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Transnational economic order and national economic institutions: comparative capitalism meets international political economy

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MPIfG Working Paper 11/3

Andreas Nölke

Transnational Economic Order and National Economic Institutions
Comparative Capitalism Meets International Political Economy

MPIfG Working Paper

anck Institute
for the Study of Societies

Andreas Nölke
**Transnational Economic Order and National Economic Institutions:
Comparative Capitalism Meets International Political Economy**

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Abstract

Even after two decades of research on globalization, we still face open questions about the interplay between national capitalist institutions and transnational economic governance. How does embeddedness into transnational institutions influence national capitalist orders? How do national capitalist patterns influence transnational economic governance? The central suggestion of this paper is that the traditional divide between Comparative and International Political Economy has to be overcome in order to address these questions in a more thorough way. More specifically, it calls for combining Comparative Capitalism with institutionalist approaches within International Political Economy. The paper illustrates the mutually complementary character of both perspectives by looking at selected empirical examples.

Zusammenfassung

Auch nach zwei Dekaden der Globalisierungsforschung sind viele Fragen über die Wechselwirkung zwischen nationalen kapitalistischen Institutionen und transnationalen Wirtschaftsordnungen noch ungelöst. Wie beeinflusst die Einbettung in transnationale Institutionen nationale Ausprägungen des Kapitalismus? Wie formen Muster des Kapitalismus auf nationaler Ebene die transnationale Wirtschaftsordnung? Das vorliegende Papier argumentiert, dass die traditionelle Trennung zwischen Vergleichender und Internationaler Politischer Ökonomie (IPÖ) überwunden werden muss, um diese Fragen gründlicher bearbeiten zu können. Es wird insbesondere vorgeschlagen, transnational-institutionalistische IPÖ-Perspektiven mit dem Theorieprogramm der Vergleichenden Kapitalismusforschung zu verknüpfen. Das Papier demonstriert den komplementären Charakter der beiden Perspektiven an ausgewählten empirischen Beispielen.

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Transnational Economic Order and National Economic Institutions: Comparative Capitalism Meets International Political Economy

1 Introduction

Recent developments have demonstrated that the global South has lost its formerly peripheral role within the development of capitalism. A major economic stimulus program announced by the Chinese government was among the few events which was able to temporarily uplift global stock exchanges in November 2008. Shortly afterwards, although a program addressing the global financial crisis had not even been discussed within the established G7/G8 setting, the issue was taken up by the G20, which comprises the most important governments of the South. Even more recently, the surprising German economic boom was primarily caused by strong exports to China and other emerging economies. Today, the triad regions (i.e., Japan, the United States, and Western Europe) only produce half of all global goods and services, while the remainder of these stems from the “developing” and “transitional” economies of the periphery, with those economies making up continuously increasing shares over the last twenty-five years (Goldberg 2009: 23). The definition of what constitutes “core” and “periphery” has increasingly been cast into doubt, on the one hand by the rising economic centrality of China, but on the other by increasing worries about the downturn in the European periphery, the notorious “PIIGS” (Portugal, Ireland, Italy, Greece, and Spain) as well as Belgium. These developments have considerable repercussions for our understanding of “globalization” and its impact on the capitalist economies we live in. Some years ago, by contrast, it was possible to analyze the development of capitalism through a rather exclusive focus on the triad. Other economies were rather weak, with the temporary exception of the Soviet Union. Thus, it was safely possible to relegate the study of the global periphery to area specialists or the Development Studies community. These times are over. Moreover, the former periphery is increasingly intervening into the core, as indicated, for example, by the strongly growing number of acquisitions of German companies by Indian multinationals – which have tripled since 2004 and are soon expected to number some 30 to 50 cases annually¹ – and the recent legislative activity to control the activities of sovereign wealth funds. In a way, we can call these developments a second phase of globalization, and for most (Western) societies this might be a more challenging phase than the first one. Although the process is still unfolding, it raises important questions about changes in the interplay between transnational and

Parts of this paper draw on co-authored work with Heather Taylor, Arjan Vliegthart, and Angela Wigger. I am also indebted to Martin Höpner and Cornelia Woll for highly useful comments on a previous version and to Mary Dobrian for most helpful language revisions.

1 According to an article in the *Frankfurter Allgemeine Zeitung*, January 2, 2009, p. 16.

national capitalist orders: How do changing patterns of transnational economic order (e.g., increasing levels of foreign direct investment or shifts between public and private governance) influence established national capitalist institutions? And how will newly emerging national capitalist patterns (e.g., in China or India) influence transnational economic governance in the future?

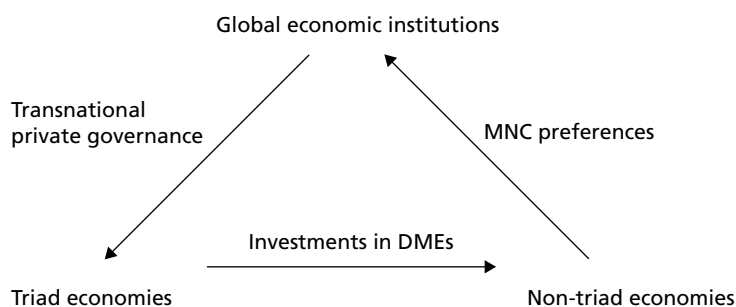
Today, any comprehensive understanding of this interplay cannot be restricted to the simple comparative study of triad economies. The regulatory framework that is being designed in cooperation between the triad economies and the global South must also be taken into account. Still, Western Europe, the US and Japan have been the sole focus of the “Comparative Capitalism” (Jackson/Deeg 2006) literature that has come to dominate the study of Comparative Political Economy over the last decade. Comparative typologies of capitalisms have become “canonical” among students of the political economy of Western societies (Blyth 2003: 215). Pioneered by scholars such as Shonfield (1965) and popularized by Albert (1991), there are now a large number of competing typologies to choose from within this field of study (e.g., Crouch/Streeck 1997; Hollingsworth/Boyer 1997; Whitley 1999; Coates 2000; Hall/Soskice 2001a; Amable 2003; Schmidt 2003; for a review, see Jackson/Deeg 2006). However, with the exception of a few references to South Korea and Taiwan, these typologies have traditionally focused on the economies of the triad (but see, e.g., Cernat 2006; Drahokoupil 2009). Moreover, they tend to treat national economic systems as closed containers and do not discuss their embeddedness within transnational economic regulation and within the institutions of global value chains.

The latter issues are mainly addressed within theories of International Political Economy (IPE). For the purpose of this essay, International Political Economy may be understood as the study of the interplay of policies/politics/polities and economic patterns in a cross-border perspective. In comparison to Comparative Political Economy, IPE puts a stronger emphasis on non-triad world regions, the global evolution of capitalism and global economic institutions. Questions about the evolution and effects of the latter are primarily addressed within institutionalist approaches of IPE. However, most of these approaches are heavily state-centric and mainly deal with the preference formation of governments and their subsequent negotiations about the institutions of global or regional economic governance (e.g., the EU or the WTO). More useful as a complement to studying the interplay between domestic capitalism and global/regional economic regulation are transnational perspectives within IPE. By “transnational,” we mean the systematic incorporation of cross-border influences, both by actors (e.g., multinational corporations, global financial market actors) and by institutions (regional and global economic regulation) into theories of International Political Economy. The notion of “transnational” has been chosen in order to indicate that this cross-border perspective is not only concerned with inter-governmental institutions, as in mainstream International Relations, but also engages with private actors and institutions (Nölke 2000, 2003a, 2003b, 2004; Graz/Nölke 2008a). At the same time, the term “transnational” indicates that not all cross-border interactions have to be global in character, but that

these interactions frequently take on a regional dimension. Still, theories of transnational economic governance lack an understanding of the effects that their steering activities have on domestic economies and their institutions. Thus, there is much room for a research program that studies the interplay between global economic orders and national capitalist institutions by utilizing complementary hypotheses derived from Comparative Capitalism and transnational institutionalist theories of International Political Economy.

In order to illustrate this claim, this complementary character will be demonstrated in three cases of transnational–domestic interplay: first, the predominant influence of (Western) multinational companies during the evolution of Dependent Market Economies in East Central Europe; second, the implications of the emergence of non-triad multinational companies (MNCs) for the reform of global economic institutions; and third, the influence of transnational private governance on coordinated economies in Western Europe. The selection of these three cases also highlights the usefulness of this combination for an analysis of three of the most interesting world regions – i.e., the transitional economies in Eastern Europe, emergent Asia (in particular China and India) and (the repercussions of global economic governance on) Europe, particularly Germany. Finally, the three case studies cover the relationships between the three spatial corners of the global political economy – i.e., triad economies, non-triad economies and global institutions. Case discussions will focus on illustrating the complementary character of the two approaches discussed above; additional references will be given for more comprehensive empirical discussions.

Figure 1 Case selection



For the purposes of this paper, the Comparative Capitalism perspective will mainly be used as a heuristic device for identifying the links between transnational influences and domestic institutions, and vice versa. Basic assumptions shared across the various branches of the Comparative Capitalism perspective include the following: “that capitalism is a socially embedded construction; that models of capitalism are distinguished one from the other by their underlying institutional configurations; and that modes of capitalist organisation are crucial in determining relative levels of economic performance” (Phillips 2004: 9). For this purpose, the most important analytical contribution

of the CC perspective is the identification and elaboration of various core institutional domains within modern capitalism, including the financial system, corporate governance, industrial relations, skill creation and the various mechanisms for the transfer of innovations throughout a specific capitalist formation (Jackson/Deeg 2006). Only for the first illustration, on the determinants of economic development in transitional economies, will we use a more specific argument derived from a particular strand of CC scholarship, the Varieties of Capitalism (VoC) perspective (Hall/Soskice 2001a) – namely, the argument that complementarities between the various institutional spheres are important for the economic performance of specific varieties of capitalism. However, given this selective utilization of the VoC perspective, we will not address the many shortcomings of the VoC approach that have been identified in the literature over the last several years, in particular its limited acknowledgement of the social struggles that have led to specific institutional outcomes (Streeck/Yamamura 2001; Thelen 2004; Phillips 2004: 10; Crouch 2005: ch. 2; Streeck 2010).

2 Comparative Capitalism and transnational investments: Institutional complementarities of dependent market economies in East Central Europe²

Recently, we have witnessed a very lively debate on the character of capitalism in East Central Europe (ECE) – i.e., Poland, Hungary, the Czech Republic, and Slovakia. From a Comparative Capitalism perspective, these countries are increasingly considered to be four cases of the same basic variety, sharing very similar socio-economic institutions, while being distinct, for example, from the Baltic states, the CIS (former Soviet republics), Romania or Slovenia (Whitley 1999: ch. 8; Cernat 2006; Hancké/Rhodes/Thatcher 2007b; Drahokoupil 2009). Moreover, a Comparative Capitalism perspective has become very attractive for the study of these economies, because neither neoclassical economics nor a transition-path dependency argument is able to account for the evolution of this specific capitalist formation. Most existing studies identify parallels between these economies and coordinated market economies (CMEs) or liberal market economies (LMEs), as depicted within the Varieties of Capitalism paradigm (Hall/Soskice 2001b).

Still, can we simply extend the established frameworks in order to make sense of new forms of capitalism? From the perspective taken in this paper, the identification of individual institutional parallels between ECE capitalism and either the CME or the LME model is misleading. Instead, we need to focus on the interplay between domestic and international factors, in particular on the importance of transnational investments for

2 This section of the paper draws in part on Nölke and Vliegenthart (2009). Please refer to the latter for a more detailed version of the argument contained in this section.

the character of the capitalist formation emerging in East Central Europe. This perspective suggests that ECE signifies the emergence of a third basic variety, a dependent market economy (DME) type of capitalism. DMEs have comparative advantages in the assembly and production of relatively complex and durable consumer goods. These comparative advantages are supported by institutional complementarities between skilled but cheap labor, the transfer of technological innovations within transnational enterprises and the provision of capital via foreign direct investments. Given these complementarities, the superior performance of a DME – if compared, for instance, with the rather incoherent “cocktail capitalism” (Cernat 2006) of Romania – becomes understandable.

The point of departure for our combination of hypotheses from International and Comparative Political Economy is the recent literature on the relationship between transnational corporations and Comparative Capitalism (e.g., Morgan/Kristensen 2006, 2007). The main conclusion that can be derived from this literature is that transnational corporations tend to look for a combination of low labor costs and the acquisition of “tacit knowledge embedded in local industrial districts” (Morgan/Whitley 2003: 610). As we will demonstrate below, it is the combination of relatively low labor costs and a skilled population with a substantial knowledge of a medium level of technology that constitutes the attractiveness of this region for MNCs. While transnational corporations will always strive for an institutional setup that is conducive to their needs, the political situation in East Central Europe after 1989 was uniquely well suited to the preferences of these corporations, given the absence of strong domestic bourgeoisies in the region which could oppose such a development (Eyal/Selenyi/Townsley 1998). On the contrary, the ideology of the leading post-transition political class rather fostered the development of economic institutions that would cater to the interests of transnational corporations, since it adhered to economic policies that would spur economic restructuring and economic growth through foreign investments (Drahokoupil 2008; Vliegthart/Overbeek 2007). Thus, the evolution of dependent market economies is not necessarily based on their superior economic performance (as a functionalist version of the Comparative Capitalism approach might predict), but rather on the agency of MNCs and post-communist economic elites.

In order to make sense of this emergent socio-economic formation, we can identify the hierarchy within transnational corporations as the central coordination mechanism in DMEs – in contrast to competitive markets as well as formal contracts in LMEs, or inter-firm networks and associations as ideal types in CMEs (see Table 1).³ The notion of “hierarchy” not only complements “markets” and “networks” as classical coordination institutions of modern societies (Thompson et al. 1991), but is also closely linked to the complementarities between the most important socio-economic institutions within the DME variety. Following earlier works in the VoC tradition (e.g., Hall/Gingerich

3 For a similar consideration see the concept of Hierarchical Market Economies as developed by Ben Ross Schneider (Schneider/Soskice 2009).

Table 1 Three varieties of capitalism

	Liberal market economies	Coordinated market economies	Dependent market economies
Distinctive coordination mechanism	Competitive markets and formal contracts	Inter-firm networks and associations	Dependence on MNC intra-firm hierarchies
Financial system	Domestic and international capital markets	Domestic bank lending and internally generated funds	Foreign direct investments and foreign-owned banks
Corporate governance	Outsider control: dispersed shareholders	Insider control: concentrated shareholders	Control by headquarters of multinational enterprises
Industrial relations	Pluralist, market-based, hardly any collective agreements	Corporatist, rather consensual, sector-wide or even national agreements	Appeasement of skilled labor, company level collective agreements
Skill formation	General skills, high research and development expenditures	Company- or industry-specific skills, vocational training	Limited expenditures for further qualification
Transfer of innovations	Based on markets and formal contracts	Important role of joint ventures and business associations	Intra-firm transfer within transnational enterprise
Comparative advantages	Radical innovation in technology and service sectors	Incremental innovation of capital goods	Assembly platforms for semi-standardized industrial goods

2004; Höpner 2005), I will take corporate governance (in this case, the hierarchical control by MNC headquarters) as the focal point of my brief illustration and demonstrate its complementarities with the other four major institutions identified within the VoC-framework.

Most obvious are the complementarities between corporate governance and the primary means for raising investments within DMEs. Given the extremely high volumes of FDI (foreign direct investment), transnational corporations prefer to hierarchically control local subsidiaries from their headquarters, as an alternative mode of finance and governance when compared to LMEs (financing by international capital markets and outsider control by dispersed shareholders) and CMEs (financing by domestic bank lending as well as internally generated funds and insider control by networks of concentrated shareholders).

Second, there is a close relationship between the corporate governance institutions, the primary means of raising investments and the system of industrial relations. On the one hand, MNCs need low labor costs for the DME model to work well, and will therefore avoid costly institutions such as cumbersome procedures for layoffs. Given the heavy competition for FDIs, MNCs have an excellent bargaining position on these issues. On the other hand, the integration of corporate decision making into transnational commodity chains leads to an interest on the part of the MNCs in keeping

workers in the distinct subsidiaries fairly satisfied (for a more institutionalist account with similar conclusions, see Kahancová 2008). Large-scale labor unrest would not only hinder the functioning of the distinct subsidiary, but might also have an impact on other parts of the commodity chain. At the same time, we can assume that the position of the subsidiaries is not so rooted within the national societies that it would require a general arrangement with regard to labor issues. As a result, rather selective company-level agreements dominate, making it possible to cater to the distinct needs of MNCs while creating a stable relationship between management and labor within the individual firm.

Third, we observe an intrinsic interconnection between skill formation, the system of corporate governance, the primary sources of investments and the innovation system. Given that FDI into this variety of capitalism only pays off with relatively low labor costs as well as with considerable tax breaks, MNCs are neither in favor of a generous public education system nor do they want to invest substantially in their labor force. In addition, they do not see the need to invest heavily in skills relevant to innovation, given that they prefer to transfer innovations into the region from abroad. Furthermore, the DME's highly individualized system of company-level industrial relations as well as a system of corporate governance that is strongly geared towards the corporate hierarchies of individual MNCs would hardly allow for the introduction of a CME-style system of vocational training institutions, given the national or at least sectoral coordination within inter-firm networks and associations that is necessary for effective training programs.

Fourth, transnational corporations prefer to keep their most innovative activities at their headquarters (or within other regions of the triad that are technologically particularly competent). Dependent market economies are thus used rather as assembly platforms, based on innovations that are made at, or acquired by, MNC headquarters and transferred within MNC hierarchies. This again entails complementarities between the DME institutions. Financing of investments by FDIs and the hierarchical control by MNC headquarters allows for the transfer of innovations to the DMEs without the risk of problems with intellectual property rights that would exist, for example, with joint ventures. Moreover, given the limited amount of innovative activity, there is neither a need for a bold system of general skill education nor for comprehensive vocational training, which keeps expenditures for research and development down. The same logic of institutional complementarities applies to industrial relations, where the MNCs need neither highly flexible labor markets to acquire innovations nor long-term investments into skill acquisition based on rather inflexible labor contracts. Instead, DMEs work particularly well with a medium level of labor market flexibility, where MNCs retain a certain ability to adjust employment levels to demand, but also avoid too much labor market fluidity for their skilled staff, in order to avoid a breakdown of their assembly platforms.

Taken together, the complementarities outlined above give rise to a specific type of comparative advantages which allow the region to serve as an assembly platform for semi-standardized industrial goods. While the highly innovative parts of the business cycle remain in the MNC headquarters region, these innovations are transferred to the region within transnational companies and remain under the control of the MNC hierarchy. At the same time, the region can at least temporarily take part in the global competition for these kinds of investment, based on extremely favorable conditions for FDIs (e.g., tax-breaks financed by low public expenditures), moderate labor costs and a fairly skilled workforce. A Comparative Capitalism perspective can expose some of the institutional foundations of these economies, if we realize that they are heavily influenced by the transnational outlook of multinational companies. However, in contrast to the assumption of an institutional equilibrium indicated in some versions of the CC framework (e.g., Hall/Soskice 2001b), DMEs are not necessarily stable in the long term, due to their dependency on the investment decisions of multinational corporations and the threat of a secular erosion of their post-communist skill advantage.

3 Comparative Capitalism and international conflict: Non-triad multinational companies and global economic order⁴

According to projections made by Goldman Sachs, within the next thirty years Brazil, China, Russia, and India will collectively have domestic product and service markets larger than those of the triad economies combined (Agtmael 2007: 11). While these projections may have to be adjusted for the fallout of the subprime economic crisis, we can certainly expect non-triad economies to play a substantially increased role in the decades to come. What are the likely repercussions of this rise of non-triad economies on global order? Will this lead to a new North-South conflict, or can we assume that these “emerging economies” will support the existing institutions governing the world economy?

Given the early stage of this development, there is hardly any direct evidence about the likely course of events. Instead, we can take a more indirect approach in order to formulate theoretically grounded expectations. In doing so, we assume that the differences between the national business systems of triad and non-triad economies will have an effect on their preferences concerning global economic regulation (without claiming that this is the only relevant factor for preference formation). Thus, we will use the institutional spheres identified by the Comparative Capitalism approach (financial system, corporate governance, industrial relations, and the transfer of innovations)⁵ as a

4 This section of the paper draws in part on Nölke and Taylor (2010). Please refer to the latter for a more detailed version of the argument contained in this section.

5 We have excluded skill formation from this analysis, since this sphere is less affected by comprehensive global regulation.

heuristic device in order to identify the institutional circumstances and corresponding potential preferences of non-triad actors, contrast these preferences with the existing global governance institutions and develop some initial ideas about potential future conflicts. Given the considerable degree of heterogeneity between the urban and the rural parts of most non-triad economies, we will focus on the role of the urban scene, and in particular on the role of multinational companies emerging from these economies. These non-triad multinational companies (NTMNCs) will not only be responsible for pushing economic growth within their home countries, but will also play an important role in global business regulation in the decades to come.⁶ What are their preferences on issues like corporate governance and corporate finance?

In contrast to most Anglo-Saxon multinationals, most NTMNCs are less dependent on international capital markets. Instead, they tend to rely on internally generated funds or bank loans. Correspondingly, they are under less pressure to look for short-term shareholder value. This allows NTMNCs to build up a reserve of slack resources as a financial cushion in case of unforeseen crises in turbulent markets. Furthermore, NTMNCs can frequently make use of some kind of direct or indirect state financing, including fiscal incentives, financial guarantees and credits from state-owned banks. This state involvement in particular is responsible for the fact that many NTMNCs have access to cheaper financing than their competitors (Goldstein 2007: 127). Given the focus of most global institutions, such as the International Monetary Fund, the World Bank, the World Trade Organization or the OECD, on the further expansion of Anglo-Saxon standards in financial market regulation, we may expect an increasingly intense conflict over these issues. We can see evidence of this in the 2000 WTO decision deeming the Proex subsidy created by the Brazilian government specifically to support Embraer illegal and subsequently forcing the government to abolish the subsidy program. Despite this example, for the time being, most of these conflicts are not being played out in the open, as demonstrated in the case of accounting regulation, where NTMNCs do not oppose the dominant global regulation (e.g., by lobbying within international institutions or not adopting dominant rules at all), but instead only selectively implement global standards.

Our expectations about corporate financing are closely linked to our interpretation of the dominant mode of corporate governance. NTMNCs are not typically dominated by dispersed shareholders and the organized forces of global capital markets (mutual funds, pension funds, investment banks, hedge funds, etc.), but instead tend to be family-owned or state-controlled. Family and state ownership might even be counted among the “distinguishing features” of NTMNCs (Goldstein 2007: 148). The absence of an open market for corporate control helps NTMNCs avoid the short-term pressures caused by global capital markets. Even if NTMNCs are listed on their home markets’ exchanges, in most of these companies, strategic investors (and not dispersed minority shareholders) play a key role. There are an outstanding number of state-owned and

6 See Woll (2005) for a similar perspective on Western MNCs.

state controlled companies in mainland China. This also tends to be the case in nearly all natural resource industries, especially those in Russia. Turkey, on the other hand, is one of the examples of an NTMNC host country where the ownership structure is largely family-based (Aguiar et al. 2006: 8–9). In conclusion, the corporate governance of NTMNCs is quite different from that of most Anglo-Saxon multinationals. Moreover,

different corporate governance rules and behaviours, especially in case of state-owned and family-controlled companies, respectively, mean[s] that EMNCs [emerging market multinational companies, the author] may have less trouble and more flexibility in accessing capital than listed MNCs that are restricted by the volatile will of shareholders, market regulators, or analysts. (Goldstein 2007: 146)

In a similar vein, numerous Asian NTMNCs are supported by interpersonal networks, which are in particular based on ethnic ties; these networks reduce information costs through the provision of trust and other forms of (social) capital. Among the most well-known of these networks are the Chaebol in South Korea and the Guanxi Chixie in Taiwan (Feenstra/Hamilton 2006).

Corporate governance issues are not regulated by a powerful global regime such as, for example, the World Trade Organization. Instead, these issues are quite loosely institutionalized. Most regulations are in the form of voluntary codes, such as those issued by the OECD and numerous other private bodies. Much like the reactions we have seen in the field of corporate finance, we can expect participants in global corporate governance debates to express opposition to instituting a preponderance of Anglo-Saxon standards driven by the financial markets, since this might clash with the interests of strategic investors, the state or the founding families governing the NTMNCs. However, the debate might become more complex due to the recent wave of Western concerns about the increasing influence of non-triad sovereign wealth funds. NTMNCs prefer less restrictive takeover regulations given that they have increasingly relied on investments in brownfield sites (previously used industrial or commercial sites) in the triad to acquire market access, higher profit margins and brand recognition. Nevertheless, some triad governments are becoming more wary of market-friendly standards and have started introducing institutions that protect against takeovers by non-triad state funds. Correspondingly, we can expect to see increasing tensions and the growing importance of institutions such as the Council on Foreign Investment in the United States (CFIUS).

The International Business literature that dominates the debate on NTMNCs has not given much attention to industrial relations. However, among the information that is available, we should highlight the weak role of organized labor – e.g., leading to comparatively low levels of payment and long working hours. In general, there is a rather high degree of flexibility on the part of workers, enabling fairly flexible production based on reliance on human capital rather than machinery, which complements the fact that the majority of non-triad economies have an overabundance of human capital. A low-cost workforce not only benefits Chinese NTMNCs that base their business model on price

competition in mature industries, but also Korean and Taiwanese NTMNCs that have made extensive use of low labor costs elsewhere in the region (Goldstein 2007: 76–78). In the field of industrial relations, NTMNCs are usually unwilling to accept comprehensive global labor regulation by the ILO because of the corresponding threat to the low (labor) cost strategy that has helped them to expand. Furthermore, we witness increasing tensions with OECD unions when companies are taken over and local industrial relations models are not respected. One example that has further exacerbated these tensions is the case of Taiwan's Benq, which in 2005 acquired the handset unit of Siemens (Germany) and subsequently closed the subsidiary in 2006. After enough time had passed to leverage all the resources the subsidiary possessed, bankruptcy was declared, and it was done so directly after all the contracts of the roughly 6,000 workers they inherited had expired. Finally, in the field of corporate social responsibility (CSR) as well, NTMNCs are usually less willing to accept stringent (self-)regulation. However, NTMNCs might assume more corporate social responsibility in the medium term if they participate more strongly in global value chains or are directly confronted with (CSR-conscious) Western customers.

The latecomer status of NTMNCs is responsible for their strong focus on inter-firm cooperation (partnerships, joint ventures) for the spread of innovations, since these networks provide a crucial mode for the acquisition of technology. In a later stage of development, NTMNCs use acquisitions – in particular in the triad regions – in order to improve their innovative capacity. NTMNCs buy companies in the triad in order to acquire technologies or intangible assets, such as the ability to manage companies in a less regulated environment. Again, NTMNC strategies are supported by specific public policies, including a “soft patent system to legalize reverse engineering” (Goldstein 2007: 95) and a rather generous version of competition policy. Although there is some variance between non-triad countries, most use competition policies to support NTMNCs, by creating “national champions” and supporting the consolidation of industries.

Two global regulatory issue areas are relevant for the innovation activities of NTMNCs: intellectual property rights (IPR) and competition policy. In terms of intellectual property rights, as regulated by the World Trade Organization, the activities have resulted in coercing non-triad markets to prematurely embed strict(er) IPR regulation legislatively, prior to normative acceptance. Given that many of the current NTMNCs have been enabled to flourish through lax IPR regulation, this will likely remain an area that non-triad governments will contest. The mere fact that IPR legislation is often very minimally enforced by non-triad governments (Braithwaite 2000; May 2007; Sell 1998, 2003) is further evidence for this. At the firm level, many NTMNCs are against strict(er) IPR regulations which may inhibit cross-border learning. Nevertheless, as more NTMNCs become involved in industries that thrive on strict(er) IPR regulation, significant contestation may arise not only among NTMNCs, but also between these big companies and small indigenous firms in their domestic markets. The former situation refers to conflicts between those wanting strict(er) IPR legislation versus those against it, an issue which will be heavily conditioned by the degree to which NTMNCs continue to

move up the global value chain. With regard to the latter constellation, given that uneven economic development in non-triad markets is one direct result of the state focusing on producing growth in two to three extremely key industries while often “neglecting” to support growth in many other industries, if and when the key industries become more interested in protective IPR regulation in their domestic markets, this may have a significant backlash on other domestic industries and on attempts to achieve uniform national economic development as a whole.

Competition policy is not yet regulated by a powerful global regime, but there is a strong increase in activities aimed at institutionalizing it more thoroughly worldwide, such as an increasingly dense interaction between EU and US competition authorities, the transfer of competition policies and institutions into the national framework of countries outside of the triad, and the inclusion of competition policy in bilateral and multilateral trade agreements. In general, we can assume that most NTMNCs prefer less restrictive policies for two reasons: foremost, so as not to impede inter-firm linkages that allow for the transfer of innovation, but more importantly so as not to choke government protection of national champions. Recently, however, the North-South dividing line has become less clear-cut, as evidenced by Chinese musings about the potential conflict of a takeover in the iron ore sector with competition laws.

In conclusion, our extrapolation (from a CC perspective) of how potential North-South conflicts are being played out within global governance has not yet led to a clear picture. While I have noted numerous areas where we can expect intensified conflict in the near future, there are other areas where I assume that the preferences of triad and non-triad multinationals may gradually converge. Indeed, in several cases NTMNCs appear to take on similar preferences to those of triad MNCs over time. I have also noted some similarities between NTMNCs and companies in coordinated economies – e.g., in the fields of corporate governance and corporate finance. However, I have also identified a number of cases where NTMNCs might clash with global governance institutions, in particular due to the affinity of the latter with Anglo-Saxon models. Moreover, most NTMNCs operate in far closer collaboration with national governments than triad MNCs do, thus indicating the potential push for a more mercantilist form of global economic order that may be one of the most visible conflicts to arise in the future. Which of these trajectories will gain the upper hand in the end is difficult to say at the moment: much more research on NTMNCs and their position towards global economic order is needed. While this section has not yet provided firm answers, it has presented strategies for developing these answers in the future.

4 Comparative Capitalism and transnational private governance: Law firms, EU competition policy and effects on innovation transfer in coordinated economies⁷

Transnational private governance is a “hot” topic in International Relations (IR), propagated as an alternative mode of governance if compared with old-style intergovernmental regulation in the form of international organizations and regimes such as the World Trade Organization. During the last decade, we have learned a lot about the workings of private governance in international affairs (Cutler/Haufler/Porter 1999; Hall/Biersteker 2002; Graz/Nölke 2008a), in particular with regard to its antecedents and its mechanisms. Still, the economic consequences of this rather novel type of regulatory institution have not received much attention so far. If covered at all, the most important concerns have been the implications of transnational private governance for national sovereignty and democratic accountability. Evaluating the socio-economic consequences of private rulemaking at the transnational level, by contrast, remains a difficult task. Most theoretical frameworks within International Relations are too state-centric to address these questions: they predominantly focus on public policies. Furthermore, the focus of concepts within International Relations is usually on the mode of governance (i.e., public versus private, national versus international) and much less on its content (e.g., neo-liberal versus social-democratic). This is where the complementary perspective of Comparative Capitalism comes in. The CC approach is particularly well suited to assessing the economic consequences of an increasing prominence of transnational private governance, given that it is deliberately based on a firm-centric conception of political economy, in contrast to the government-centric approaches that dominate the field in IPE. Based on a combination of insights derived from Comparative Capitalism and institutionalist International Political Economy, we can argue that many prominent cases of private governance in international affairs are strongly affiliated with liberal models, based on the powerful role of Anglo-Saxon coordination service firms, and correspondingly work in opposition to more coordinated economies. In order to illustrate this claim, I will present a case study on the influence of Anglo-Saxon coordination service firms on core economic institutions within coordinated economies, namely that of transnational law firms on the erosion of traditional forms of innovation transfer in the context of EU competition policy. From a Comparative Capitalism perspective, the traditional EU system of competition policy was very much in line with institutions of coordinated capitalism, whereas the recent shift has introduced major elements of the US model. A crucial ingredient of this recent shift is the empowerment of Anglo-Saxon law firms that play an important role in the private enforcement of competition policy within the US. In order to evaluate the implications of this shift towards private governance, we will look both at the traditional principles and at the enforcement of German/EU and US competition policies before turning to the recent reform.

7 This section of the paper draws in part on Wigger and Nölke (2007). Please refer to the latter for a more detailed version of the argument contained in this section.

During the last several decades, the maxims of the Chicago School have had a strong influence on the US antitrust system (see also Wigger 2008). According to this paradigm's central tenet, the ultimate determining factor for assessing anticompetitive conduct should be consumer welfare maximization, underpinned by rigorous economic modeling based on neoclassical price theory (Fox 1997: 340). Consequently, the focal point of competition control should not be the concentration of market power as such, but rather collusive agreements with clear negative effects on consumer welfare, cartels and other restrictive business practices. Long-term economic concerns, such as the diffusion of technological innovation through inter-firm collaboration, do not play an important role in the US variety of competition control (Hall/Soskice 2001b: 31).

Conversely, in the German coordinated market economy, some forms of inter-firm collaboration may be acceptable (or even desirable), particularly if they serve the diffusion of technology within the economy (Hall/Soskice 2001b: 26). Individual companies cannot shoulder the development of new technologies on their own – thus we need to separate useful technology cooperation from harmful anticompetitive conduct. This multi-goal orientation provides a normative framework for a balanced interventionist strategy in the administration of anticompetitive conduct. Although the overall influence of German ordoliberal scholars in other economic regulatory policies has waned since the 1960s, it continued to have a remarkable stronghold in EU competition policy for several decades (cf. Budzinski 2003; Hölscher/Stephan 2004).

Not only do the basic guidelines governing competition law differ considerably between the traditional German and the recent US models, but enforcement practices do as well. Competition law enforcement in the US is a case-orientated endeavor in which courts constitute the ultimate resort for stopping anticompetitive conduct (see Wigger 2007, 2008). The enforcement agencies, the Federal Trade Commission and the Department of Justice, cannot block anticompetitive conduct by themselves. Just like private plaintiffs, they have to litigate all cases before the courts. However, more than 90 percent of all formal US antitrust actions are brought to the courts by private litigators (Wils 2003: 477). The strong role of private enforcement in antitrust prosecution is due to a range of systemic features in the US model that make it particularly attractive to initiate legal proceedings against corporations, such as damage compensation, class actions, contingency fees, criminal prosecution and leniency schemes. A successful plaintiff in the US can be awarded not only the costs of suing (expert fees and attorney's fees), but up to three times the damage suffered (treble damages). Moreover, plaintiffs can group together and sue collectively (class actions), and professional litigators may offer contingency fees or sell their legal services under a "no-cure-no-pay" condition. In combination with criminal sanctions (imprisonment of CEOs) and leniency schemes (immunity from prosecution to those who first confess to having participated in a collusive agreement), there is much incentive to bring antitrust infringements to the US courts. The basic objectives of competition policy and the mode of enforcement are closely intertwined. The focus on only one decisional criterion upon which anticompetitive conduct is judged follows necessarily from the litigation-oriented approach –

otherwise the discretionary power of the courts would be too great. Correspondingly, there is no place for broader concerns, neither in policy paradigms, nor during their enforcement through private litigants who are primarily motivated by short-term profits (Wigger 2007).

In Continental Europe, specialized competition authorities, rather than courts, are the main decision-makers. Competition authorities tend to be equipped with far-reaching discretionary powers when addressing and administering anticompetitive business conduct. Regimes of *ex ante* authorization, according to which corporate actors notify competition authorities of planned agreements, are common not only for mergers, but also for commercial agreements. Courts are merely involved in case corporate actors appeal the decisions taken by competition authorities (Wigger 2008). Again, competition policy principles and the mode of their enforcement are closely interrelated with the basic institutions of coordinated economies. Of crucial importance is the institutionalization of powerful public enforcement agencies with wide-ranging competencies. Only public agencies, and not courts, can be trusted to balance the multiple goals of antitrust policies, including promoting the transfer of innovations through inter-firm collaboration.

Against this background, the 2004 reform of EU antitrust regulation and enforcement was the most radical shift in the history of European competition policy. It came in the form of a package of both substantial and procedural changes. In terms of substance, rigorous economic analyses underpin the assessments of restrictive business practices (e.g., extensive empirical and econometric assessments of product markets and market shares, simulation models and price calculations, damage analyses). Procedurally, one of the core components was the elimination of the long-standing administrative notification regime under which companies could be assured in advance by the European Commission that a planned commercial agreement did not fall into the category of a cartel or other business practices prohibited under Article 81 (TEC). In contrast, companies now have to assess for themselves whether a planned deal infringes on the law or not. Thus, the new regime introduces greater reliance on private “market intelligence” in spotting anticompetitive practices, usually based on expert advice by transnational law firms. Although the reform itself did not touch upon national enforcement practices, the adoption of the Anglo-Saxon common law competition enforcement model has been driven a step further by the introduction of stronger incentives for private plaintiffs to litigate within domestic law (Wigger 2009). This can have considerable repercussions upon the transfer of innovations via inter-firm collaboration. A much noted case is that of the ongoing investigation of German sausage producers by the German Bundeskartellamt (Federal Cartel Office). After one of the producers made use of a leniency scheme in order to avoid prosecution, other producers terminated the inter-company cooperation on skill acquisition and innovation.⁸

8 “Razzia bei Wurstherstellern,” *Süddeutsche Zeitung*, 28 June 2009; “Kartellverfahren versetzt Wurstbranche in Aufruhr,” *Westfalen-Blatt*, 22 September 2010.

In sum, we can observe that institutions that are strongly interlinked with the liberal model are being transplanted into coordinated economies by means of transnational private governance; this is particularly salient within the European Union. Further examples include accounting standards (Perry/Nölke 2006) and rating agencies (Nölke/Perry 2007). The privatization of certain facets of business regulation has gained ground through a depoliticized, professions-based interest constellation that disregards more eminent political features of this form of economic organization (Dewing/Russell 2004: 300). It should not surprise us that attempts by the EU to introduce Anglo-Saxon standards through new public regulations, such as the European Works Council Directive, the European Company Statute Directive and the 13th Takeover Directive, have led to somewhat uneasy compromises, given the high visibility of these issues and the corresponding political controversy (Cernat 2004; Callaghan 2008). By contrast, the transfer of competencies to private regulation that we have discussed in this section has led to a clear decision in favor of the Anglo-Saxon model. While more explicit political attacks on the basic institutions of Rhenish capitalism are not (yet) feasible, the enhanced role of private actors in EU regulation provides an excellent opportunity for the erosion of these institutions “through the backdoor.” Similar strategies have been identified for the utilization of soft law (Schäfer 2006) and of the European Court of Justice (Höpner 2008).

5 Conclusion

This paper has demonstrated that questions about the interplay between national capitalist institutions and transnational economic governance can be usefully addressed by deriving complementary theoretical arguments from Comparative Capitalism and International Political Economy (IPE). More specifically, the suggestion was to combine the study of Comparative Capitalism with a transnational institutionalist IPE perspective. Although the Comparative Capitalism approach may be somewhat exhausted (and is increasingly being criticized) as far as its applications for the study of the comparative political economies of triad societies are concerned (Jackson/Deeg 2006: 37–39; Hancké/Rhodes/Thatcher 2007b: 4–9; Streeck 2010), it can still be put to some productive use for these particular questions if combined with hypotheses derived from International Political Economy. However, Comparative Capitalism and theories about transnational economic institutions are normally discussed within very different academic communities, and mutually complementary insights – e.g., the formatting effects of multinational companies on dependent capitalism in ECE (Section 2), the prospective transformative power of non-triad varieties of capitalism on global economic institutions (Section 3), or the eroding pressures caused by transnational private governance on coordinated capitalism (Section 4) – are hardly realized.

These shortcomings mirror the more general separation between Comparative Political Economy/CPE and International Political Economy/IPE that has evolved over the last three to four decades (Phillips 2004; Graz/Nölke 2008b). Whereas classical political economy was unified by some key discourses (e.g., on the nature of capitalism), the emergence of IPE as a separate (sub-)discipline, as well as the crystallization of the Comparative Capitalism (CC) approach have further separated two camps divided with reference to their respective levels of analysis and with increasingly divergent research interests. Whereas IPE is more interested in “the webs of structural power operating throughout the world system than in comparative analysis of discrete parts of it, bounded by territorial frontiers dividing states” (Strange 1997: 182–183), the CC approach is focused on “the conceptual frameworks used to understand institutional variation across nations” (Hall/Soskice 2001b: 1). This separation is quite unproductive, given that both fields are concerned with the same subjects – that is, “with the intersections of economic and political dimensions of social organisation, with capitalism, with processes and models of development broadly conceived” (Phillips 2004: 6) – and that both are restricted in their understanding of these subjects if operating on their own:

An understanding of domestic political economy requires an understanding of its location and mode of insertion within wider regional and global political economies; an understanding of processes in the global political economy demands an understanding of the ways in which they are intrinsically and fundamentally constituted by national states, state strategies and structures of social relations, and of the processes of change they unleash in distinctive national and regional contexts. (ibid.)

It is easy to claim that hypotheses derived from CPE and IPE should be re-combined in order to address questions of common concern, but it is rarely done in practice: “The cases for ‘grounding’ the study of International Political Economy in solid comparative analysis, and for ‘contextualising’ the study of Comparative Political Economy in analysis of global structural trends, are more often made than the projects undertaken. Yet their achievement is essential for understanding the contemporary political economy of development across the regions of the world, and indeed the world order in which they are embedded” (Phillips 2004: 2). In order to avoid this pitfall and to make this claim more specific, we have presented three short sample applications, which demonstrate the complementary perspectives pursued by Comparative Capitalism and transnational institutionalist approaches in International Political Economy.

A perspective that combines hypotheses derived from Comparative Capitalism and from institutionalist International Political Economy is particularly important when we talk about capitalism in non-triad settings. Here, capitalism developed later than in the West, within a different stage in the development of capitalism – in particular, during its more intensive integration into the world economy, as indicated by much stronger penetration by multinational corporations and much more powerful molding by international institutions (such as the International Monetary Fund, the World Bank and the World Trade Organization), thereby leading to quite different state-economy relationships (Coates 2000: 226–227; Phillips 2004: 10–13). These developments pose

a particular challenge for the study of Comparative Capitalism, but also indicate an interesting avenue for further research. After all, the concerns of the contemporary Comparative Capitalism debate and important strands of development theory are strikingly similar (Phillips 2004: 16). And while there is an understandable ennui among scholars regarding CC's preoccupation with economic performance within the triad, economic growth still is a matter of life and death outside of this world region. It is thus no surprise that the case for recombining CPE and IPE mainly comes from scholars concerned with non-triad settings (Phillips 2004), echoing earlier calls by scholars working on the political economy of small states in Europe (Katzenstein 1985, 2003).

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