetoric and it may be intrinsically impossible to unbundle it by unambigously identifying its subcomponents and relating them to the institutions that were initially designed to supposedly reach these subgoals. For this reason, the present book will look at systems of institutions, by investigating their regularities and singularities, their internal consistency or inconsistency, without systematically relating these institutional systems to the implicit goals they may target. Going back to social goals would require analyzing political systems and trajectories for each country which is out of reach in the context of the present book. The social goals possibly underlying each one of the model identified are nevertheless discussed in connection to the institutional hierarchy assumption in Chapter 12. In addition, we try to trace back institutional trajectories to the historical sequence of social goals underlying them for the specific case of six emerging countries (Chapter 13).

Although we will assess it through the partial lens of institutional systems, the term "governance" will nonetheless be used, throughout the book, as a summary term for the main goals of institutions and organizations, *i.e.* reducing transaction costs, supporting cooperation and coordination and mitigating conflicts imposed by economic interactions in the different ectors of the capitalist system. Governance is therefore conceived, in the first place, as the outcome of sets of specialized institutions and organizations conditioning and influencing

[8] Among the most frequently quoted papers are Keefer, 1995, Mauro, 1995, Rodrik, 1999 or Acemoglu et al., 2001.

[9] Pryor (2006, 2011) constitutes an important exception. His works are further discussed in Chapter 3.

individual and collective behaviour in each sector of the economy. Consequently, governance of the whole capitalist system is the articulation of its different sectoral modes of governance, with this articulation proving fully consistent for some countries while being, on the contrary, deeply dysfunctional for others, as will be explored in the next chapters.

In addition, we believe that the term governance is particularly convenient for our purpose since it encapsulates both public and private sources of sectoral regulation and their complementary impact on agents. As an illustration, the social protection sector is governed by a mixed set of public rules and private organizations, complying with these rules, in many countries. This is also true of environmental regulation which generally articulates publicly enforced rules and Non-Governmental Organizations' monitoring.

Various patterns of institutions and organizations' articulation supporting the working of the markets or sectors constitutive of the capitalist economies[10] have been observed in our sample of countries. Each one of them will be considered, throughout the book, as a "sectoral governance model" and will be labeled in consistence with its general logic. For the sake of convenience, these labels will be reported in italics without capitalized initials. Ultimately, the significant variety of combinations of "sectoral governance models" that we will observe at country-level will be reduced to seven original and disctinct "models of capitalism", as will be explained in the next section. In order to clearly differentiate capitalism models from sectoral governance models, the former's label will be reported throughout the book in italics with capitalized initials.

1.4. FROM INSTITUTIONAL CLUSTERS TO THE 2+4 MODELS OF CAPITALISM

The book is mainly about the institutional clusters underlying capitalist market economies, especially in developing and emerging countries. What are these clusters? How can we identify and then study them empirically? Are there common institutional clustering patterns across countries? If so, what are their main long-term determinants? Are there specific economic outcome patterns associated with these clusters? Can different forms of institutional complementarity be observed? The present book will therefore identify and compare capitalisms across developing countries by investigating and comparing the systems of institutions governing their constitutive markets and sectors. Accordingly, we have deliberately chosen to question these so-called emerging forms of capitalism without seeking, *a priori*, to define them by their distance from the more stabilized OECD models of capitalisms. We have considered, conversely, that emerging forms of capitalism ought to be examined in terms of their own underlying pattern of socioeconomic organization, that is the specific mode of articulation of the institutions governing transactions between individuals and organizations in such different sectors as production and trade, labour relations, finance, education and training or social protection. These specific modes of institutional articulation are first characterized and then confronted with a wide array of socioeconomic determinants and outcomes. Quite predictably, these original models of emerging capitalisms that we uncover do not look like their European or American counterparts. What is very surprising, however, is that most of them are remarkably heterogeneous: what is true for Shanghai is not true for Johannesburg or Rio. This book shows, in fact, that Indian and Brazilian capitalisms differ in much the same way as Chinese and European or North American capitalisms.

Our method of institutional systems comparative analysis is original since it is both quantitative and qualitative and is two-tiered. Using a comprehensive sample of 140 developing and developed countries, the institutional arrangements of the various sectors constitutive of the whole socioeconomic system (labour, competition, education, agriculture,

[10] These sectors and markets are goods and labor markets, finance, social protection, education, environment or agriculture.

environment, finance and social protection) have first been systematically investigated, with this first step being reported in the seven chapters of the book's Part two. Each sector (labour, competition, finance, social protection, education and training, agriculture and environment) is separately analysed. The choice of variables used to analyse the institutional governance of the sector is initially justified as regards the literature. The countries are then clustered with respect to their similarities in terms of the institutional variables governing the sector. The resulting country clusters are finally characterized and labelled as distinctive institutional governance types for that sector. As this procedure was replicated for all seven sectors, a corresponding set of seven sectoral governance types, one per sector, was ascribed to each country to depict its socioeconomic system. We call this set the country's vector of sectoral governance models/types or the country's institutional configuration.

It is only in a second step, reported in the book's Part three, that these are used to reconstitute the institutional systems of our comprehensive set of countries. These country-specific vectors of sectoral governance types were thus clustered, with each cluster grouping the countries that are most similar in terms of their vector of sectoral governance types. Each group of country thus identified constitutes a distinctive capitalist system model. The diversity of the national institutional configurations highlighted at country-level, as described by the vectors of sectoral governance types, has thus been reduced until 2+4 varieties of world capitalisms are clearly and robustly identified. The first two models support the existing literature concerning OECD capitalist models, since we find that the two *Liberal Market Economy* (*LME*) and *Coordinated Market Economy* (*CME*) ideal-types are generated by our data analysis, and those two models also include advanced Asian, Latin American and European economies that are often labelled as emerging: Korea, which has progressively developed an economic system close to that of *LME*, and Argentina and the Ex-Socialist CEECs that went on to reform their institutions in line with the Washington Consensus or the European Union socioeconomic organization. Incorporating environmental regulations entails significant and new patterns of differentiation between the mature and emerging capitalisms. For the *CME* and *LME* clusters, which mainly include OECD countries, the environmental regulations are very marked.

The four models that remain are specific to developing and emerging economies. Strikingly, no regional model clearly emerges for either Latin America or Asia. Low-income countries, mostly to be found in Africa do, however, share common patterns as regards their institutions and regulations. Since they have a dominant institutional configuration, poor countries tend to cluster into the *Informal* (*Weak State*) socioeconomic model, a model which remains remarkably stable throughout the different stages of clusterization. As for middle income and emerging market economies, we find three distinctive types of economic systems. The first model, the *Globalization-Friendly* one, includes small and open countries that owe their economic performance to a deregulated outward-oriented private firm-type of capitalism. This model fits remarkably well with the High Performing Asian Economies (World Bank, 1993). The second, *Statist* (*Resource-Dependent*) model, includes bigger countries that are heavily regulated and in which State intervention in the economy is high, via State-owned firms, strong degrees of red tape and market regulation and high levels of State transfers to consumers and producers. Whereas *Statist* (*Resource-Dependent*) countries are aware of the need for biodiversity and environmental preservation, this is less so in the case of *Globalization-Friendly* countries. These two groups have, however, developed a certain number of minimal regulations, whereas *Informal* (*Weak State*) low-income countries have developed very few.

A strong and additional originality of our work lies in the cluster of countries that have experimented singular institutional configurations which predominantly combine original and singular sector-related institutional types (*Idiosyncratic*), or else mix well-identified sector-related institutional types in a deeply original and singular way (*Hybrid*). It should be noticed that, within the *Hybrid* sub-component, some countries have deliberately chosen to adopt such a hybrid or disarticulated system. Others, however, have engaged in the difficult process of transition from a predominantly informal system to a more formal one. This has led to the articulation of institutions and regulations that should not have been associated, either because they are not complementary, or because they do not display homogeneous degrees of "formalization"[11]. Although the transitory nature of institutional systems in developing economies is one of the challenges we had to address in the present book, other features of developing countries had to be accounted for and dealt with by our methodology as explained in the next section.

1.5. WHAT IS SO SPECIAL ABOUT (ANALYZING) DEVELOPING COUNTRIES' CAPITALISMS AND HOW WE DEAL WITH THAT?

CC represents capitalist systems as more or less stable equilibria simultaneously determined by domestic and external conditions. As soon as those conditions change, institutional systems have to adapt in order to remain functional under the new set of internal and external constraints. Any institutional system therefore generates obvious incentives towards the preservation of its structural specificities because these specificities feed its comparative advantages, thereby binding actors to the system (Hall and Soskice, 2001). Accordingly, all national institutional systems, including those of currently developing countries, were crafted under a wide spectrum of external and domestic conditions. Among the various sources of influence commonly experienced by most of these countries, two specific and complementary ones should be highlighted: the pressure of rapid economic change on institutions, and the specificity of institutional change patterns, characterized both by huge external influence and the persistence of informal or inefficient institutions.

As argued by the modernization school, rapid economic change puts continuous pressure on socioeconomic organisations and rules, forcing them to constantly adapt under path dependency constraints (Lipset, 1958). Since they require changes in productive organizations and of socioeconomic incentives, elements of structural transformation such as the shift from traditional or agricultural to modern or manufacturing industries, growing urbanization or the rise in population educational levels generally go along with institutional change. Institutional adaptation must match the renewed needs for transaction cost reduction, impersonal exchange, socioeconomic empowerment, and political accountability that come with economic development. Similarly, income distribution change, such as the rise of middle classes, can trigger change in the balance of socio-political forces for countries still facing the high stakes of both poverty reduction and democratic transition or consolidation.

Almost all developing economies markedly face the challenge of a transition to formalized systems of institutions, requiring agents to move from a relation-based system of rules to a formal one (North, 1990; Dixit, 2006). Such a formal system usually relies on centrally enforced rules (Pryor, 2010; North et al., 2008), with the State having the necessary fiscal and legal capacity to impose the rule of law (Besley and Persson, 2012). During the transition process, however, countries can become entangled in contradictory patterns. In the first phase of economic development, economic activities on a small scale can be backed up exclusively by relation-based norms and enforcement mechanisms. Since private modes of economic and social governance tend to self-enforce, no centralized State governance is

[11] This is why Chapter 13 proposes a more fine-grained analysis of those different Hybrid-Idiosyncratic institutional trajectories, essentially by developing historical comparative analyses for Brazil, the Philippines, Cote d'Ivoire and Colombia in order to decipher those different patterns. Focus is also placed on the largest emerging countries: Brazil, China, India and Russia.

needed. In such a setting, certain forms of corruption may well favour economic efficiency, provided that corrupt organizations avoid excessive predation. Dixit (2004: 152), however, argues that, at some intermediary levels of income, the relation-based information network may weaken, to the point where contract enforcement is no longer sustained, essentially because the cost of setting up centralized State-based enforcement mechanisms remains excessive as regards the current scale of activities. Insofar as the weak efficiency of poorly-qualified civil servants reduces the credibility of the centralized enforcement system, the survival of traditional modes of governance can deprive the new system of the experience it needs to gain in efficiency and credibility.

It could be argued, accordingly, that analyzing only formally measurable institutions does not fully address the complexity of developing countries' mechanisms of coordination. As an illustration, Dasgupta (2005) reports that, in countries where the law does not function well because of high corruption or the poor degree of property rights and contract law enforcement, communitarian relationships help keep people alive and allow them to trade and invest. In poor countries where a formal legal system is lacking or is insufficiently enforced, informal trust, with or without third-party enforcement, may be the only option (Heller, 2009). As economic development spills over, the need for impersonal market mechanisms increases but, as long as the communitarian institutions arising from interpersonal networks survive, they can crowd out markets and hinder any progress toward a deeper enforcement of market-supporting formal institutions. Although a combination of traditional and modern systems can lead to excessive transaction costs, loss of efficiency and an increase in opportunistic behaviour (Dixit, 2004; Rodrik, 2008), most developing countries have found it difficult to introduce and enforce formal bodies of rules, mostly because the persistence of informal institutions based on kinship or networks may eventually trap poor economies into a low-level equilibrium (Akerlof, 1976; Hoff and Sen, 2006). Hence, measuring institutions for mainly informal economic systems is tantamount to according a value (generally subjective) to formal institutions whereas, in fact, informal governance mechanisms are at work. Accordingly, there is a significant risk that the level of rule enforcement may be undervalued, because the expert only evaluates the degree of enforcement of formal rules, and not the possibly efficient functioning of informal mechanisms of governance.

The survival of inefficient or sub-optimal institutions is therefore a critical feature of developing countries. Developing countries may be locked into inefficient institutions or institutional configurations because there are fixed initial setup costs, with increasing returns being attached to the adoption of a given institutional architecture (North, 1990, 2005). The risk of inefficient institutions surviving is further worsened by political or economic losers' resistance to change (Acemoglu and Robinson, 2000, 2012). In most poor economies, institutional change is actually hindered by structural factors of inertia limiting the potential for collective action of a broad share of the population (Olson, 1964; Bardhan, 2005). Among these factors, agriculture predominance, high dependence on natural resources, high inequality in income and assets, or non-democratic and non-participative institutions have been pointed out at by recent literature. Endogenous institutional formalization can thus be blocked in poor developing economies, where the scope of economic activity is not sufficient to cover the costs of enforcement. Simply trying to transplant western norms of centralized State governance to such countries can, however, prove ineffective, as explained below.

Drivers of institutional change may also be related to changes external to the developing economy. First, few developing countries have avoided, at some point in their history, the need to modernize their legal systems by a process of transplantation (Berkovitz et al., 2003). Various legal systems have been partially transplanted in developing countries, first by colonizers (Shleifer et al., 2008; Acemoglu and Robinson, 2012) or, after independence, via international experts' soft power (Dezalay and Garth, 2002), or even by military influence (Berger *et al*, 2012). Likewise, during the last two decades, many developing countries have been constrained, either by trade agreements or structural adjustment, to open up and liberalise their economies very suddenly, thereby imposing competitive and technological pressure on their agents, with subsequent distributive effects. Even though common law transplants have been found to be more propitious to income growth and financial development (Shleifer et al., 2008), transplant conditions tend, in fact, to be more important for economic development than the particular rule being imported. More specifically, rule-based governance is shown to be more effective when the receiving country has developed legal systems internally, or has been able to graft the transplanted law onto its indigenous legal system (Berkovitz et al., 2003). In most developing economies, however, socioeconomic systems are still governed by simultaneously operating conflicting systems of rules and enforcement, with each system bringing its own specific benefits and costs. Certain dimensions of the systems are close to the institutional frontier, whereas others stand very far from best-practice standards.

Finally, globalization-related trends have also exerted a considerable influence on domestic institutional systems. On the one hand, integration to global value chains of financial markets impose that developing countries simultaneously adapt their policies and regulations to international standards or best practices. But, on the other hand, the growing competition between developing countries to attract FDI or increase their share of global markets intensifies the need to further differentiate institutional systems. Institutional differentiation can take various forms ranging from the legal organization of social dumping to the state support of skill upgrading. Of course, domestic and external sources of institutional change cumulate their effect. The Chinese politico-economic equilibrium is, for example, currently undergoing severe pressure for reforms, as a growing middle class rapidly emerges and the globalized drivers of growth fade away (Xu, 2011; Bardhan, 2011). The institutional forms resulting from the sum of internal and external pressures are consequently condemned to be radically different from those observed for European countries, when they emerged several decades ago or, even, from more recent East Asian catching-up successes.

Our analytical framework has been specifically designed to address the above-mentioned traits of developing countries' institutional features.

First, insofar as there were no widely accepted models depicting what capitalism would actually look like in these rapidly changing countries, it became essential to reject the usual top-down CC approach, and to replace it with a bottom-up one. The top-down approach first defines models of capitalism as ideal-types, and then tests these models against countries that are generally considered as their counterparts. Our bottom-up approach is, however, essentially inductive, since we first observe the specialized institutions governing transactions in the various sectors of the economic system, and then go on to examine how they tend to regularly coalesce into institutional configurations at system-level. We also observe the dynamic paths of institutional change leading countries, whose initial socioeconomic characteristics were fairly close, to eventually adopt radically different models of capitalism.

Second, the theory of institutional complementarities, at the core of the CC analyses of OECD capitalisms, has been adapted to fit the reality of developing countries. Since in developing countries, observed institutional systems are the result of the variety of conditioning factors and influences described above, they can't be considered as fully-fledged systems, with their stability being bolstered by a form of internal consistency provided by complementarities. On the one hand, some institutional systems present forms of complementarities or network externalities incidentally emerging, although they were not initially expected to raise efficiency. We therefore introduce the notion of *de facto* complementarities to allow for possible experimentation-driven efficiency, i.e. forms of joint efficiency that may be generated by apparently incompatible institutions. The mix of market-based and state-based modes of economic coordination implemented by China during the 1990s and early 2000s is a good illustration of this *de facto* complementarity. Conversely, we call *de jure* complementarities the type of systemic efficiency that can be expected from the implementation of a wholesale set of sectoral institutions supposed to be internally consistent because they are driven by a common principle of organization. On other hand, developing countries show forms of negative complementarities, i.e. negative network externalities, engendered by sets of complementary institutions whose cumulative effect traps the economy into a low equilibrium. In that case we talk of positive complementarities, by opposition with the positive complementarities whose main effect is to spur economic development.

Third, a specificity of our approach is that it enables a set of idiosyncratic forms of institutional governance to be identified at sector level. We show that these idiosyncratic forms finally tend to cluster at the second stage of our analysis, coordinating at institutional system level, thereby forming the so-called *Idiosyncratic* model of Capitalism. Other countries have articulated types of institutional governance that are not currently articulated in the sample of countries. In that case, they have developed the so-called *Hybrid* form of capitalism.

Fourth, the sectors used to describe institutional systems have been extended to incorporate agricultural institutions and environmental regulation. Whereas some developing countries, including the BRICS[12], are complex systems combining large agricultural sectors and fast-growing industrial activities, most of them still rely heavily on agricultural and mining resources. It might be argued that a minimum level of production per capita is required to allow capitalism's capital-intensive methods to ensure a significant production surplus. Pryor (2011) points out that "*although highly commercialized agricultural societies might conceivably achieve such a surplus, in the vast majority of cases a significant volume of tradable goods implies a level of per capita production and industrialization not possible with handicraft technology*". Yet, assessing the minimum level of per capita production required for such a tradable surplus raises considerable difficulties, notably because measuring informal production in low-income countries remains a puzzle for national account statisticians. This is why we have chosen not to define such a threshold, but have explicitly introduced agriculture as a sectoral dimension of emerging capitalist systems. As for natural resources, some developing countries have recently embarked upon long-term conservation schemes to protect their biodiversity. Equally, some of the biggest emerging nations, like China or Brazil, which are becoming increasingly aware of the dramatic environmental damage triggered by rapid trends of urbanization and industrialization, are trying to integrate this sector into their own regulation system. Since these two sectors do have a large influence on living conditions and, hence, on prevailing sociopolitical equilibria in most developing countries, introducing them as a full component in a comparative analysis of developing countries' institutional systems certainly makes sense.

1.6. WHAT THIS BOOK IS AND WHAT IT IS NOT

It would now seem opportune to situate our work and its results in relation to other recent works with which it shares both obvious connections as well as crucial differences.

The approach we have adopted is extremely comprehensive, since the original methodology developed here is aimed at identifying the types of socioeconomic governance for seven specific sectors of the market capitalist system, using a broad sample of 140 less developed, emerging and developed countries. We therefore compare the institutional configurations underlying capitalist systems of a wide sample of developed and developing

[12] BRICS is the acronym for Brazil, Russia, India, China and South Africa.

countries, jointly analyzing welfare state institutions and those concerning the finance, production, agriculture, environment and education sectors. Our book therefore helps improve our understanding of institutional diversity by comparing clusters of institutions for a very broad spectrum of countries, thereby extending the existing body of comparative analysis of capitalist systems to a range of countries that have generally been excluded from existing typologies.

Conceptually, our approach is fairly close to that of CC, but we explicitly address the emerging capitalist systems that can be observed among non-OECD countries. Like CC, our methodological approach assumes the possibility that institutional complementarities between distinct sectors of the economy can lead to multiple combinations of institutional variables and, hence, to different types of capitalism. However, unlike CC, we have chosen not to focus explicitly on the issues of business governance and social relations but, instead, to examine seven complementary institutional dimensions covering agriculture, competition, education, the environment, finance, labour, and social protection. Another, really crucial difference, with CC is that we do not start from *a priori* models defined by *a priori* clusters of institutions. Instead, our approach generates cross-checked clusters of institutions that tend to be either frequently or idiosyncratically observed across national economic systems.

Throughout the book, strong emphasis has notably been placed on emerging countries, because they exhibit original, often innovative, ways of organizing their economic systems. Our empirical contribution to the analysis of emerging market economies shows that the variety of their institutional systems paves the way for adopting different strategies to escape the poverty trap. However, the sector-based and diversity-conscious analysis that we have adopted here enables us to propose a variety of institutional modernization paths, including very experimental and hybrid approaches.

It should not be forgotten that, as our main goal is to assess the multidimensionality of institutional systems, we have had to adopt a non-standard approach. We have chosen to eschew the dominant cross-country econometric approach, based as it is on a one-dimensional assessment of institutional attainments, favouring a more multidimensional approach focused on the institutional clusters to be found across a wide range of economic systems. Although research on the causal links between institutions and economic development has grown apace and furnished significant results, it does not provide us with a germane analytical framework with which to assess the diversity of economic systems. In Part three of the book, the determinants and economic performance associated with these economic systems are also described, as well as their main institutional complementarities. The particular institutional trajectory that led to a number of important emerging countries choosing to adopt one specific model of capitalism rather than another is also analyzed there.

Our empirical work is nevertheless informed by a series of analytical premises inspired by standard institutionalist literature. First, as economic actions are embedded in the whole social domain, they require coordination or governance by formal and informal institutions (Granovetter, 1985; DiMaggio and Powell 1991). Our work focuses its attention on formal institutions and aggregate mechanisms of governance, with social networks or associations being considered as only marginal. This is due both to the low availability of comparable micro-data about informal mechanisms of governance, and to the expansion of the economic and social prerogatives of the state as economies develop. One important formal strand of the literature on institutions has developed a game theoretical framework of analysis of micro-institutions and conventions[13] but its congruence with our work is limited. Equally, micro-economic analysis of the institutional design of agrarian or trade contracts is not useful

[13] See Aoki (2001) for an overview.

for our purpose because it is unable to distinguish different macro socio-economic models[14]. Land rights and contracts are nevertheless considered, in Chapter 9, as crucial institutional dimensions of the agricultural domain.

Obviously, varieties of capitalism in developing countries could have been analysed through a variety of alternative theories. Institutions have been analyzed through various angles and approaches that are very different from the neo-institutionalist one used in this book. Heterodox approaches, such as the American ‘old institutionalism’, or evolutionary approaches have contributed to explain the nature of institutions and of institutional change. Old institutionalism focused its attentioan on transactions, and on the social context of these transactions, insisting that they should be paid more attention by economists. Also our approach is indebeted to old institutionalism, we are interested in systmes of institutions, and how they persist or not, more than by the very nature of institutions. Likewise, Evolutionary institutionalism has certainly contributed to the field, notably by elaborating a non-deterministic framework of the emergence, persistence and change of institutions. Institutions emerge and experience mutations through random innovations as unintended consequences of individual and collective actions. One crucial assumption of the evolutionary institutionalism is that countries facing very different circumstances may converge toward a common set of social arrangements that are favored, or selected, by a similar evolutionary process (Parsons, 1964; Bowles, 2004). Our work does not test the existence of such evolutionary universals, for the mere reason that selection and putation processes take place over the long run. Moreover, our work assumes that institutions might differ with different circumstances, political and historical, so that institutional trajectories lead to very different models or configurations across countries and regions. We therefore had to adopt a neo-institutionalist framework which is more consistant with this diversity assumption, provided that the analyst gets rid of the functionalist assumption that there is only one best institutional shape in order to meet any given social need as done in this book.

The Marxian approach would insist on the accumulation regime as the critical determinant of the shape of institutions, albeit without being able to envisage a variety of institutional dynamics. In this Marxian set-up, diversity only refers to the stage of accumulation on a single scale shared by all capitalist economies. Accordingly, developing countries’ capitalisms may not be analyzed by this approach since they should not differ significantly from the paradigmatic model. Moreover, their description of capitalism is based on a theory of the fatal crisis and collapse of capitalis systems that was contradicted by the 20th century historical experience. Also analyzing crises, the French Regulation Theory has first described how institutional forms of capitalism could change over time in industrialized economies in order to adapt to new circumstances. Then, by *a priori* identifying four variations of industrialized capitalism, the Regulation school has come up to analyze the diversity of institutional architectures that can be observed across industrialized countries (Boyer and Saillard 2002). Their framework of industrialized capitalisms comparison is based on sectoral dimensions (education and training, labour market institutions, ginance and competition), analogous to those used by the Comparative Capitalism approach on which we have based our approach in this book. However, the Regulation theory’s focus is essentially put on industrialized countries’ typical crises, and hasslightly attended to analyze systematically the developing countries’ new capitalisms and their typical crises. For this reason, the Regulation theory may not be helpful in our case, although promising efforts have been made to put emerging countries’ capitalisms into their pictures (Boyer, 2005).

Developing countries’ varities of developmental states have also been intensively surveyed since the 1990s. However, taking East-Asian countries like Japan or Korea as their

[14] On this specific domain of the institutionalist literature, see Bardhan (2000, 2005), Fafchamps (2004) or Pande and Udry (2005).

benchmark, these comparative studies have tended to focus on state policies and state-business relationships (Wade, 1990) or on the administrative dimension of economic policies (Evans, 1979; 1995). At last, they generally don't rely on a theory of the variety of developmental states that could be borrowed and adapted for the prupose of this book, namely identifying and comparing institutional systems in emerging capitalisms. Institutional diversity across developing countries' capitalisms has recently been emphasized by a handful of economists. They all argue that Chinese, Indian, or Vietnamese emerging economies could reach high-growth performance and trade competitiveness without having conformed to economic policy orthodoxy (Rodrik, 2008a, 2008b), with their institutional system exhibiting singular country-specific features (Rodrik, 2003; Bardhan, 2010). Accordingly, delving into each specific institutional system could help reveal what allows each different economic system to reach – or not – the goals it has set itself. As explained in the next section, this system-based analysis requires a convenient framework which is borrowed to the Comparative Capitalism (CC) literature.

Although our book is essentially academic and research-oriented, we have nonetheless not neglected various policy issues, especially those related to institutional reforms. Currently, standard institutional reform advocates strengthening property rights, improving the business climate and gaining democratic accountability. These generally advocate strengthening property rights, improving the business climate and gaining democratic accountability, especially in the case of low-income countries or of middle-income countries experiencing sustained growth slowdown. Our analysis, which insists on systems of complementary sector-related institutions, sheds light on several different institutional modernization paths, including a wide range of very experimental and hybrid approaches. The sheer variety of middle-income countries' institutional systems suggests, in fact, that there are several different trajectories available to low-income countries in order to escape the poverty trap. The various patterns of institutional reforms that can be adopted by poor and middle-income countries are discussed in the last chapter.

The book structure can now be outlined. In the following two chapters of Part one, the various attempts at characterizing developing countries' institutional systems are first critically overviewed, before our approach is spelt out in detail. To be more specific, Chapter 2 argues that analyzing economic systems requires an approach based on institutional clusters and institutional complementarity. Chapter 3 elaborates on the theory of institutional complementarity underlying our empirical approach, justifies the choice of seven institutional dimensions (labour, social protection, education, competition, finance, agriculture and environment) and goes on to explain how the institutions have been clustered, first at each dimension level, and then at system level. The seven chapters of Part two identify the types of regulation and institutions governing the seven dimensions listed above. In Part three, Chapter 11 presents the 2+4 models of capitalisms identified at system level and characterizes their main performances; Chapter 12 analyzes the main institutional complementarities observed at both national and synthetic model levels and addresses the long-term factors that reinforced the internal consistency of the models; Chapter 13 addresses the dynamic patterns of institutional change for a selection of middle-income countries. The concluding Chapter 14 then discusses the full range of policy and reform issues that have emerged throughout the book.

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