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The concept of the "World Economic Triangle": global governance patterns and options for regions

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Summary

This study investigates the scope of action open to regions in the world economy. Approaches concerned with the growing importance of "regions in the global economy" seldom address the issue of altered global rule systems and governance structures. Instead, they focus on the challenges "inside" regions, for example, the growing need for local networking among actors as a means of developing endogenous technological competence.

The study develops the concept of the "world economic triangle" that emerges in the process of interaction between industrial locations, global value chains and global networks dedicated to setting standards. Regions are:

- increasingly tied into global value chains that are characterised by forms of "private global governance" beyond pure market coordination; and
- increasingly faced with global (technical, social, ecological, etc.) standards which are defined and often monitored by global policy networks.

Taking into account the interactions between local and global governance in the "world economic triangle" helps to show new challenges, options and limits for local firms and for local policymakers. New forms of transnational networks often emerge between the local cluster and the global value chain, as well as between local policy networks and the "world of global standards". The triangle concept highlights that for regions seeking to strengthen their competitiveness, it is not enough to use locational policy focused on local forces. Firms and local policy makers have to learn to deal with complex tension fields defined by local and global governance structures in the "world economic triangle".

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1 Introduction

1.1 Dimensions of the world economy

The world economy has now become the frame of reference for just about all national economies. In the wake of the collapse of the socialist economies and the implosion of the inward-oriented strategy of import-substituting industrialisation in many developing countries, the global market economy has expanded geographically and undergone qualitative change. The nationally based forms in which markets have traditionally been embedded are eroding under the impact of *locational competition*. Economic globalisation is placing national regulations, for example, in banking and in environmental and social policy, under pressure to adjust, and it is exposing public institutions like universities and technology and vocational-training institutions to global competition. As a result, the latter's raison *d'être* is increasingly being seen in terms of whether they contribute immediately to strengthening competitiveness. Worldwide, processes of economic globalisation go hand in hand with far-reaching processes of liberalisation, deregulation, and privatisation. It seems more and more as if societies were being increasingly integrated into markets, and less and less as though markets were being embedded in socially defined institutional networks (Streeck 1998).

The *geography* of the world economy is also changing. The world economy of yesteryear was mainly viewed as the sum total of national economies and conceived in the categories of periphery and centre. The new world economy is marked by competition between local clusters (Nadvi and Schmitz 1999), global cities (Sassen 2000), global city regions (Scott 2001) and global value chains (Gereffi 2001; Humphrey and Schmitz 2002) that no longer know national boundaries. The economy is in part breaking its links with territorially and politically constituted entities and creating functional and agglomeration spaces of its own. These need not necessarily coincide with given political entities. Along with its geography, the world economy's *actor constellations* and *governance structures* are likewise in the midst of a process of change: global regimes like the WTO; international organisations like the IMF; globally operating corporations; and, globally active NGOs, negotiating with multinational corporations over social and ecological standards for example, are growing in significance. At the same time, the reach of national governments ends at their external borders, which have largely ceased to constitute crucial boundaries to the transfer of money, goods, technology, and knowledge. Against this background of growingly dense global interdependencies, development dynamics and newly emerging structures in the world economy, which are in part detaching themselves from national societies and their regulatory systems, we are forced to readdress the issue of whether and to what extent economic development can be formulated and shaped by political means.

1.2 The study's focus

The study centres on the question of the scopes of action open to regions (i.e. local firms, public organisations, and policymakers) in the world economy. Do local actors have the autonomy and the resources they need to deal actively with the new demands placed by the world economy, to build specific

competitive advantages, and to actively influence and shape the level of their region's prosperity? Or are local and regional actors losing their action potentials and becoming passive or reactive adapters to global framework conditions in the new world economy? The study concentrates in particular on the scopes of action of policy networks which can contribute to developing locational strategies and effective and efficient institutional landscapes in the business environment (i.e. public, private, or public-private R&D organisations, vocational training institutions, entrepreneurial organisations, public business-promotion agencies). Firms come in for consideration to the extent that they, as individual organisations or as members of business federations, are elements of such policy networks.

The study builds on the results of network research in political science, analysing the options open to local actors in the context of globalisation. '. . . [T]he network perspective implies a new perception of causal relations in social processes . . . The core of this perspective is a decentralised concept of social organisation and governance: society is no longer exclusively controlled by a central intelligence (e.g. the State); rather, controlling devices are dispersed and intelligence is distributed among a multiplicity of action (or processing) units. The coordination of these action units is no longer the result of "central steering" or a species of "prestabilised harmony" but emerges through the purposeful interactions of actors, who themselves are enabled for parallel action by exchanging information and other relevant sources' (Kenis and Schneider 1991: 26).

A number of studies have clearly indicated that network governance is superior to both the classic top-down industrial policy of the 1960s and 1970s and locational policy (OECD 1997; Kwasnicki 1996; Sabel and Zeitlin 1997; Edquist 1997; Meyer-Stamer 1996; Messner 1997; Esser 1996; Nadvi and Schmitz 1999). The reason is that in locational policy governmental organisations are often dependent on the noncodified and difficult-to-transfer knowledge possessed by businesses as well as on a number of organisations in the business environment to identify problems, work out viable and adapted solutions, and implement policies. Networks are organisational patterns which, by focusing the knowledge of different actors and their joint learning processes, are better equipped to transport "tacit knowledge" than hierarchic decision systems. Kenis and Schneider have formulated this crucial dimension of networks as follows: 'Policy Networks are mechanisms of political resource mobilisation in situations where the capacity for decision-making, program formulation and implementation is widely distributed or dispersed among private and public actors . . . In situations where policy resources are dispersed and context (or actor) dependent, a network is the only mechanism to mobilise and pool resources' (Kenis and Schneider 1991: 41).

It is precisely this state of affairs that resource-dependence theory refers to as "interdependence" (Aldrich 1975; Benson 1975; Mandell 1988). The organisational structure of networks aims to bring together the different resources essential to a collective output (that are needed, for instance, to develop local and national innovation systems) with an eye to coming up with a joint result that individual actors cannot achieve on their own. The functional logic of networks is characterised by a combination of elements based on the two basic organisational patterns (market and hierarchy), and in this sense it constitutes a qualitatively different type of action. Networks are characterised by:

- the existence and action logic of autonomous, decentrally organised actors typical of market governance, and
- an action strategy geared to defining medium- and long-term goals and specifying the means adequate to reaching these goals as well as to using goal-directed action in a network to contribute to shaping the structures in a social subsystem; this collective, goal-directed action strategy is typical of hierarchic governance concepts (Messner 1997: 167ff).

The study discusses how local networks that include locational actors who work together to strengthen their region's competitiveness are influenced in their action capacities by the interaction between local and global governance.

From the perspective of various views on the role of regions in the world economy (for example, cluster research (Nadvi and Schmitz 1999), the concept of "systemic competitiveness" (Esser *et al.* 1996; Messner 1997), studies on local and national innovation systems (Lundvall 1992), Michael Porter's perception of the determinants of local and national competitive advantages (Porter 1990), and others), one can derive a relatively optimistic view of the scopes of action open to local actors (firms, local policy networks). The key variable of these approaches is the quality of local linkages. Regions whose local actors, by building business networks and developing dynamic policy networks in their business environment, have succeed in optimising their intercluster relationships in the direction of "systemic competitiveness" (Esser *et al.* 1996) and "collective efficiency" (Schmitz 1999) are able to develop "specific, geographically defined competitive advantages" (Porter 1990). In this way they can actively influence and improve their position in the world economy. Regions that lack the collective capacity to act develop specific competitive advantages will find themselves among the losers in the global economy. Seen in this way, the key to the development dynamics of regions must be sought at the local level.

The approaches outlined here, and the recommendations for action and policy formulation based on them, neglect the specific demands made on concrete regions by given segments of the world market. While the frame of reference defined by the world market is perceived here in terms of a set of framework conditions that are beyond influence, it is otherwise treated as if it were a "black box". The present study is an attempt to remedy this deficit. Its point of departure is the idea that regions are tied into specific global market segments and global governance systems that significantly influence the options of local actors and the demands placed on their efficiency and strategic capabilities. The study looks at the impacts of global governance structures, into which regions are integrated (e.g. rule systems; global value chains; global networks in which firms, NGOs, and international organisations develop global standards) on local governance capacities and systems, i.e. whether and how it is possible to elaborate and implement promising local development strategies. In other words, the study's focus is the interplay between local and global governance in the world economy.

1.3 The study's structure

The study develops its line of argument in five steps:

Chapter 2 discusses three discourses on the world economy with an eye to bringing some light into the "black box" of the world economy: the neoliberal view of the world economy, the intergovernmentalist perspective on global regulatory policies in the world economy, and concepts that highlight the growing importance of local and regional industrial locations and global cities in the global economy. On the one hand, this economic controversy reproduces, at the level of the world economy, the old dichotomist debate over the issue of "more government or less". Seen from the neoliberal perspective, the world's regions will have to prepare for a process of world-wide "market-economisation" that offers little room for political options and whose economic dynamics result from the global competition between autonomous business enterprises. Seen from the intergovernmentalist perspective, local industrial locations are going to have to learn to move within the context defined by the increasingly dense rule systems that are being created at the intergovernmental level, for example, the World Trade Organisation (WTO), the global environmental regime and international financial architecture. This means altered challenges for firms and local policymakers that go beyond the activities of in competitive global markets. The approaches concerned with the growing importance of "regions in the global economy" seldom address the issue of altered global rule systems and governance structures, focusing instead on the challenges "inside" regions, for example, the growing need for networking among actors as a means of developing endogenous technological competence. All three approaches develop a sort of stratification model of the world economy, with local, national, and global levels of action perceived as largely independent of one another.

It is evidently not possible to concretise adequately the impacts of global governance structures on the scopes of local actors action at the aggregate level of the three discourses on the world economy. Theorists of regional affairs tend largely to ignore world economic aspects, and both neoliberal and intergovernmentalist economists are interested especially in universal, global rules (global competition, multilateral rule systems) to which regions are forced to adapt. They are not interested in the specific segments of the world market in which locations are integrated. Thus, they implicitly proceed on the assumption of homogeneous governance patterns in the world economy.

Chapter 3 looks at the world economy from the bottom-up perspective of local industrial locations. The analysis is based on empirical studies conducted in the context of the IDS-INEF research program. The

Interaction of Local and Global Governance".[1] What emerges here is a picture that deviates from both the neoliberal and the intergovernmentalist interpretation and at the same time overcomes the narrowly local view typical of regional approaches. Local industrial locations are increasingly tied into two dimensions of global governance that are ignored by the established discourses on the world economy. These two global governance structures are instrumental in shaping local development dynamics and scopes of action. First, regions are increasingly integrated in global value chains often marked by networks and other forms of private governance. Second, global technical, social, and ecological standards are becoming increasingly important factors in world trade. These standards are developed, set, monitored, certified, and sanctioned mainly in and by transnational networks that bring together firms, NGOs, labour unions, and sometimes international organisations as well. So it turns out that these two dimensions of global governance are of growing significance for world-market-oriented regions.

Chapter 4 develops the concept of the "world economic triangle" that emerges in the process of interaction between local industrial locations, global value chains, and global networks dedicated to setting standards (see Diagram 1.1). Compared with the established discourses on the world economy, the "triangle view" of the world economy gives rise to four important insights:

- *Actors:* the agents acting and interacting in the global economy include not only autonomous firms, states, and the international organisations supported by them, but a variety of further private actors as well (NGOs, labour unions, associations of scientists, value chains as quasi-collective actors).
- *Forms of governance:* the global economy is moved not only by market coordination and intergovernmental negotiation systems that define global rule systems, it is also shaped by various forms of private-public network governance (in values chains and in the transnational networks involved in standard-setting). Those who view globalisation as a process of "global market-economisation" fail to do justice to these complex governance patterns in the world economy.
- *Governance architecture:* investigation of the interactions between local and global governance mechanisms and between local and global actors in the "world economic triangle" shows that the global economy cannot be depicted adequately by a stratified model but is best represented in the form of an interwoven multilevel system.
- *Rule systems:* while neoliberal and intergovernmentalist economists focus on the universal rules governing the world economy, analysis of our cases studies on the basis of the triangle grid indicates

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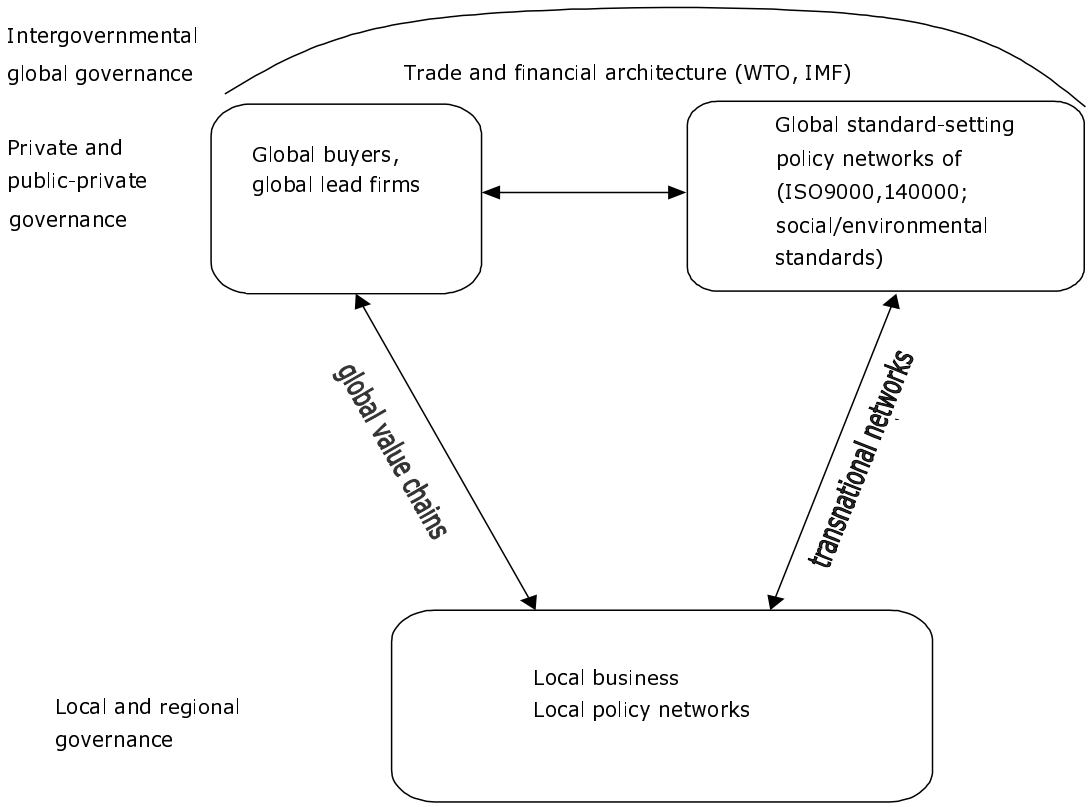
[1] The studies conducted by the programme are available on the following homepage: www.ids.ac.uk/ids/global/vw.html The project has looked into the following local clusters: various segments of the Brazilian automotive supplier cluster (see Quadros 2002; Leite 2002); a cluster in the Sialkot region of Pakistan that produces medical equipment (Nadvi and Kazmi 2002); a cluster in the German region around Tuttlingen which produces medical equipment (Halder 2002); three tile clusters in Brazil, Spain, and Italy (Meyer-Stamer, Maggi and Seibel 2001); a footwear cluster in the Italian region of Brenta (Rabellotti 2001); a footwear cluster in Brazil's Sinos Valley (Bazan and Navas-Alemán 2001). The project has also availed itself of other IDS studies that considered the interactions of local and global governance, e.g. Barrientos (2000), Dolan and Humphrey (2001), Vargas (2001), Kishimoto (2001).

that regions are also integrated in highly specific global governance rule systems. This gives rise to the question of whether it is possible, in the context of the triangle, to distinguish global governance constellations that tend to encourage, or to block, local developments.

In other words, cross-border networks, structure-building, and interaction are growing increasingly significant in the context of the triangle. For regions, global governance mechanisms are not an external set of data to whose parameters local actors simply have to adapt. Instead, the triangle is an interwoven, multilevel governance system into which local actors are integrated. Local firms take on active tasks in the process of managing the global value chain. Global corporations at the top of the value chain (global buyer chains and brand names) are active players in processes of reorganising local clusters and, at the same time, actors in global standard-setting networks. Working at the local level, global NGOs monitor compliance with environmental standards adopted at the global level; etc. Therefore, the boundaries between local and global governance are blurring and growing porous. Through the fens of the triangle one observes the emergence of new demands on firms, new options and limits for local policymakers, and new forms of transnational networks between the local cluster and the global value chain and between local policy networks and the "world of global standards".

Diagram 1.1 The world economic triangle



Chapter 4 looks into the potential options and limits of local actors and local strategies in the context of the triangle. What new demands do we see emerging in the world's regions when we look into the dynamics at work within the world economic triangle? The chapter notes that we can use the triangle concept to concretise:

- the degree of autonomy enjoyed by local actors,
- blockade mechanisms threatening local-level locational strategies and collective action,
- the reach of local industrial upgrading processes, and
- new demands facing local actors, for example, development of new dedicated global governance capacities, as well as linkage between local and global technological competences.

The chapter shows that the potential options open to, and limits faced by, regions are decisively influenced by the following governance mechanisms:

- the governance patterns specific to global value chains (network-based; quasi-hierarchic; market-based).
- the core competences specific to the global lead firms in value chains.
- the governance structures specific to global networks dedicated to standard-setting (e.g. business- versus NGO-dominated networks).
- concrete new rules and the mechanisms to be used to implement and sanction the standards that standard-setting networks adopt and that unfold their impacts in regions.

The triangle concept makes it clear that the efficiency of regions depends not only on intracluster relationships but also and above all on transnational interactions and network structures. The empirical studies conducted by the IDS-INEF project also show that these local-global structures and dynamics in which regions move, and the local and private and public actors to which they give rise, have thus far been perceived inadequately by the local actors themselves.

Chapter 5 is concerned with the question of how the triangle's global governance structures influence and alter regional governance patterns and capacities. How are the capacities to act, and the options of industrial locations, influenced by global governance structures? The research conducted over the past decade has shown that efficient industrial locations are characterised by a high level of competition, as well as by dense networks between firms, and between firms and support institutions. Network governance, aimed at strengthening systemic competitiveness and collective efficiency, is a demanding task. Dynamic network structures in regions (business clusters, policy networks) are marked by joint problem-solving orientations, coherent we-identities, trust-based relationships, reciprocity, and the capacity to act collectively. How do global governance structures affect the interplay between market and network governance in regions? Is it more likely at the local level that an increase in centrifugal forces and fragmentation will weaken network governance, for example, because important parameters of local

development are defined by global actors? Or are the dynamics in the triangle opening up new chances for local actors and networks to focus local and global development potentials, i.e. is the triangle marked mainly by win-win constellations? What tensions or synergies emerge between efforts in global values chains aimed at using prudent governance strategies to create systemic competitiveness in world-wide business networks, and the efforts of local actors to work for, and safeguard, collective efficiency at the regional level?

The present study uses a "governance hexagon" (see Diagram 1.2) to describe and to investigate the transformation of local governance structures in the context of the triangle. The analysis of the hexagon's dimensions provides information on specific governance patterns, their stability or fragility, and the capacity to act, as well as the options of (individual and collective) actors in regions. The significant impacts of global governance on local governance structures indicate, first, that it makes little sense to go on conceiving and thinking "regions" as quasi-closed units ("container concept") and that regions must be seen as subsystems of the interwoven multilevel system of the world economy (Chapter 5.1).

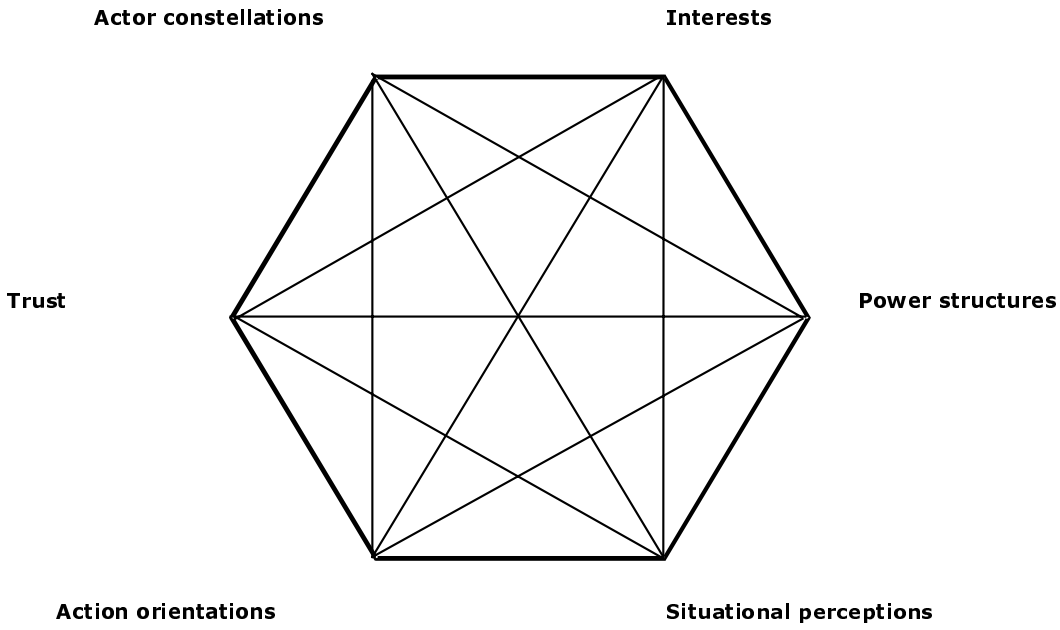
Second, we can observe that the impacts of global value chains on the governance structures of local industrial locations tend to be highly differentiated (Chapter 5.2). The reason for this must be sought in the specific structures within global value chains that are analysed in Chapter 4.

Third, we see that the impacts of value chains and global standard-stetting networks on regions are wholly different in kind (Chapter 5.3). The global governance structures of value chains tend to increase the risk of fragmentation and erosion of collective governance capacities in local industrial locations and strengthen centrifugal forces. Integration of regions in the "world of global standards" strengthens common interests and we-identities and can initiate and encourage the development of local network structures between private and public actors that may result in centripetal dynamics.

Fourth, the study points out that while network structures are often predominant at the three poles of the triangle, different logics of action are also aptly simultaneously (Chapter 5.4):

- global value chains are mainly dominated by a "rational choice logic" of egoistic, utility-maximising calculators whose cooperation is geared to the goal system of profit maximisation;
- in regions, economic actors are always tied into historically shaped social value and norm contexts that also influence the networks in which local actors are active ("March and Olson logic");
- in the global standard-setting networks that define social and ecological standards we find logics of action similar to those encountered in regions (interplay between utility maximisation, self-interest, collective value contexts), although there is one important difference: the actors involved (as a rule from different countries and sometimes even from different cultures), have no historically developed value contexts which they can fall back on.

Diagram 1.2 Governance hexagon



The study discusses how the different logics of action influence the stability, the action capacities and options, and the innovativeness of the governance structures at the three poles of the triangle and evaluates what impacts they have on the triangle as an overall system.

Chapter 6 sums up the study's central results. Thus, the chapter shows how and why it is useful to analyse the transformation of regional governance structures in the context of the world economic triangle and with the aid of the governance hexagon.

2 The three established discourses on the world economy

The study's aim is to gain an understanding of the scopes of action open to regions in the global economy. Our previous work was guided by the concepts of "systemic competitiveness" (INEF) and "collective efficiency" (IDS). These concepts view the structures and dynamics of the world economy merely as given external framework conditions and data material to which local actors simply have to adapt (building up active local competitive advantages) and which are thus excluded from analysis. In its first step, this chapter outlines the three central discourses on the world economy as a means of reconstructing the state of the discussion on central structures, actors, and governance patterns in the global economy. It remains to be seen whether these approaches will prove useful in overcoming the "blind spot" that marks the "systemic competitiveness", the "collective efficiency" and other similar approaches (the tendency to neglect world economic contexts).

2.1 The neoliberal perspective and the world economy in the eyes of globalisation critics: free markets, minimum states, and weak multilateralism

The system of choice of neoliberal authors is one involving a world-wide economic policy which sets the stage for firms, as well as states, to square off against one another in a locational competition that is not covered by any regulative framework beyond the protection and enforcement of property rights. In this perspective, the lowest possible level of political intervention in global financial, goods, and labour markets is the approach best suited to ensure high levels of economic dynamics in both the global economy and its subsystems. Global governance, international cooperation and coordination of economic policies are seen as necessary here, not to shape global markets and to correct their dynamics in social or ecological terms but rather as a means of anchoring the world economy in rule systems that guarantee property rights, ensure free market access and minimise state intervention. Neoliberalism's concept of world economic order thus provides for largely open and unregulated global markets, minimised nation-states, and a "weak"[2] multilateral regulatory framework to safeguard free trade, the free movement of capital, and property rights. The "Washington Consensus" sums up the core elements of this model (Williamson 1990; 1997).

Neoliberal authors are fully aware that competition in the world economy involves not only business enterprises but countries as well, with their specific institutional and tax systems. Neoliberals think it possible to transfer the advantages stemming from competition between different enterprises to the competition between different systems of government regulation in a growingly networked world economy (Gerken and Lambsdorff 2001; Siebert 1999). The core idea is as follows: individual industrial locations offer different packages of taxes and services. Economic actors that want high levels of government services will be prepared to choose locations with high taxes, while actors that prefer low levels of public services will opt for locations with low taxes. Given perfect and no-cost mobility, global competition will tend towards a pareto-optimal spatial distribution of economic activities in the world economy. Largely free world markets and unhindered global competition not only provide for an optimal level of private economic dynamics and growth, they also contribute to the development of efficiency-oriented states at the same time.

This model, with its appealing theoretical elegance, is nevertheless based on unrealistic assumptions and neglects (explicitly and intentionally) income-distribution effects and democratically questionable political power shifts that may result from competition between states. The aspect of mobility is of particular significance here. In the real world, mobility is neither perfect nor no-cost, and it also differs hugely for individual factors of production and income groups. The money capital is more mobile than the real capital, and the latter in turn is more mobile in the long term than labour, where high mobility is found only in the upper range of the income scale (Nowotny 2000). Subsequently, these different mobility's translate into socio-economic effects that remain unconsidered in the neoliberal perspective:

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[2] Authors from this school would doubtless prefer to speak here of a "lean" regulative multilateral framework.

- *Income-distribution effects:* tax competition between states tends to lead to a shift of the tax burden from the factor capital to the factor labour as well as from high to low incomes.
- *Reallocation of power:* firms use public goods (like infrastructure, training and innovation systems, social safety networks), while tending to pay less and less for their provision. Such firms do, however, have considerable say in the way in which these goods are provided: their key bargaining potential (exit option) gives them a power unavailable to immobile actors.
- *Democracy in the corset of global competition:* dealing with mobile economic actors (e.g. owners of capital), governments are forced to accept levels of regulation and taxation that differ from the levels that such states would choose on the basis of their specific, democratically manifest preferences. The state with the lowest taxes on mobile factors, with the least stringent environmental regulations and the lowest social standards will, other things being equal, influence the corresponding levels of all other (in particular, economically comparable) states. This effect will of course differ as a reflection of markets, mobility, and size factors.

The real world economy diverges in many areas from the neoliberal model because a variety of market barriers continue to exist, for example. Yet liberal economic theory and reasons bound up with welfare theory are cited to justify the model as realistic and so it continues to be pursued. Some important globalisation critics foresee a prevalence of a "neoliberal world economy" as likely and rate the chances as slim that it will prove possible to politically shape global market dynamics (Bello 2001; Khor 2000; Hertz 2001, Mittelman 2000). To this extent these authors' views concur with neoliberal views in their analysis of the central development trends of economic globalisation. Yet what, in the neoliberal perspective, appears to be the best of all possible worlds is rejected out of hand by globalisation critics, who point to a neoliberal neglect of the subsequent impacts of largely untrammelled competition (income-distribution effects, reallocation of power in favour of mobile actors, democracies in the corset of global competition and indications of system-imminent instabilities, i.e. on the part of the international financial markets).

Globalisation critics are also warning that the free world market poses a real danger of disempowering politics. Thomas L. Friedman, for instance, warns that untrammelled competition between states for global mobile investment will entail a growing convergence of economic policy designs (monetary stability, low taxes for companies and owners of capital, flexible labour legislation, deregulation, privatisation, lean government, i.e. that politics will soon only be in a position to act out the constraints imposed by the world market). The image in which he visualises this development is the golden straitjacket.

> As your country puts on the Golden Straitjacket . . . two things tend to happen: your economy grows and your politics shrink . . . [The] Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have

put on the Golden Straitjacket, its political choices get reduced to Pepsi or Coke – to slight nuances of tastes, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules.

(Friedman 1999: 87)

2.2 The intergovernmentalist perspective – world regulative policy as a means of embedding globalisation in a political framework

In a departure from neoliberalism and the *a priori* anti-market, anti-world-market, and anti-globalisation positions embraced by sceptics, authors like Fred Bergsten (1996), Dani Rodrik (2000; 2001), Joseph Stiglitz (1992; 2000), Vincent Cable (1999), and José Ocampo (2002) have tracked down some core elements of a global economic order that would be capable of tempering global market forces: 'The dilemma that we face as we enter the twenty-first century is that markets are striving to become global while the institutions needed to support them remain by and large national' (Rodrik 2000: 348). The core argument in the discussion on creation of a new global economic order is: because economic processes are increasingly internationally oriented and can, in the end, no longer be controlled and shaped by national means, politics must also organise effectively at the international level, and do so either via more dense multilateral cooperation and coordination among states or in inter- or supranational organisations (e.g. IMF, World Bank, or in the EU). In this view, neither globalisation and growing world economic integration nor global competition is the problem, The problem is the lack of adequate global structures of cooperation and organisation at the level of globalisation. Reimut Jochimsen (2000: 36) sums up the thrust of the discussion as follows:

> The joint objective . . . must . . . remain creation of a world-wide market economy geared to responsible social, economic, and ecological aims, one in which, as far as trade, capital, technologies, intellectual property rights, and national currencies are concerned, the actors involved can compete fairly and efficiently in free markets. This means no less than constituting, formulating, the world market.

From the discussions on world regulative economic policy we can see three patterns of argumentation that run counter to the neoliberal worldview and call for a global regulative policy:

- *Securing market efficiency*: a world regulative economic policy is required to create stability (e.g. in international financial markets), to learn from the Asia crisis for instance (Eichengreen 1999; Stiglitz 2000), and to safeguard competition in the global economy. This is a task that national anti-trust authorities are in many cases no longer up to (Nowotny 2000).
- *Preventing social and ecological "races to the bottom"*: world regulative economic policy must contribute to limiting and/or compensating for unwanted income-distribution effects and unintended trends toward social polarisation due to economic globalisation (Rodrik 1997; Fues 2000; Kaplinsky 2001).

At the same time, it would be essential to develop world-wide framework conditions geared to preventing the overexploitation of environmental resources (Young 1999; Simonis and Brühl 2002).

- *Creating legitimacy for the institution "world economy"*: every institution, even the global market, is in the end forced to legitimise itself in social and political terms. Globalisation is creating new power imbalances between world-wide mobile actors and immobile actors, intensifying polarisation trends within and between societies (Kaplinsky 2001; Branko 1999). As a result, it finds itself faced with legitimacy problems that cannot be resolved in the framework of democracies organised on a national basis (Helleiner 2001; Maggi, Messner and Landmann 2002; Messner 2002; Rodrik 1997; Ocampo 2002). Politics will therefore have to "grow into" globalised markets (Habermas 1999: 432) to ensure the primacy of politics there.

Table 2.1 The development of global governance

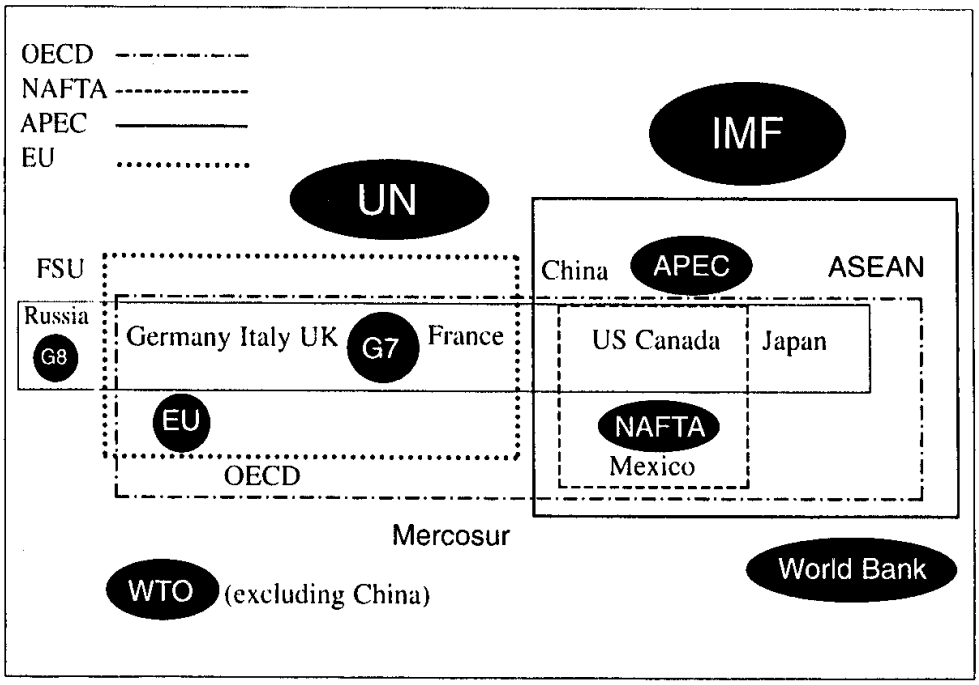
Identified externality	**Post-war**	**Now**
Macroeconomic management spill-overs/coordination	IMF (adjustable peg system)	G7 European Union/EMU (OECD) (IMF)
Rules for promoting liberal trade	GATT	WTO Regional customs unions and free-trade areas
Systemic stability for capital markets and international banking	(Exchange controls)	Self-regulation (IOSCO) BIS (IMF) (IIF)
Economic development	World Bank (UN)	World Bank IMF regional banks
International social and environmental spill-overs and agreements	UN agencies and ILO	UN agencies (e.g. UNEP and WMO) Regional agreements

Cable (1999, S. 47)

The discourses on the formulation of a future architecture for the world economic order is marked by a variety of controversies and unsettled issues that cannot be resolved here. But one issue central to our discussion is: who are to be the key actors of global regulative policy and what governance patterns are, in the view of the authors cited, going to shape the world economy of the twenty-first century? Diverge as they may, the positions outlined on the future world economic order show a large measure of concurrence on the fact that the nation-state and "its" international organisations and regimes (IMF, WTO, OECD, ILO, etc., as well as possible new organisations like a World Environmental Organisation that has been proposed) will be the key actors responsible for global governance and world regulative economic policy (see Table 2.1 and Diagram 2.1). Where nation-states reach the limits of their capacity to act, they must delegate competences to international organisations or regimes. This discourse on the global economy of the twenty-first century, therefore, centres on the model of an intergovernmentally and multilaterally constituted world economic order. Put in the terminology of O.-E. Czempiel, the challenge raised by the

intergovernmentalist perspective is to strengthen the hand of the state *vis-à-vis* the globally networked world economy (Czempiel 1993).

Diagram 2.1 World governance



2.2.1 An intergovernmental world economic order as an approach to dealing with "complex interdependencies" and focusing "external sovereignties" in the global economy

The intergovernmentalist discourse on the world economy is implicitly based on a specific notion of the basic structures and problems of the international (economic) system (two of the core terms being "complex interdependence" and erosion of "external sovereignty"). This implicit model will be outlined briefly here to illustrate, in further course the argument (Chapter 3) that the perspective of the world economic triangle points to a basic pattern of the global economy globalisation that differs from some of the basic assumptions embraced by the intergovernmentalist discourse on the world economy. Key terms include: globalisation as a process involving a superimposition of local, national, global and erosion of "internal sovereignty".

The patterns of argumentation advanced by the intergovernmentalist discourse coincide with some core elements of a discussion that has been conducted since the 1970s by international relations theorists. The point of departure of theories of international relations is the notion of the international system as a system of independent, sovereign states, a system that knows no central authority and no monopoly of force. In this context states are concerned to safeguard their "independence" in the face of external influences and threats by using military means, alliances, and the like to assert their superiority's over others. The "external sovereignty" of states, a term which refers to the relations between such states, is

therefore invariably precarious and, under the conditions defined by anarchy among states, must be defended (by states or alliances of states) against other states. Against this background of a lack of any global monopoly of force, the international system is inherently structurally unstable and conflictual.

Robert Keohane and Joseph Nye (1977) coined the term "complex interdependence" with an eye to a qualitative change in the international system. They point to growing and densifying economic, social, and military networks between states, i.e. to patterns of complex interdependence in the international system. As a rule interdependence is understood here as a "relationship costly to break" (Waltz 1970). Our formally independent states are in fact linked via a variety of different channels and are, therefore, more and more dependent on one another, and mutually vulnerable. In the context of "complex interdependence" external state sovereignty is bound to become an illusion if sovereignty is understood to mean an "independence" from external influences that can be safeguarded or effectively and sustainably defended against other states (or alliances) only by means of national responses (or alliances). Under the conditions of complex interdependence, states are integrated into structures marked by mutual dependence and divided sovereignties (Messner 2000).[3] Therefore, the phenomenon of "complex interdependence" forces states to engage in continuous processes of international cooperation and joint rule formation in the international system as a means of warding off "external shocks" from national societies. In areas in the international system in which "complex interdependancies" prevail, the nation-state's "external capacity to act" can only be safeguarded collectively, by pooling the international problem-solving resources held by individual nation-states and contained in supranational rule systems.

The intergovernmentalist debate on the world economic order of the twenty-first century can easily be reconstructed in the terminology of the theories of international relations outlined above: accelerating economic globalisation leads to complex, densifying interdependence patterns between national economies and states. Attempts on the part of nation-states to respond to the intensifying process of world economic networking (e.g. through increased world trade) with the sole aid of adapted national economic policies (e.g. national trade policies adapted to altered external framework conditions) or to decouple from external influences (e.g. through protectionism) are bound to prove short-sighted and ineffectual. In view of complex interdependencies, the capacity of states to act in the world economy, their external sovereignty, can be safeguarded only though growingly dense international cooperation and multilateral rule formation (e.g. in the form of a multilateral regime of world trade and competition).

The present paper will argue in the context of the world economic triangle that economic globalisation at the outset of the twenty-first century extends beyond the phenomenon of "complex

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[3] It is important to note that interdependencies may be so strong that they "wound" actors; though they may also be so light that they are only "sensed" by actors (Czempiel 1993: 46). There are, in addition, symmetrical interdependencies that immediately favor cooperation as well as asymmetrical patterns of interdependence that obstruct cooperation (Messner 1997: 190ff.).

interdependence" among national economies and states that can be dealt with on the basis of international cooperation and multilateral rules.

2.3 Regions in the world economy: regional governance matters

The third important discourse on the world economy deals, paradoxically, with the growing significance of regions in the global economy. This discussion largely ignores the global governance mechanisms in the world economy, or relegates them to the external environment of the analysis. Regional theorists instead underline two important trends of globalisation:

- In the global economy, the international competitiveness of firms and the economic efficiency of regions are increasingly based on regional proximity and regional competitive advantages. Globalisation does not (in contrast to the theses of its critics) devalue or level out local and regional specifics, indeed it up values them. The geography of the new world economy increasingly centres on regions.
- Because geographic proximity and specific institutional and business landscapes are growing in significance, regions have (again, in contrast to the critics of globalisation) considerable latitudes to shape processes of economic development. In this view, globalisation does not lead to a disempowerment of politics: regional governance matters.

Terms like synergy, economies of clustering, systemic competitiveness, local innovation systems indicate the thrust of these debates. We can distinguish five strands of the discussion that converge in underlining the growing importance of regions in the world economy (Schmitz 2000: 3):

New economic geography: since the mid-1980s Paul Krugman and his associates, in their articles on trade and geography, have worked out the importance of spatial factors for economic development dynamics, placing them on the agenda of mainstream economics (Krugman 1991 and 1995; Krugman and Venables 1995). Econometric studies support the thesis that innovation processes take place mainly in spatial agglomerations (Audretsch and Feldman 1996).

Management theories: in his studies, Michael Porter underlines the importance of clusters for broadly effective development processes (Porter 1990; 1998; 2001). He argues that in the global economy competitive advantages come about through a dense interplay between firms in regions. In his view, competitiveness emerges through the play of tensions between local rivalry and synergetic relationships between core enterprises and their supplier networks.

Regional sciences and economic geography: the burgeoning discussion on industrial districts that got underway at the end of the 1980s reflects the growing interest of economic geographers and regional theorists in business clusters. The discussion started out with case examples on what is known as the "Third Italy" and soon expanded to include analysis of similar forms of regional development in other European

countries (Becattini 1990; Brusco 1990; Pyke and Sengenberger 1992; Storper 1995). Saskia Sassen (1991; 2000) enriched this strand of discussion by contributing her studies on "global cities" and central nodes of the world economy. Allen Scott linked studies on regions and world cities to form his concept of "global city regions" (Scott 2001). Since the mid-1990s, the categories and patterns of interpretation derived from these approaches have increasingly found their way into development research (Nadvi and Schmitz 1999; Nadvi 1999; Dussel 1997, 1999; Humphrey and Schmitz 1996; Schmitz 1995; Rabellotti 1997; Meyer Stamer 1998; Fuchs 2001). In particular, these authors emphasise the importance of "collective efficiency" and trust-based relationships for the development dynamics of local clusters.

Innovation economics: the literature on technological development was long focused on individual firms. Since the beginning of the 1990s, studies on national and local innovation systems, emphasising "learning-by-interacting" as the basis of innovation processes, have gained more and more currency (Lundvall 1993; Cassiollato and Lastres 1999; Cooke and Morgan 1998; Freeman 1995; Meyer-Stamer 1996; Heidenreich 1997). The authors argue that firms that are embedded in efficient local innovation systems have competitive advantages compared with isolated firms. They further point out that regions that are able to build dynamic innovation systems can strengthen their position in the world economy.

Systemic competitiveness: the concept of systemic competitiveness emphasises the importance of networked relationships between firms and their institutional environment for the development of specific competitive advantages for firms and systemic competitiveness in regions. This discussion centres on governance structures (in particular the interplay between market and network governance) and innovation processes in specific locations as key determinants of international competitiveness (CEPAL 1990, 1992; Esser *et al.* 1995, 1996; Messner 1997; Meyer-Stamer 1996, 2001; Maggi 2000).

One thing that all of the approaches outlined above have in common is their emphasis on intraregional interactions and relationships between firms and their institutional environment. According to this argument, the growing demands placed by the world economy can be dealt with by focusing local potentials. This presupposes an "internal sovereignty" on the part of local actors, i.e. their capacity to use intraregional cooperation to meet the challenges of globalisation.

2.4 Résumé

The established discourses on the world economy (especially those of neoliberals and intergovernmentalists) reproduce, on the playing field of the global market, the classical controversies over the issue of "more government or less" that have occupied the fields of economics, political economy, and development studies since their infancy. In essence, the author concurs with the arguments presented by the intergovernmentalists, who point to the normative and factual significance of the regulative policies of multilateral organisations and regimes for the functioning of the world economy, a factor which is apt to grow in importance in the future. These global governance structures amount to rules for global competition that are undoubtedly instrumental in shaping a type of global macroeconomic framework that

must be filled by active local actors. The author also shares some of the key arguments of the discourse on "regions in the world economy", in which he has been a highly interested participant. The new world economy is giving rise to challenges to which responses must be found in specific business locations if regional processes of decline or, indeed, marginalisation are to be averted.[4]

As we will see in Chapter 3, in five different regards these views are not sufficient to properly explain the world economic action context in which regions are forced to develop their strategies aimed at strengthening local competitive advantages:

1. The narrowed-down view of global market allocation and multilateral regulative structures (in the discourses of neoliberals and intergovernmentalists) overlooks the fact that firms and states are not the only actors in the world economy.
2. This being the case, there are in the world economy, apart from market governance and multilateral bargaining systems, other important global governance structures that are of central importance to regions.
3. Neoliberal and intergovernmentalist authors concentrate on universal rule systems that are obviously relevant for regions (global competition, global efficiency, multilateral rules and standards). Above and beyond these, however, there are, as the following chapter will show, more specific rule systems that must be processed by specific local actors.
4. Regional theorists overlook the significance and the complexity of global governance structures for the options available to local industrial locations. They tend to overrate local action potentials and the "internal sovereignty" of local actors and to ignore the specific demands of concrete world market contexts in which regions are integrated
5. All of the economic discourses outlined here subscribe to a "stratified model". Local, national, and global levels of action are perceived as largely independent of one another. According to this view, regions are concerned with adapting as quickly and prudently as possible to global rules and demands. Global governance patterns in the world economy are perceived here as exogenous factors, and regions are conceived in the sense of quasi-closed containers. The following chapter looks at the interactions between local and global governance, which are at cross-purposes to stratified models. The chapter demonstrates that global and local governance structures are closely interwoven and that transnational networks and governance patterns are becoming increasingly important in the world economy. The chapter also shows that there are global governance structures beyond market and

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[4] The literature seldom systematically links these intergovernmentalist world economic discourses with approaches focusing on regions in the world economy. But they are complementary in nature. As a rule, the "intergovernmentalists" are not concerned with the question of regional scopes of action and local governance in the world economy, but where they do turn their attention to the issue, they tend to sympathize with concepts that are used to argue that competitiveness comes about on the basis of the interplay between markets, state, and private governance "on the ground" (Rodrik 1997; 2001). The authors concerned with the question of regions in the world economy often have a reciprocal approach: wherever they address structures of the world economy (e.g. Esser *et al.* 1996; Messner 1997), which are for them in essence "black boxes," they tend to refer to the publications of intergovernmentalist theorists of the world economic order.

intergovernmental governance that significantly influence both the global economy and local scopes of action. For this reason it makes sense to analyse the interactions between local and global governance that are left out of consideration in stratified models.

Thus, the architecture of the world economy at the outset of the twenty-first century can no longer be described adequately in the framework of a stratified model. The global economy turns out to be an interwoven multilevel system, a network based world economy is emerging. This realisation entails a variety of important insights concerning the role, scopes and limits of action of regions in the world economy.

3 The world economic triangle. Patterns of global governance beyond market and intergovernmental regulative policy

This chapter will attempt to illuminate the "black box" of the global economy from the perspective of local industrial locations with a view to better understanding their dynamics and basic structure (beyond that of the established discourses on the world economy). The chapter develops the concept of the "world economic triangle".

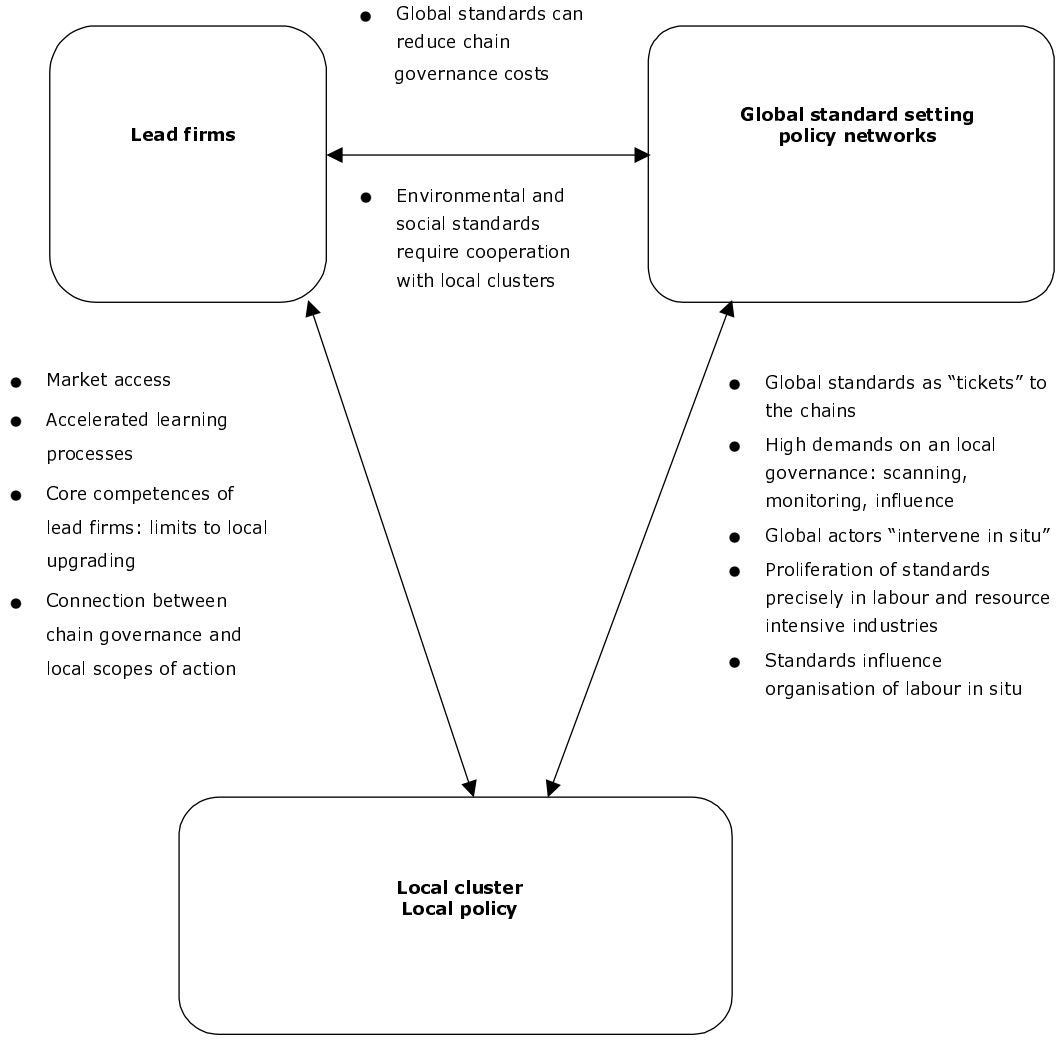
When we look from local industrial locations and regions "into" the world economy, our gaze is directed to governance patterns in the world economy that are adequately considered neither by the neoliberal strand of theory nor by the intergovernmental strand of the discussion. The empirical studies conducted in the framework of the IDS-INEF project make it plain that aside from interaction between firms in global anonymous markets (arm's length relations, i.e. market coordination) and rules of multilateral organisations (e.g. the WTO), whose standards must be met by world-market-oriented corporations (i.e. intergovernmental governance structures in the world economy), there also exist other patterns of global governance beyond market and intergovernmentalism that effectively influence the choices open to local clusters. Local and regional industrial locations are:

- on the one hand increasingly tied into global value chains that are characterised by forms of "private global governance" beyond pure market coordination; and
- on the other hand, increasingly faced with global (technical, social, ecological, etc.) standards which are as a rule developed and monitored, and in some cases even sanctioned, by global policy networks.

If we take these two governance dimensions in the global economy into consideration, we come up with a far more complex picture than we find in the established discourses on the world economy. The interactions between local industrial locations, global value chains, and global policy networks devoted to

developing transnational standards give rise to a system context, the "world economic triangle", which will be worked in the following section.[5]

Diagram 3.1 World economic triangle



3.1 Private governance in global value chains

A considerable share of world trade is accounted for by cross-border inter-company trade, i.e. exchange between units of multinational corporations (according to UNCTAD estimates – over 30 per cent). The findings of "global value chain" research (Gereffi 1999; Kaplinsky 2000; Humphrey and Schmitz 2000;

[5] The triangle perspective at first leaves intergovernmental governance structures (like the WTO) out of consideration, but without underestimating their significance. The intergovernmental regulative patterns in the world economy constitute a kind of "global macropolicy" which the triangle approach views as a set of external data. What is investigated in the triangle are the *specific* global governance contexts and world market structures that are tied into the *specific locations*.

Humphrey and Schmitz 2002) have thus far not found much attention in the discussion on new structures of the world economy. These findings indicate that an additional and substantial share of world trade is organised within relatively stable networks of corporations legally independent of one another. Exchange in these networks is not effected in anonymous markets; it is instead coordinated in various ways. There are, accordingly, other forms of private governance beyond global market allocation and intergovernmental governance of the world economy.

Michael Porter (1990) uses the term "value chain" to refer to the different sequences of activities (logistics, packaging, marketing, after-sales services) in single firms. Gereffi (1994; 1999) further pointed out that specific sequences of value chains may be located in different firms and different countries (thus, global value chains), and that these chains are as a rule organised and coordinated by "lead firms". Various empirical studies show that companies from developing countries (in some cases from OECD countries as well) find access to the markets of (other) industrialised countries in a variety of sectors only if these countries are integrated into global production and trade networks. Studies on the exports of the East Asian garment industries to the US (Gereffi 1999), the trade in horticultural products between Africa and the UK (Dolan and Humphrey 2000), footwear exports from China, Brazil, and Italy to the US and Europe (Schmitz and Knorringa 2000; Bazán and Navas-Alemán 2001; Rabellotti 2001), as well as on the trade relations between Pakistani manufacturers of medical equipment and importers in the US and Germany (Nadvi and Halder 2002) suggest two conclusions. *First*, trade in these products is organised by "global buyers" in the industrial countries, who often work for wholesalers of brand-name companies (Nike, The Gap, Gucci, etc,). In other words, the local companies and clusters produce not for anonymous markets but for a limited number of "lead firms", and they are as a rule integrated within these lead firms' trade and production networks for longer periods of time. *Second*, these studies clearly suggest that the form of production in local clusters, their techno-organisational learning processes, and their options for local upgrading strategies depend on the governance patterns prevalent in global value chains. Accordingly, for local clusters, world-market and export orientation implies not only competition in global markets and integration into intergovernmental regulatory structures of the world economy, it at the same time means integration into global private governance structures as well.

One interesting thing about the global value chain discussion is that it is explicitly not concerned with the issue of what production and service processes are produced at what production locations in the context of global value chains (global sourcing mapping). Empirical studies have shown that it is often not possible to describe the interactions between companies in global production and trade networks as pure market transactions and that, instead, what we are observing here are different governance structures: '. . . chain governance structures are the relationships and institutional mechanisms through which non-market coordination of the chain is achieved' (Humphrey and Schmitz 2002: 7). Therefore, the central concern is the attempt to reconstruct the governance structures in global value chains.

John Humphrey and Hubert Schmitz (2002: 24) work out *what* it is that is governed in global value chains by different forms of coordination and control. 'What precisely is governed by chain governance?' They note that at different points of value chains three types of parameters are defined by the lead firms:

- What is to be produced. This involves the design of products, both in broad conception and detailed specifications.
- How is it to be produced? This involves the definition of production processes, which can include elements such as the technology to be used, quality systems, labour standards and environmental standards.
- Physical product flow. How much is to be produced, when, and how the flow of product along the chain is to be handled.

(Humphrey and Schmitz 2002)

The way in which these decisions are made and the activities of different units within and between firms in a chain, as well as the way they are coordinated can be described along a continuum extending from market coordination (arm's-length market relationships) to vertical integration at the other end (hierarchic governance). We can observe between these two poles network structures in which companies cooperate by pooling complementary competences as well as "quasi-hierarchies" in which the lead firms (as a rule large global buyers) play a major role and have and use power resources that lead to highly asymmetrical governance structures. Humphrey and Schmitz (2002: 7) characterise the four patterns of interaction and governance as follows:

- Arm's length market relations. Buyer and supplier do not develop close relationships. This implies that the supplier has the capacity to produce the product the buyer wants, and also that the buyer's requirements (including quality, reliability, etc.) could be met by a range of firms. The product should be standard or easily customised and any process requirements can be met by non-transaction specific standards of the sort verified by independent certification.
- Networks. Firms cooperate in a more information-intensive relationship, frequently dividing essential value chain competences between them. The relationship is characterised by reciprocal dependence.[6] In this case, the buyer may specify certain product performance standards or process standards to be attained, but should be confident that supplier can meet them.
- Quasi hierarchy. One firm exercises a high degree of control over other firms in the chain, frequently specifying the characteristics of the product be produced, and sometimes specifying the processes to be followed and the control mechanisms to be enforced. This level of control can arise not only from the lead firm's role in defining the product, but also from the buyer's perceived risk of losses from the suppliers' performance failures. In other words, there are some

[6] For a discussion of the role of complementary competences in the creation of network relationships between firms, see Palpacuer (2000).

doubts about the competence of the supply chain. The lead firm in the chain may exercise control not only over its direct suppliers but also further along the chain.[7]

- Hierarchy. The lead firm takes direct ownership of some operations in the chain.

(Humphrey and Schmitz 2002)

The existence of network governance and "quasi-hierarchic" governance in global value chains is empirically well documented. But why is it that firms are willing to invest in building network structures? "Governance" costs time and money. In a world of perfect information and perfect competition market transactions would be the most cost-effective form of interaction between firms. Network theory (Powell 1990) as well as some approaches that combine network theory with transaction-cost theory (Jones *et al.* 1997) show that network structures and "quasi-hierarchic" governance result from the interplay between firms when market coordination (arm's-length market relationships) and vertical integration (hierarchic governance) lead to suboptimal solutions.

Jones *et al.* argue that markets are inefficient when it comes to inter-company exchange relations that are marked by 'frequent, complex and customised exchanges, time pressure and asset specificity" (Jones *et al.* 1997: 916). Like Williamson (1979: 249ff.), Jones *et al.* show that under these conditions it makes sense for firms to cooperate more closely than they would under purely market conditions as a means of managing mutual dependencies and risks (time pressure, frequent and customised exchange) and complementarities in production processes (asset specificity). In the situations outlined above, marked as they are by inefficient and/or risky inter-firm market coordination, firms are free to choose between vertical integration (in-house solutions) or network structures (balanced networks; quasi-hierarchic structures). Networks and quasi-hierarchic structures are options when core firms are faced with demand uncertainties and/or major demand fluctuations. In these cases cooperation with independent suppliers guarantees a greater measure of flexibility than in-house solutions, provided that there are efficient suppliers available. Furthermore, independent suppliers can offer core firms access to "specialised assets" and complementary competences that it would be virtually impracticable or highly expensive to develop by way of in-house solutions (Jones *et al.* 1997: 916ff.).

Humphrey and Schmitz (2002: 25ff.) point to four observable trends in the world economy that are contributing to a greater significance of global value chains in which patterns of network governance or quasi-hierarchic governance are predominant:

- In labour-intensive sectors like the textile and garment industries (Bair and Gereffi 1998; Keesing and Lall 1992), global buyers in industrialised countries have, since the mid-1980s, been purchasing more and more of their imports in low-income countries. Their aim is to reduce wage costs, which are a significant factor in these sectors. If suppliers from these weak developing economies are to be

[7] This type of control is usually exercised by buyers over suppliers. However, there are cases where control moves in the other direction, as with franchising operations or car dealerships.

swiftly enabled to implement world market standards, global buyers will as a rule have to stipulate and monitor product design, the adequacy of production processes, and delivery terms (e.g. quality standards, on-time delivery). Arm's length market relationships are evidently suboptimal in this segment of the world market. Instead, global buyers will instead have to invest in governance structures as a means of ensuring continuous exchange relations and minimising risks (e.g. poor or unreliable product quality, delivery problems) and associated transaction costs.

- Since the 1990s, concentration processes in the retail sector have turned large-scale merchandising companies into important global buyers positioned at the top of global value chains. Global merchandisers are increasingly operating not only as importers; they also play a major role in supplier product development, quality, and design and provide assistance in organising production processes and creating brand names. Here, too, market-based relations tend more to be the exception and long-term governance structure the rule. This trend toward concentration in retailing, a driving force behind the development of global value chains, is well documented for merchandising companies in the textile sector (Gereffi 2000), the footwear industry (Schmitz and Knorringa 2000), large-scale supermarket chains (Doel 1996), and merchandising firms in the fresh-food sector (Dolan and Humphrey 2000).
- The growing significance of social, environmental, and safety standards is leading to the emergence of what is known as "credence goods" (Reardon *et al.* 2001), whose features are often not visible in the final product. The important issue here is *how* products are manufactured. Credence goods thus call for verifiable monitoring of the production processes in supplier firms as a means of winning and securing consumer confidence. Credence goods force global buyers to seek close cooperation with, or to more stringently monitor, their suppliers in order to ensure transparency across the overall product cycle, i.e. investments in governance. It is above all in the food industry that credence goods are on the increase (Dolan and Humphrey 2000), not least in view of the food scandals that have plagued Europe in recent years, although they are also growing in importance in other environmentally sensitive and labour-intensive industries.
- The growing complexity of functionally specialised and transnational networked production processes (frequent and customised exchange, asset specificity), the need to reduce inventory levels (i.e. constant time pressure between buyers and suppliers), and the increasing importance of just-in-time and time-to-market concepts call for a measure of coordination between firms that would be virtually impossible to achieve via purely market-based transactions. Kishimoto (2001) illustrates these considerations with reference to the international computer industry. Meyer-Stamer *et al.* (2001) reach similar conclusions while looking at the tile industry.

Now, why is it that these considerations are relevant to the discussion on the world economy of the twenty-first century? It is obvious that knowledge about private governance structures outlined for global value chains is of great importance for the discussion on local clusters and determinants of systemic

competitiveness, as well as for the debate on the new basic structures of the world economy under the conditions of accelerating globalisation. These considerations are relevant because:

First, we observe that in many sectors the challenge facing world-market-oriented companies and local clusters is not to compete in "free, anonymous markets" but to be able to deal with different private governance patterns and rule systems in global value chains and to be able, in this context, to exploit or enlarge on one's own concrete options. In other words, we find highly different requirements and options for local, location-bound actors (companies, policymakers, intermediate organisations), characterised by specific governance structures, in different value chains (Schmitz 2000; Humphrey and Schmitz 2002). Access to global markets, access to global knowledge (technology, production know-how, design, marketing, etc.) and the distribution of profits and rents between companies are crucially influenced by the specific governance structures in global value chains. We will be returning to this complex issue in more detail in the further course of the present study (see Chapter 4).

Second, streams of world trade, patterns of global production and investment, and the integration of specific local industrial locations into the world economy, or their exclusion from it, are often significantly influenced by private global governance structures and decisions are defined by lead firms of global value chains. These effective and powerful forms of global governance find consideration neither in the neoliberal notions of global market allocation (that can conceptualise private governance only as market coordination) nor in the intergovernmental view of the world economy (in which the perspective of governance remains restricted to governmental actors).

3.2 Global policy networks and the "world of standards"

In the global economy we cannot help noting a confusing proliferation of global standards. Their genesis and meaning for the new basic structures of the world economy and their impacts on the action options of world-market-oriented corporations, local clusters, or developing countries making their way into the world economy have as yet been accorded little systematic attention in the literature.[8] The studies published are mainly concerned with specific standards (environmental standards, ISO 9000, etc.), and as a rule, therefore, they offer no overall picture of the role played by global standards in the process of

[8] In all developing-country business locations covered by the IDS-INEF project (with the exception of Brazilian automotive suppliers), social and environmental standards play an increasingly important role. In nearly all of the locations looked into, ISO standards have assumed growing importance. The material of the IDS-INEF projects indicates that global standards are gaining importance in the world economy, and in particular for export-oriented developing countries. Thus far, however, no studies have appeared that provide exact data on the broad significance of global standards in world trade or segments of world trade. There is also a lack of studies that look into how different types of global standards affect local firms, regions, and local governance structures. The studies that the IDS-INEF projects have prepared in this area provide some first points of departure for this area (Quadros 2002; Nadvi and Kazmi 2002; Navas-Alemán and Bazan 2002). There is, in other words, need for research in both fields. The following considerations on the significance and impact of global standards in the world economy are accordingly in need of additional research efforts to deepen and verify them.

structure-building in the world economy (Anderson 1996; Barrientos 2000; FAO 1999; Ferguson 1998; Haueisen 1999; ISO 1998; Mah 1997; van Liemt 1999; Clapp 1998; Grote *et al.* 1999).

The study by Khalid Nadvi and Frank Wältring (2002) brings order into the proliferating tangle of global standards, setting out a comprehensible panorama for the interested reader. The study, *first*, illustrates that different types of global standards are gaining increasing importance for companies and local industrial locations that have set their sights on developing world market competence via: access to specific world market segments (e.g. global forestry) and national or macroregional trade spaces (e.g. NAFTA; EU), integration into global value chains, and qualification as local supplier for globally operating corporations (ISO 9000 *et al.*) that are increasingly conditioned on compliance with a growing number of technical, social, and environmental standards. *Second*, the study shows that in the "world of global standards", patterns of world economic governance are emerging which are given systematic attention neither in neoliberal circles nor in the intergovernmental perspective.

Proceeding from the Nadvi and Wältring study (2002), the following section seeks to categorise and classify the great number of existing standards with an eye to outlining some trends in the development of global standards. Apart from the basic distinction between product standards, which apply for end producers (e.g. product-specific health standards such as permissible residues of particular substances in foods), and process standards, which apply not for the end product but for the overall production process (e.g. the ISO 14000 environmental management system; labour standards; SA 8000), the following categories are of some relevance in describing the great diversity of existing standards (Nadvi and Wältring 2002, 12):

- standard type (e.g. codes of conduct, labels, global social standards/S8000);
- geographic reach (e.g. national, regional markets, global markets);
- function (e.g. technical standards, social, environmental, health standards, quality management standards, ethical standards);
- actors involved with standard definition and/ or certification (e.g. international corporations and business organisations; global NGOs; international labour unions);
- scope of application (e.g. company-specific: "Mercedes Benz Code of Conduct"; sector-specific: "labels for sustainable forestry"; universal-generic: ISO 9000 or 14000, SA 8000: standards that apply for overall sectors, regardless of country);
- regulatory quality (e.g. legally binding, voluntary "voluntary" yet de facto compulsory in global competition).

One important observation here is that the dynamics involved in the emergence of standards have been initiated, in essence, by private actors active throughout the world (in particular NGOs and corporations). The ILO core labour standards, for instance, have been with us for many decades, although their impacts have been limited. On the other hand, in recent years a number of industries as well as some production and trade networks located close to multinational corporations have developed business-specific and

gradually industry-specific social, labour, child-protection, and environmental standards that have in some cases been monitored and certified in an extremely effective fashion. Social and environmental standards come about in global policy networks in conflict and in cooperation with "concerned" companies when NGOs, labour unions, and consumers are able to focus their bargaining power and create the publicity needed to demand and get socially and environmentally sound production (Fuchs 2000; Blowfield 1999; Murray 1997; Hilowitz 1997; Lee 1997).

Table 3.1 Typologies of global standards

Field of application	Form	Coverage	Key drivers	Certification process	Regulatory implication
• Quality assurance • Environmen-tal • Health • Labour • Social • Ethical	• Codes of conduct • Labels • Standard	• Firm-/ value-chain specific • Sector-specific • Generic	• International business • International NGOs • International labour unions • International organisations	• First-party • Second-party • Third- party • Private-sector auditors • NGOs • Government	• Legally mandatory • Market competition requirement • Voluntary

Nadvi and Wältring (2002: 11).

Apart from company- and sector-specific standards, recent developments have also seen the emergence of universal social standards (like SA 8000, the Ethical Trade Initiative/ETI), the reach of which is world-wide and cross-sectoral. The ETI, which sets social labour standards, is an indication of the potential and the reach of standardisation in transnational networks. Following negotiations between British retail corporations and UK and African NGOS, labour unions, and the British government, the seven largest UK supermarket chains apply the ETI standards in their retail and production networks with African partners. These practices are monitored by independent institutions. In future ETI standards are to be verifiably implemented in the African companies involved, which are owned directly by UK supermarket chains, as well as in supplier companies that produce fresh foods (Barrientos *et al.* 2001; Nadvi and Wältring 2002: 32). In the export segments so crucial to African economies that have interwoven local supply chains, it has, despite many difficulties, proven possible to set binding social and labour standards that are verified by independent institutions.

Aside from these global standards that essentially come about due to pressure exerted by NGOs (sometime backed by governments, e.g. in connection with development cooperation), there are other global standards that have been created or actively promoted by (individual, several, or many) corporations operating in their own interests. Many motives can be distinguished here:

- In sensitive markets, for example, the food industry, international corporations are interested in binding standards (such as hygiene standards) that enable them to secure consumer confidence (motives include credibility and promotion of legitimacy);
- In global competition company-specific social and environmental standards are instruments used to distinguish between competing firms (examples of company codes of conduct include the German OTTO Versand and Karstadt, Levi-Strauss, Sainsburys, all of which are certified by independent institutions);
- In global value chains, management systems like ISO 9000 or the ISO 14000 environmental management system, in a sense "quality labels", can contribute to reducing the control costs lead firms have *vis-à-vis* their suppliers and cut the search costs needed to find new suppliers;[9]
- Corporations that are active world-wide and have been pressured by NGOs or other actors into accepting social or ecological standards are interested in seeing these standards (and the costs they entail) established globally and sector-wide as a means of compensating for competitive disadvantages they might face compared with their direct competitors. This process, which is initially set in motion politically and selectively (NGO pressure on individual multinational corporations), also gives rise to an inherent dynamic working toward self-generalising standards that result from competition between business enterprises and their interest in rules that are binding for all, i.e. that do not distort competition.

There are many indications that the essential motor behind the development of global environmental and social standards in the world economy are private policy networks that bring together above all NGOs, labour unions, and firms to reach agreements on standards on the model of collective bargaining. We can, however, also observe that governments are becoming increasingly active in, or at least initiate or support, global policy networks that develop or monitor global standards (e.g. the UK government in the case of the Ethical Trade Initiative; initiatives of German development policy; see Dolan and Humphrey 2000; Reichert 2000). Thus, below and beyond the threshold of intergovernmental negotiation systems (such as WTO or ILO), it is also global policy networks that contribute to the setting of standards in the world economy. Tables (3.2 and 3.3) distinguish between different types of standards and governance structures with a view to bringing some order into the multifarious picture of standardisation in the world economy on the basis of global standards as well as casting some light on current development trends in the field.

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[9] In his study on Brazilian automotive suppliers, Quadros (2002) shows that ISO standards are seen as a necessary condition to qualify as a partner of the global players. But in this cluster the ISO standards have not contributed to lowering the "total transaction costs" in the value chain. Since there is some doubt as to the reliability and credibility of the Brazilian and the international certifiers, global automakers are insisting on compliance with additional standards defined and monitored by the automakers themselves. The result for the Brazilian firms is additional costs for ISO certification, but no corresponding benefits.

Table 3.2 Overview of key standards

Field of application	Form	Coverage	Key drivers	Auditing process	Regulatory implication
Quality assurance and food safety standards					
ISO9000	Standard (and label)	Generic	International business	3rd party private auditors	Voluntary. Market requirement and legally mandatory in some markets
QS9000/ AS9000 EUREP-GAP	Standard	Sector specific	International Business	3rd party private auditors	Voluntary and sector requirement
HACCP	Standard	Sector specific	International Organisation & government	3rd party public and public-private bodies	Increasingly legally mandatory
Firm QA codes	Codes	Firm-specific	International Business	1st and 3rd party	Voluntary
Social and environmental standards					
SA 8000, ETI, FLA	Standard and code	Generic	State, business and NGOs	3rd party private auditors and NGOs	Voluntary
ISO 14000	Standard (and label)	Generic	Business	3rd party private auditors	Voluntary
FairTrade, FSC, Rugmark	Standard codes and labels	Sector-specific	NGOs, unions, and business	3rd party NGOs	Voluntary
Eco-Tex, AVE	Codes and labels	Sector	Business associations	1st and 2nd party business associations	Voluntary
Company codes	Codes	Firm-specific	Business	1st and 3rd party firm and NGOs	Mandatory for all suppliers

Nadvi and Wältring (2002: 34).

Table 3.3 Different generations of global social and environmental standards

Generation	Examples/ contents	Actors involved	Key drivers	Influence in international trade	Certification
1st generation Company codes of conduct	*e.g. Nike, Reebok, Karstadt, etc.:* Self-commitments of TNCs at the firm and supplier level, internal formulation and implementation	TNCs and their suppliers	TNCs as lead firms of supply chains	Existence of a large number of company codes, focused on some brand name companies in consumer sectors and in buyer-driven chains	1st party-self monitoring; setting process easy, legitimacy weak

Generation	Examples/ contents	Actors involved	Key drivers	Influence in international trade	Certification
2nd generation Business-defined sector codes and labels	*ICC, Eco-tex, AVE:* Sector-specific codes and labels formulated and implemented by business associations	Business associations, chambers, suppliers	Business associations	Sporadic, but with more comprehensive influence, in sector approach	2nd party monitoring through associated sector association: setting quiet easy, still weak legitimacy
3rd generation Business-defined international standards	*ISO 14000:* Environmental management standards (using the model of ISO 9000)	ISO, national standardisation bodies, business mainly from industrialised countries	Business	Not necessary, but more and more influence, especially in resource-intensive sectors	3rd party monitoring through market-based certification bodies, setting more difficult. Legitimacy high
4th generation Business & NGO defined sector-specific codes and labels	*Transfair, FSC, Rugmark, etc.:* NGO-fostered sector-specific codes and labels, formulated and implemented mainly through NGO and business partnership with independent monitoring procedures and civil society participation	NGOs, religious associations, solidarity groups, minority groups, unions, large retailers,	NGOs	Gain increasing importance according to new strategies of NGOs and retailers	3rd party monitoring through certification bodies or NGOs (setting difficult, keeping legitimacy requires constant negotiation
5th generation Tripartite defined generic social standards	*SA 8000, FLA, ETI:* Tripartite social minimum standards to harmonise the diverse codes and to increase legitimacy, transparency and traceability (existence of divergent approaches)	social NGOs, unions, TNCs (buyers and producers), certification bodies, governments	Public-Sector NGOs	Increasing influence despite disagreements between special actors involved in the formulation of the standards	3rd party monitoring through certification bodies

Nadvi and Wältring (2002: 23).

The dynamics of standard formation can be well illustrated with reference to African-British trade relations and production networks in the horticulture industry (Dolan and Humphrey 2001: 10):

> Within the last few years, several industry-wide organisations and trade associations in fresh produce have established sectoral codes of practices to reduce their vulnerability to consumer and NGO pressure. Some sectoral codes have their origin in the North, and are being adopted by African suppliers either voluntarily or as a requirement to supply certain buyers. The most significant standard for suppliers of horticulture produce is the EUREPGAP protocol, produced by a network of European retailers to ensure best practice in the production and sourcing of fresh produce. This protocol defines the minimum industry wide standards of technical, environmental and social aspects of production, and has been widely adopted by UK retailers and their suppliers. More recently, 38 supermarket chains world-wide have signed up to a global benchmark standard on food safety, as part of a new Global Food Safety Initiative. Similarly, a variety of sectoral codes have been established through consortia of trade associations and producers in Africa. In Kenya, Zambia, Uganda, and Zimbabwe, associations and exporters, conscious of the need to assure northern buyers of ethical production, moved early to introduce their own benchmark standards as a means of promoting quality assurance in the horticulture sector . . . More recently, UK retailers have engaged with trade unions, NGOs, and enterprise associations to develop multi-stakeholder social codes and verification systems. Again, these have been increasingly adopted as UK multiples realise that standards developed in concert with public stakeholders enhanced their credibility in global markets.

This is not the place for a discussion of the advantages and disadvantages of the highly different types of global standards and the viability of specific private and/or private-public governance structures.[10] But it is important to note here that the global policy networks in which standards are set can be characterised with reference to three core notions:

- *first*, there are transnational, multi-actor constellations that bring together private and, increasingly, public actors, at times from wholly different geographic and politically constituted areas (e.g. African companies, British retail chains, European and African NGOs);

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[10] Some important lines of the discussion over the effectiveness and the impacts of global standards: (a) In what way are private global social and environmental standards, which must be implemented by local firms, legitimated? (b) Do the standards contribute to strengthening the social and environmental dimensions of the world economy, or are they primarily instruments of a new protectionism? (Mabott 2000; Altvater and Mahnkopf 2002); (c) Do quality-management standards (like ISO) actually improve the production and management capacities of local suppliers, and to what extent does their effectiveness depend on the reliability of national certification companies (Quadros 2002; UNIDO 1999)? Nadvi and Wältring (2002), Nadvi (1999), and Quadros (2002) question this. See the relevant literature in Nadvi and Wältring (2002).

- *second*, we can note a pluralism of governance (as a rule cooperative or conflictual network governance in the standard-setting phase; hierarchic governance, network governance, or market solutions in the certification phase);
- *third*, global standard-setting takes place in multilevel governance systems (collaboration between local actors, governments, global private actors, international organisations).

Why is it that all these global standards are emerging "from the bottom up", in self-organising networks, even though there is no central institution in the world economy that is forging on with or monitoring the setting of standards (this would be the logic of "intergovernmentalism")? Three central lines of arguments can be advanced here:

- Neoinstitutionalists (North 1990a and b; Williamson 1985) argue that firms are often forced to operate with limited information and information-processing capacities. In this perspective, standards, rules, and routines are essential to create *transparency*, in this way lowering *transaction costs*.
- In addition, generally accepted standards and rules have the function of creating and safeguarding stable *expectations* in complex interaction contexts. Stability of expectations is the foundation firms need for their long-term activities (e.g. for investment decisions). When pressure is brought to bear by consumers or NGOs, it is therefore more advisable to reach agreements on global standards that are binding on competitors as well than it is to accept a situation marked by uncertainty, a lack of rules, or constantly changing standards.
- March and Olson (1984; 1989) also pointed out that standards (beyond purely technical rules) always have an *orientational and sense-giving dimension*. Standards are not merely marginal, action-channelling conditions for utility-maximising actors. They also define a "*logic of appropriateness*", a code of appropriate conducts (e.g. social and environmental standards). Seen in these terms, the idea of neoliberalism, that the market order can be reduced to defining property rights and safeguarding competition, is simply naive. Just as in the age of national capitalism it was national labour unions and other actors that brought about the normative framework in which the market is embedded, globally oriented actors are now acting to come up with a normative framework to tame the global market. If they are to be functional and viable, institutions are in need of *social legitimisation* and must therefore be tied back into normative systems of standards and rules. This was the case for the national economies of the past, and it is now the case for the world economy (Rodrik 2000: 89).

It becomes evident against the background of this line of argument that the successive development and generalisation of global standards results not only from abstract idealism (e.g. on the part of global NGOs) but from the concrete interests of multinational corporations in reducing their transaction costs, in increasing the stability of their expectations, and in enhancing their social legitimacy. While global standards certainly do not emerge automatically in the global economy, they certainly are part of the inherent logic of global markets.

There are good theoretical reasons for developing standards in the world economy; they may be termed "system-functional". The world economy is in possession of a favourable incentive system working toward the "spontaneous" development of global standards in network-based governance structures that are borne by the actors concerned. This is because: (a) there are at present no central institutions that could assume the task of setting hierarchic standards; (b) large-sized intergovernmental bargaining systems (like the WTO or the ILO) operate slowly for structural reasons and are geared to coming up with minimal consensus's; and, (c) governments in intergovernmental negotiation systems are *a priori* overburdened by sectoral, highly specific standardisation problems (problems of information and complexity; this is true above all for environmental problems).

Why is it that the emergence of global policy networks in which a variety of different actors develop a universe of standards is relevant for our discussion on the global economy of the twenty-first century?

First, the variegated "world of global standards" is of central importance for world-market-oriented clusters and local industrial locations. Building competitiveness no longer only means keeping the variables "price", "on-time-ness", and "product quality" under control, it also increasingly means having to meet (or even influence) diverse standards that intervene profoundly in the production processes and social conditions encountered in local industrial locations. Chapters 3 and 4 will go into this context in more detail.

Second, together with the policy networks in which global standards are emerging, the world economy is experiencing the development of effective and powerful governance patterns that are not sufficiently perceived by the established economic discourses. There is much indication that the global policy networks outlined here are rapidly giving rise to generalised environmental and social standards in the global economy, as are the attempts being made to further develop the ecological and social rules established by the WTO.

Third, The governance structures of global value chains are closely interlinked with those of the "world of global standards". On the one hand, we can observe that the existence of global standards forces lead firms in global value chains to ensure compliance with these standards among their suppliers, some of whom are active world-wide, as well as to monitor suppliers' activities and offer suppliers their support in meeting standards. In other words, global standards call for "chain governance". On the other hand, it is also true that international chain control structures may become superfluous if relevant standards are increasingly monitored and certified by external actors (NGO monitoring systems, private certification companies).

3.3 The triangle perspective in the context of the established discourses on the world economy

1. A glance at the world economy from the angle of local industrial locations and clusters clarifies the importance of two dimensions of global governance in the world economy (global value chains and global standard-setting policy networks) that are as a rule neglected in the established economic discourses. When we observe these two neglected patterns of global governance, we are forced to perceive a complex twenty-first century world economy which can be understood adequately neither with the aid of the categories provided by market theories nor on the basis of the concepts of world order advocated by intergovernmentalism. The triangle concept thus generates additional knowledge.

2. Against this background globalisation can not be described as a unilinear process of universal "market-economisation" (in contrast to the neoliberal view, but also to views critical of globalisation). What we see instead is that, in parallel to processes of deregulation and liberalisation, new, non-market coordination patterns are emerging in the global economy. Neoliberal theorists should note that these new forms of governance in the world economy beyond the market are being advanced by private actors. Global production and trade structures are increasingly organised in global value chains in which market coordination is supplemented by private network governance or quasi-hierarchic governance. Global technical, but also social and ecological, standards, come about in multi-actor constellations which are marked by cooperation and collaboration among firms, NGOs, labour unions, scientists, and (as a rule in subsidiary roles) governments and international organisations. World-market-oriented companies and locations must be familiar with these governance patterns and their modes of operation if they are to be capable of actively building viable competitive advantages.

3. The macroeconomic discussion on the future world economic order likewise neglects the new governance patterns in the global economy, which are marked above all by interaction between private actors. The advocates of a world economic order that is in line with globalisation tend to remain within an intergovernmental frame of reference in which nation-states and their international organisations represent the central actors involved in shaping the world economic order. The controversy between neoliberals and intergovernmentalists is concerned with the interplay and the distribution of power between the "world of the economy" and the "world of states", and continuing with the old controversy over "more market" versus "more state". A glance at the world economic triangle reveals that in the world economy "the world of society" (Czempiel 1993) is incessantly growing in significance; i.e. the basic structures of the world economy and the approaches needed to shape them can be understood adequately only when we cease to view in isolation the "worlds of" the economy, states, and society.

4. The much-discussed question of how and by whom the world economy of the twenty-first century can/is to be shaped has to be discussed at more different levels in the triangle context than it does when viewed in the intergovernmental perspective. On the one hand, new actors such as NGOs, firms, local clusters, local and global policy networks have to be taken into account here. On the other, this approach focuses our attention on the interplay between different levels of action (e.g. local British and African NGOs, i.e. translocal alliances, supported by British development cooperation, enter into negotiations with globally active lead firms on labour standards; the result is interaction between local [national] and global governance), while the intergovernmental perspective tends to focus above all on creating and strengthening international organisations.

5. When intergovernmental discourses on the world economy are viewed together with the triangle perspective, the following governance mechanisms become visible in the global economy:

   - *First*, international organisations and regimes that have been created and are controlled by *nation-states* are of great significance. Therefore, the attempt to shape globalisation is associated with a shift of state competences and sovereignties to higher-level organisations, i.e. are linked with a *centralisation of politics*; two features characteristic of the governance type "international organisation" are *intergovernmental negotiation systems* and *quasi-hierarchic governance* (e.g. of the WTO by clubs made up of industrialised countries).
   - *Second*, global market coordination is modified by a great variety of forms of private governance in global value chains. The governance patterns in global value chains shape global investment flows, technology transfers, learning processes, and the links between local industrial locations and the world economy, or the way in which such locations are marginalised in global competition.
   - *Third*, global policy networks are an important factor involved in the setting of norms and standards in the world economy. This involves marked interplay between a great *variety* of private and public *actors*; structure-building takes place in cross-border value chains, sectors, or subsectors (such as the forestry or food industries); *multilevel structures* and *network governance* play an instrumental role in the "world of global standards".

The interactions between these different governance patterns in the world economy have not yet been adequately investigated. The following sections will look into the interactions between local and global governance in the triangle.

3.3.1 The triangle concept as an approach for dealing with interlinked multilevel constellations and focusing "internal and external sovereignty" in the world economy

Viewed in the intergovernmental perspective, globalisation leads to "complex interdependencies" between states, thereby weakening their external sovereignty and scopes of action (see Chapter 2.2.1). International

cooperation or transfers of competence to intergovernmental organisations and regimes are responses to the phenomena of "complex interdependence" and the erosion of the "external sovereignty" of nation-states.

The existence of global value chains, the growing importance of global standards and the observation that compliance with global standards "in situ", in local industrial locations, is often monitored by "external actors" (global NGOs, global lead firms) are indicators of a development dynamic in the world economy that points beyond the phenomenon of "complex interdependence" and the erosion of "external sovereignty" and the capacity of states to act:

First, the discussion of "complex interdependencies" centres on the growing density of international relations, while the "triangle" perspective highlights the growing significance of a variety of patterns of interaction between governmental and nongovernmental actors at different levels of action: translocal interactions, for example, between British NGOs and African exporters; local-national-global interactions, for example, between local producers, global lead firms, local and global NGOs.

Second, from the perspective of "intergovernmentalism" the world economy is described as a "stratified model" in which local, national, and international levels of action build on one another, with attention being focused on the networking processes between them (international interaction). The "triangle perspective" focuses on cross-border structures and interactions that run contrary to the structured strata model. What becomes visible here is an interwoven multilevel system (transnational interactions).

Third, the discourse on "complex interdependencies" remains bound up with a "statist-intergovernmental" way of thinking, while the triangle approach clearly shows that cross-border forms of private and public governance can effectively influence both the structures of the world economy and the behaviour of firms and social actors.

Fourth, and this is perhaps the most important point here, we must note that the context of the world economy is not only eroding the "external sovereignty" and capacity to act of states (a development that can be compensated for by international cooperation) but that the above-outlined processes of global standard-setting also massively affects the "internal sovereignty" that governs the relations between the state (public actors) and social and economic actors within a national territory. Reinicke, proceeding from Max Weber, defines internal sovereignty as follows:

> . . . internal sovereignty refers to the formulation, implementation, and maintenance of legal, economic, political, and social order . . . Internal sovereignty . . . came to describe the relationship between . . . government and society . . . In operational terms, internal sovereignty . . . means the ability of a government to formulate, implement, and manage public policy . . . A threat to a country's operational internal sovereignty implies a threat to its ability to conduct public policy.
>
> (Reinicke 1998: 56–7)

Global social and environmental standards obviously intervene in the operational "internal sovereignty" of nation-states and local governments alike, and they not only affect interstate relations but lead to interactions between local and global (private and public) actors in local industrial locations and societies. Local policy networks are transformed into transnational networks. The ability of local actors to shape industrial locations increasingly depends on their interplay with global actors (of value chains, global policy networks involved in standard-setting).

The triangle perspective makes it plain that local, national, and global structures and processes tend to criss-cross, overlap, and blend in the context of the global economy. The clear distinction between internal and external starts to blur:

> as an economic dynamic . . . globalization differs from interdependence in that it subsumes or internalizes into its own institutional structure economic activities that previously took place between national markets, that is, between distinct economic and political units.
>
> (Reinicke 1998: 57)

The conclusion: intergovernmental economists are right by not wanting to leave the world economy to the markets and calling for global regulative policies and international organisations as institutions of stabilisation and frameworks for embedding economic globalisation in social and ecological terms. The "triangle view", however, indicates (de facto) that it is not lone states and their international organisations that have the power to shape world markets: patterns of private governance in global value chains, the interplay between private and public actors from different societies in the "world of global standards", and complex interactions in the triangle (which will be discussed in more detail below) are important building blocks of the architecture of the world economy of the twenty-first century.

4 Local development strategies in the world economic triangle – new options and limits for local policy networks and firms

Two main views can be distinguished in economic theories on the determinants of international competitiveness, comparative advantages, and national competitive advantages (Wood 2001). The *first strand*, rooted in the tradition of Ricardo's (1994) conception of free trade and still visible in the work of neo-classical economics, highlights differences in national resource endowments, i.e. economies with favourable endowments of natural resources are, in this view, best advised to gear their activities to exports of raw materials and agricultural produce; "surpluses" of labour and low wages are assumed to lead to specialisation in labour-intensive production. The *second strand emphasises*, in the tradition of Friedrich List (1930), the significance of dynamic competitive advantages, knowledge, and technology, i.e. countries are best advised to specialise in fields of production in which they can best utilise and enhance their population's know-how.

These two theories are marked, in particular, by their contradictory notions of the importance of technology, and these in turn lead to divergent recommendations on locational policy. The first view proceeds on the assumption that technology and knowledge is freely traded in the world market and, therefore, regards active locational and technology policy as unnecessary. The second view argues that technological competence comes about in geographic spaces by means of processes of exchange and learning, and it therefore pleads for local strategies[11] geared to strengthening geographically bound technological competence and dynamic competitive advantages (e.g. theories of "national and local innovation systems" (Lundvall 1993), cluster research (Nadvi and Schmitz 1999), the concept of "systemic competitiveness" (Esser *et al.* 1996; Messner 1997), as well as Michael Porter (1990) in his standard work on *Competitive Advantages of Nations*).

The triangle perspective opens up *a third view* on determinants of international competitiveness and locational policy issues: competitive advantages and technological and organisational competences develop not only in local and regional spaces but also in global value chains which are not bound geographically and may be networked through various locations. This perspective also emphasises that technology and technological competence can often not be bought in markets and instead develop by means of interaction and cumulative learning processes in networks. As opposed to the second strand, however, the present study shows that development of technological competitive advantages and collective efficiency is not restricted to geographic agglomerations but may just as well take place in transnational networks (global value chains). This entails specific recommendations for locational policy. The second strand suggests a locational policy geared to optimally focusing either local or national potentials as a means of meeting the demands placed by an anonymous world market ("*intracluster relationships*"). In contrast, the triangle view, taking into account as it does the dynamics of the world market and the specific form in which local industrial locations are integrated into concrete global value chains, *first*, paves the way to a better understanding of the options and limits of industrial upgrading processes in specific local industrial sites as well as of the demands placed on local-level locational policies and, *second*, casts an important light on the interplay between local governance (in clusters) and global governance (in global value chains and the global policy networks in which global standards are defined). In other words, it draws our attention to the forms in which collective efficiency is developed in transnational networks (intercluster value chain relationships).

This more complex view is illustrated in the following against the background of the findings of empirical studies that have been conducted in the framework of the IDS-INEF project 'The interaction of local and global governance. Implications for industrial upgrading'. Here, the triangle concept has here

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11 When we speak here of "local sites" we are thinking of geographically limited locations, i.e. subnational units. The trend has been that active locational policies have been formulated less and less often at the national level and more and more frequently at the subnational (regional and local) level. This trend is of course a function of the size of a given economy. In small countries like Uruguay, Costa Rica, etc., locational policy continued to be formulated at the national level; in medium-size countries (like Chile) or in larger countries (like Brazil or Germany), on the other hand, subnational regions are gaining in relevance as spaces of active locational policy.

proven not only to be a helpful analytical instrument for representing dimensions of the world economy that have until now been neglected (see Chapter 2), it has also proven useful as a frame of reference for concretising the options open to local and national actors in the global economy.

4.1 The meaning of global value chains for the development perspectives of local industrial locations

The empirical studies conducted in the framework of the IDS-INEF project point to the significance of (a) specific governance structures in global value chains, (b) the distribution of power in global value chains, and (c) the core competences of global "lead firms" for the development perspective of local industrial locations. The studies underline the fact that local scopes of action for firms and policymakers are significantly influenced by specific governance patterns in global value chains. Against this background they also cast light on some new requirements for locational policies.

4.1.1 The Sinos Valley footwear cluster

Hubert Schmitz (1999) shows that the Sinos Valley footwear cluster in southern Brazil developed in a highly dynamic fashion since the end of the 1960s. This dynamic was due to the integration of the cluster into a US footwear value chain. The buyers of this value chain (global buyers) set quality standards for local producers, organised marketing and logistics, supplied designs, and provided technological support. In this way, the lead firms of the value chain created a stimulating, competitive, and at the same time supportive (transnational) business environment in which the Brazilian producers (as individual firms and as local clusters) could concentrate on optimising their production. The Brazilian companies were quick to grow and to learn in the context of the global value chain. Since the 1980s they have been among the world's most competent footwear manufacturers (Schmitz and Knorringa 2000). In the 1990s, the Brazilian footwear cluster dropped into a deep sales slump, because Chinese footwear manufacturers proved able to supply US global buyers similar quality at more favourable prices.

The context provided by the global value chain, previously conducive to development, was transformed under the new conditions into a business environment hostile to development. The challenges facing Brazilian producers and policymakers were easy to specify. Strengths in production should have been underpinned by developing competitive advantages in the high-value-added fields of design and marketing. But this strategy was not implemented because the largest local exporters feared, for good reasons, "sanctions" on the part of the lead firms in the global value chain. These lead firms had their most profitable core skills in the fields of design and marketing:

> Although the local business association developed a collective strategy of raising Brazil's image in the world footwear markets and of strengthening design capabilities, these proposals were never put into practice. The largest export manufacturers did not support them because they feared that advancing

into design and marketing would encroach on the core competences of the cluster's main buyer, which accounted for over 80 per cent of their output and close to 40 per cent of the total cluster output.

(Humphrey and Schmitz 2002: 9)

The development of the Brazilian footwear cluster clearly indicated that local clusters might profit enormously from integration within (quasi-hierarchically structured) global value chains. It also showed that the specific governance structures and distribution of power within the chain blocked an upgrading process in the local cluster that was geared to developing independent design and marketing competences because this upgrading would have challenged the core competences of the lead firm. The options open to local actors were, in other words, not restricted by their own techno-organisational efficiency but were defined by power structures in the global value chain. The latter becomes visible only when we take into consideration the interaction between local (cluster) governance and global governance (in the value chain).

A more recent study on the Sinos Valley cluster shows that parts of the cluster successively pursued a strategy of diversifying their ties to global values chains in the course of the second half of the 1990s (Bazan and Navas-Alemán 2001). Groups of local footwear companies now also supply European and Latin American buyers, who are less powerful, in this way significantly enlarging the options open to the Brazilian producers to develop competences in marketing and design. This example shows, first, that it is possible to develop local scopes of action even in the context of global value chains. In this case, diversification of marketing channels and reduction of dependence on US buyers. In the second place, it again underlines the fact that different structures in value chains and specific core competences and business activities of lead firms define framework conditions essential to local-level locational strategies.

4.1.2 The Italian footwear cluster in Brenta

The development of the Italian footwear cluster in Brenta, for decades one of the most competitive footwear clusters in global competition, is also a highly interesting case. Beginning in the 1970s, Brenta's special competitive strength consisted of a combination of high-quality products, excellent design competence, and independent marketing know-how (Rabellotti 1997). The cluster concentrated mainly on the German market and maintained market-based relationships with German wholesalers, who did not seek to influence the development of the cluster's core competences. In a recent study on the development dynamics of the local cluster in the context of global value chains, Roberta Rabellotti (2001) shows that in the course of the 1990s some "top brand value chains" (à la Dior, Kenzo, Louis Vuitton) began to play a crucial role as customers for Brenta producers. In Brenta this integration into "brand value chains" led to a "functional downgrading" (Rabellotti 2001: 27). The individual firms did away with their own design and marketing, which were parts of the core competences of the lead firms of the value chain. In other words, the lead firms defined the parameters in these fields that the Italian firms had to meet.

Although the local producer strategy meant higher profit margins and shares of attractive, growing, and demanding markets, at the same time it led to a loss of competence in fields that are assuming more and more strategic significance in the footwear industry (design, marketing and sales). What we see here is a world-class location in the hierarchy of the world footwear industry, once in possession of systemic competitiveness in the field of production, design, and marketing, becoming a high-quality "supplier cluster" with core competences in production, a market segment that tends to be marked by high levels of competition.

Like the case of the Brazilian footwear cluster, this study clearly indicates that both the scopes for industrialisation processes and the specialisation profiles of local industrial locations are crucially influenced by the governance patterns of global value chains and the core competence profiles of lead firms. Local clusters wanting to realise their development strategies within a global value chain (e.g. because a value chain promises secure access to markets), or indeed have no other choice (for lack of an alternative to the established sales channels), can profit from many external learning incentives and external economies of a global value chain (Schmitz and Knorringa 2000). On the other hand, this means accepting limitations on their development potentials that are dictated by the core competences of lead firms. The case of Brenta also shows that local producers seeking to make inroads into the core competences of lead firms run a high risk of losing their marketing channels.

4.1.3 Brazilian, Italian, and Spanish tile clusters in the context of global value chains

One important result of a study by Jörg Meyer-Stamer, Claudio Maggi and Silene Seibel (2001) on tile clusters in Sassolo (Italy), Castellón (Spain), and Santa Cararina (Brazil) is the observation that all three clusters are tied into global value chains that are characterised by network-like governance structures. The network structures are mainly due to the fact that sales channels in the tile industry (as opposed to those in many other industry, e.g. the footwear, garment or furniture industries) have not yet experienced any concentration processes and are organised world-wide by a large number of medium-size buyers. The buyers, who as a rule lack design or marketing competences, offer the tile producers their sales channels. This basic pattern gives rise to markedly balanced relationship patterns between tile producers and the lead firms of the value chain.

In the context of these specific global governance structures, the development dynamics of local industrial locations can best be explained with reference to internal factors. The action potentials and strategies of firms are not seriously limited by the parameters set by lead firms. The network structure of global value chains at the same time opens up major options for locational strategies and policy networks which are utilised quite differently by these three locations (Meyer Stamer *et al.* 2001 pp. 15ff.).

4.1.4 The cluster stories: a comparison

1. Comparison of the Italian and Brazilian footwear clusters and the tile clusters has indicated specific correllations between the governance structures in global value chains, the core competences of lead firms, and local scopes for independent cluster and development strategies:

    a) The core competences of lead firms define certain limits (though limits that can be overcome) on local upgrading processes. Local firms or clusters that attempt to advance into core competence fields of global buyers are endangering their position and their existence in the global value chain.

    b) The Brazilian footwear producers are integrated in global value chains whose governance patterns are described as *quasi-hierarchic*. The relationships between the Brazilian companies and the global lead firms may be characterised as "asymmetric interdependencies". As soon as conflicts of interest develop between local actors and the global lead firms, both the scopes open for local strategies and the bargaining potentials of local actors turn out to be relatively small.

    c) For a long phase, Brenta, as a "world-class location" in the footwear industry, was integrated in *market-based* value chains in which the lead firms hardly set any parameters "from outside In this framework both the local cluster and local policy networks have larger scopes of action.

    d) The governance structures in the "top brand global value chains" in which Brenta has been integrated since the mid-1990s are described as "somewhere in between network and quasi-hierarchy" (Rabellotti 2001: 27). On the one hand, the local producers have specific and first-class production know-how that cannot simply be replace by other suppliers; this seems to indicate balanced relationships between lead firms and local suppliers. On the other hand, the lead firms are in a position to dictate to local firms parameters in strategically relevant fields that offer chances of good potential returns (design and marketing). This seem to indicate quasi-asymmetrical relationships between the local and global actors concerned. In this context local scopes of action are smaller than they were under the previous conditions of market governance in the global value chain, though they are presumably greater than in the case of the Brazilian footwear cluster.

    e) The tile clusters are integrated in network-like value chains. These relationship patterns can be described as symmetrical interdependencies. In these cases the options open to local firms and policy networks in shaping their locations are large and these firms and networks can rely far more on their own local efficiency and effectiveness (and are far less dependent on external influences).

Linking the cluster perspective with the global value chain approach proves useful as an analytic frame of reference, The development dynamics and paths outlined for the clusters analysed could not be explained from a purely "local perspective" (i.e. on the basis of the classic industrial district approach). The concept of the global value chain accordingly gives rise to additional knowledge.[12]

2. Furthermore, the global values chain perspective opens up a more precise understanding of the limits and potentials of locational policy at the local level. In the Sinos Valley the reason why an apparently reasonable upgrading strategy (development of local design and marketing competences) failed was neither the inability of intermediary local actors nor the project's lack of economic feasibility. The reason was that a strategy of this kind would have affected the core competences of the lead firms and was therefore blocked by major local exporters. Upgrading processes were thus blocked by the governance structures specific to the global value chain (quasi-hierarchic governance) and asymmetrical power structures, both within the global value chain and between the actors at the local level. It again became possible to operate an active and promising local locational policy in the Sinos Valley cluster only when it gradually proved possible to pursue a strategy involving diversification of the value chain. In contrast, the examples in the tile cluster show that the scopes for local locational policies and upgrading processes are great in the context of value chains that are organised in networks.

3. Linking the cluster perspective with the global value chain concept enables us to see new demands facing local (national) policy that are neglected in the context of an exclusively local (national) frame of reference (systemic competitiveness, local clusters).

   - *First*, local policymakers (in public or private organisations) should be very familiar with how the global value chains in their locations are integrated if they are to be able to realistically asses the specific demands facing locational policies.
   - *Second*, it becomes clear here that local locational policy should not only be geared to focusing local forces but must also seek to actively network local competitive advantages and global potentials (in the value chain).

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12 The observations sketched here on the connection between specific governance structures in value chains and options available for local cluster and locational strategies can, as noted by Humphrey and Schmitz (2002: 9) be complemented by governance structures in value chains and specific forms of upgrading:
   - Insertion in a quasi-hierarchical chain offers very favourable conditions for the fast process and product upgrading but hinders functional upgrading.
   - In chains characterised by market-based relationships, process and product upgrading tend to be slower (not fostered by global buyers), but the road to functional upgrading is more open.
   - Chains characterised by even networks offer ideal upgrading conditions but are the least likely for developing country producers because of the high level of (complementary) competences.

- *Third*, policymakers should realise that local competitive advantage (of clusters) and global competitive advantages (in the chain) are potential competitors (as is shown in particular by the case of Brenta).
- *Fourth*, local actors must learn to seek integration in different global value chains to strengthen their bargaining power *vis-à-vis* global lead firms.

The demands on local policymakers outlined above have hardly been considered in the context of the established cluster strategies. Demands are extremely high because local policy networks are increasingly reliant on know-how on global contexts and they are in need of the capacity to interact with global actors. These factors are the *sine qua* non of successful local development policies.

4. Linking the local chain perspective and the global value chain approach is a good guard against voluntarist recommendations on local development policy that may come about when, thanks to limited local scopes of action, the relevant actors are blind to specific structures in the global value chain.

5. Do regions matter in the triangle perspective of the world economy? The answer is, Yes, . . . but . . . ! The considerations developed to this point indicate that there continue to be geographically bound competitive advantages and that local locational policy can help strengthen these advantages. Yet, local industrial locations and regions must be viewed in the context of their specific global value chains. This expanded perspective makes it clear, *first*, that there exist beside geographically bound competitive advantages dynamic competitive advantages that come about in global value chains, i.e. in transnational networks. *Second*, the specific needs, options and limits of local locational policy come better into focus here: 'Regions matter, but they form part of a larger, more complex and intertwined economic context'.

4.2 The significance of global standards and global policy networks for the development dynamics of local industrial locations

Beside local clusters and policy networks on the one hand and global value chains on the other, the dimension of global standards constitutes the third pole of the world economic triangle. The growing significance of "world of global standards" in the world economy was addressed at length above (Chapter 2). The issue here is what relevance do global policy networks that develop standards have for the development dynamics of local industrial locations and what demands do they entail for local firms and policymakers?

The studies conducted by INEF-IDS as well as other investigations permit us to draw five important conclusions:

First, access of local suppliers to global value chains is increasingly bound up with international technical standards (e.g. safety standards in the toy industry) and global management quality standards (e.g. ISO 9000, ISO 14000). These standards provide for (technical) compatibility in the world economy and constitute for lead firms an instrument that can be used to check the efficiency of potential suppliers in a cost-effective way. In many industries it is the management quality standards in particular that constitute an initial filter in the process in which global lead firms select their suppliers (see Quadros (2002) on automotive suppliers in Brazil; Dolan and Humphrey (2001) for fruit production in Africa; Nadvi and Kazmi (2002) on Pakistani producers of medical equipment).

Second, the demands on local firms and policymakers are rising against the background of a proliferation of different global standards (Quadros 2002). Competitiveness does not only mean the capacity to strengthen technological competence, it also requires local actors to keep an eye on, and to comply with, the changing and highly complex tangle of global standards if they are not to lose market access and continue developing new markets. The permanent task of scanning and monitoring global standards is a major challenge for both local firms and local policy networks (see Dolan and Humphrey (2001); Nadvi and Kazmi (2002); Barrientos (2001)). These demands are especially high when the task is not only to adopt global standards but also to take a hand in shaping them in the context of global networks. World-market-oriented firms from industrialised countries are as a rule concerned to be present in the global networks responsible for developing and setting standards relevant to their own operations. Only in this way is it possible not to fall into the role of the passive "rule taker" and to ensure that one's own interests are not left out of consideration in the process of standard-setting. Companies, their organisations, and policymakers from developing countries, should be highly interested in bringing their influence to bear in the making of global standards, for example, in preventing such standards from taking on the character instruments of a quasi-protectionism.[13] In a way similar to the context of global value chains, we see here as well that the demands placed on the governance capacities of local actors are growing at an enormous rate. However, the new challenges facing local actors can also be met with the aid of new alliances, for example, local and global NGOs (sometimes together with institutions of international development cooperation and international organisations) that focus their forces in transnational networks with an eye to gaining social concessions from global lead firms or even local producer clusters and local governments. From the perspective of industrial cluster approaches or in the view of theories of local or national innovation systems, local actors move above all on a local or sometime a national playing field. Whereas, seen in terms of the triangle, local actors are forced to move at once in both local *and* global

[13] Dolan and Humphrey (2001) point out that the Kenyan fruit-importing industry has succeeded in developing particularly stringent (sanitary and environmental) standards of its own and that these have become current in various global sales channels.

arenas. "Think global and act local" is no longer a viable model in the framework of the world economic triangle. Instead, it is essential to thing local and global and to act at the local and global level in networked multilevel systems.

Third, the study published by Nadvi and Kazmi on Pakistani clusters and the Dolan and Humphrey study on African fruit producers indicate that global actors (multinational corporations, NGOs and international organisations) are increasingly present in local industrial sites to monitor and certify global standards, to provide help in implementing them, or to work toward their acceptance (Caldwell 1998; CDG 2000; Glaser 1999). Thus, the proliferation of global standards in world trade is not only leading to a situation whereby local actors are forced to keep a constant eye on ongoing changes in the "world of standards", they are also required to become global actors in local networks concerned with social and ecological standards. It is in this way that local networks become transnational networks in situ in which completely new alliances and political forces may arise. As outlined above in connection with the discussion on the established discourses on the world economy (Chapter 2), the world economy can no longer be conceived in terms of a "stratification model" in which local, national, and international dimensions and action spaces are "piled" one on top of the other and whereby actors largely operate independently from one another. Instead, transnational functional spaces and "cross-border activities" of actors are gaining in significance: global actors who influence economic and political dynamics in situ; local actors who must undertake efforts to influence and shape standards under development in global networks etc.

Fourth, the number of global social and environmental standards are growing rapidly in sensitive sectors (e.g. labour-intensive industries, industries close to raw materials, food industries). These are the sectors in which social and ecological problems and health-relevant impacts frequently occur and are highly visible to the public, the consumers, and to NGOs in industrialised countries that are the driving forces behind the proliferation of social and ecological standards. In other words, it is precisely in industries with low levels of technological complexity (which include industries in developing countries that have "natural competitive advantages"), that global standards and the high demands which they imply for the global governance capacities of local actors are assuming ever greater significance. Thus, building competitiveness is often no longer dependent only on compliance with the classic parameters of competition (time, price and quality of products and services) but also requires the capacity to orient products and production processes to global social and environmental standards (Dolan and Humphrey 2001; Nadvi and Wältring 2002; Nadvi and Kazmi 2001). Even on the "low roads" of the world economy knowledge-based competitive advantages are gaining in importance.

Fifth, global standards can have direct impacts on the forms in which labour is organised in local industrial locations. Nadvi and Kazmi (2001) document that the establishment of global standards for producers of sports equipment in Pakistan has led to a situation in which global buyers have basically restructured their supplier structures in Pakistan. To lower costs for monitoring compliance with global standards and to minimise risks from many small suppliers and many potential actors who violate standards, they have

reduced the number of their suppliers in Pakistan and now prefer close cooperation with more or less large companies. Since the 1980s, the big sports equipment buyers have markedly decentralised their supplier structures and smaller companies have grown into global value chains via complex supplier networks in producer countries and with an eye to reducing costs. In contrast, global standards are inducing a reorganisation of the local clusters integrated in global value chains that favour larger firms and show a tendency toward centralised supplier structures. No matter whether we view this trend in normative terms[14] or in economic terms, from the perspective of developing regions and small companies, one factor that cannot be ignored is the crucial forces of social and environmental standards "in situ".

4.3 The development of local clusters and scopes for local development policy in the triangle – conclusions

The analysis of development processes of local clusters and scopes for local development policy in the framework of the concepts of the world economic triangle can be synthesised as follows:

1. Compared with the emphasis of Gerry Gereffi (1994; 1995; 2000) that local development options are primarily determined by the specific structures of global value chains, the empirical studies conducted in connection with the IDS-INEF project arrive at a more differentiated assessment. In the context of the triangle, the ability or inability of local actors to deal with world economic challenges, to build independent techno-organisational competences and global governance capacities prove to be important influencing factors for development successes or failures of local industrial locations in the world economy. Therefore, we can therefore continue to say: "*Regions matter!*"

2. But the empirical studies also point to the limitations of industrial cluster approaches (Nadvi and Schmitz 1999), theories on local and national innovation systems (Lundvall 1993), and the concept of system competitiveness (Esser *et al.* 1996; Messner 1997), all of which are oriented to reaching competitiveness by focusing local (national) potentials and networking local (national) actors, without taking adequate consideration of the specific economic contexts in which local industrial locations are integrated. Because these approaches neglect restrictions (or also advantageous constellations) affecting local action at the global level, the success or failure of local industrial locations is explained solely with reference to the effectiveness of local actors. The triangle perspective, on the other hand, shows us that, depending on the governance structures in specific global value chains and the core competences of lead firms, there exist different scopes of action for upgrading processes in local firms and for local locational policies aimed at strengthening competitiveness. That is to say: "*Regions*

[14] In normative terms there might be disagreement on how to judge the rise in social standards in export-oriented companies due to global standards at the expense of the exclusion of small, employment-intensive companies from global value chains.

matter", but the reach of local action and the scopes of action open to local actors do not depend only on abilities of local actors; they are also determined by the global contexts of the world market. Therefore, the triangle concept helps us to illuminate local scopes of action ("windows of opportunity" or "dead ends for development") in the context of global structures and to perceive new challenges faced by firms and policymakers which were not considered in the context of the concept of "systemic competitiveness".

3. The triangle concept helps to show that if regions are to strengthen their competitiveness, it is not enough to use locational policy to focus local forces (intercluster relationships). Instead, it is essential at the same time:

   a) to use the analysis of global structures in the triangle to assess the scopes open for, and demand placed on, local strategies as a means of avoiding any voluntarist efforts;
   b) to play a role in shaping global governance structures (e.g. global social and ecological standards);
   c) to prudently link local competences with global resources (e.g. local technological potentials with technological nodes in global value chains);
   d) to use the presence of global actors in local policy networks (e.g. NGOs, lead firms, international organisations involved in the monitoring and implementation of global standards on the ground) to favourably shape locational factors.

   The "playing field" of local actors is thus growing, above all in complexity (multilevel policy). Furthermore, local actors are confronted with a paradox: the diversity of options is growing (e.g. the possibility of diversification of sales channels; networking of strengths and global competence pools; coalitions with global actors, aimed for instance at strengthening the social and ecological dimensions in situ). Yet, at the same time dense interaction between local and global processes gives rise to restrictions on action (e.g. the power of global lead firms, the growing number of global standards). Whether and how pro-development blockades will prevail or structural development blockades will emerge in this field of tensions defined by local and global governance and a growing diversity of options and new restrictions on action, is a question that can be answered only empirically. It is, however, certain that local development strategies in which the new demands and challenges sketched above in the context of the triangle are not factored will in any case turn out to be suboptimal.

4 Thus, in the context of the triangle local development policy must be conceived as multilevel policy. International capacities to act and sovereignty in situ can be secured only through cooperation with "external actors" (in global standard-setting networks, with firms and institutions in the global value chain and with global actors "in situ"). One marked feature of the world economic triangle is the phenomenon of "divided sovereignties".

5. Local (national) production and knowledge systems can be understood only in the context of transnational production and knowledge systems (i.e. as subsystems).

5 Governance patterns in the world economic triangle

The chapter discusses what impacts the integration of regions into the global governance structures of the triangle entail for local governance structures. How are the capacity to act and the options of industrial location influenced by global governance structures? Does the interaction between local and global governance in the triangle strengthen local governance structures, or are fragmentation and erosion more likely?

Counter to the assumption of neo-classical economics (or the neorealist theory of international relations), the actor behaviours and governance structures in given spaces do not simply result from the orientation of individual actors (organisations) to their own quasi-objective interests in the framework of formalised rule systems (the utility-maximising *homo oeconomicus* of neo-classical thought and the maximisation of relative advantages in the neorealist nation-state, which is geared to seeking and maintaining balances of power). Rather, governance structures as well as action strategies and capacities of actors are influenced by complex sets of institutional factors and rule systems, specific actor efficiencies, specific cognitive and normative actor orientations, and the interaction between actors (Mayntz and Scharpf 1995; Messner 1997; Schimank and Werle 2000; Scharpf 2000). In what follows, this complexity is depicted with the aid of a "governance hexagon" (see Diagram 1.2). The transformation of local governance structures, which takes place in the processes by which regions are integrated into the world economic triangle, is illustrated by an analysis of the six dimensions of the hexagon (Diagram 1.2).

The following interdependent dimensions are modelled in the governance hexagon:

Actor constellations: decisions and strategies of individual actors in a region are rarely the exclusive outcome of individual preferences and perceptions and the deployment of individual action resources. The essential factor here is the constellation that exists among actors in a concrete industrial location. The term "constellation" encompasses the actors involved, their capabilities, and their strategic options as well as potential lines of conflict that are conceivable or likely in such actor constellations (Scharpf 2000: 86ff.). It is also in this dimension that the present study distinguishes forms of interaction (hierarchies, horizontal networks, networks in the shadow of hierarchies and market constellations) that are predominant in specific actor constellations. Cluster research examines intraregional actor constellations, while the triangle approach focuses on transnational actor constellations. Even this shift in perspective gives rise to important insights into the process of change of local governance structures.

Interests: actors are oriented to their own-self interests, i.e. to self- preservation, to securing their own continued existence, autonomy, and growth. Complementary, conflictual, and common actor interest structures are conceivable in specific actor constellations. These patterns, for example, determine whether the development or further development of solution-oriented network structures is likely or unlikely. It

remains to be seen whether interest structures conducive to networks are strengthened or weakened in the process in which regions are integrated into the world economic triangle.

Power structures: power, understood as the capacity to gain or enforce one's own interests, is based on the availability of concrete action resources (e.g. knowledge, techno-organisational competence, control over information, market power, exit options, veto potentials). For Crozier and Friedberg (1979: 40–41), *power is a mutual but imbalanced relationship, an interrelation of forces from which the one party can derive more than the other, but in which the one party is nonetheless never wholly at the other's mercy*. The question is whether local actors in the triangle per se gain or lose power, i.e. scopes of action, *vis-à-vis* global players and how the power balance in local actor constellations is influenced by local and global governance.

Situational mindsets: action strategies are marked not only by immediate actor self-interests (self-preservation, autonomy and growth) and access to power resources but also by notions of actors concerning the world in which they move. Situational mindsets can in this sense be described as "mental maps" (Willke 1998: 48) that provide orientation and are part of the wherewithal of goal-directed collective action. Mindsets (in firms, organisations and clusters) extend to, first, cognitive perceptions of chains of cause and effect in the environment (cognitive models), second, normative ideas and values, and, third, "collective myths" (Mintzberg 1996) that are often used to fill in gaps in empirical and theoretical knowledge (March and Olson 1988; Wiesenthal 1995). If, in a given region, collective divided mindsets (we-identities and shared views of problems) and stable orientation systems are prevalent, this tends to improve the chances of cooperative actor constellations. As a rule the world economic triangle is marked by highly different and sometimes conflicting mindsets. How does this fact affect the action capacities of local actors and local network structures?

Action orientations: the neo-classical school knows only an egoistic exchange orientation on the part of the *homo oeconomicus*. Empirically based institutional and organisational theories, on the other hand, distinguish between three types of action orientations which are based on divergent cognitive and normative dispositions. As opposed to complex "mental maps", or situational mindsets, action orientations are the "basic rules" according to which actors act and make decisions. Etzioni (1968) distinguishes between "utilitarian, coercive, and normative" action orientations. March and Simon (1958), Etzioni (1994) and Scharpf (1991a) distinguish between "bargaining, confrontation and problem-solving" as orientations:

- The *bargaining orientation* is the typical egoistic perspective of the rational choice individual, "the *homo oeconomicus"*. Such persons are driven by their individual rationales and interests.
- The *confrontation orientation* implies that the agent focuses on their own utility, measured in terms of all other benefits attained. Their concern is not, as in the case of the bargaining orientation, only utility maximisation; it is more to "beat" other participants, to maximise their own benefits at the expense of others.

- The problem-solving orientation is geared to seeking an anticipated common utility (*arguing*) ("Kaldor optimum").

Whether divergent and complementary interest structures are successfully balanced out in networks and remain available for collective action, or whether complex interest constellations end up in blocked networks, depends on the action orientations of the actors involved (Messner 1997: 229ff.). The question is whether solution-oriented action dispositions that are conducive to networks, and as a rule come about in historically developed regions, can be reproduced in the word economic triangle, in particular in global value chains.

Trust: trust-based relationships between actors stabilise expectations in mutual dealings. This applies alike for market transactions, contractual relationships, and hierarchic actor constellations. Trust, therefore, lowers transaction costs. For networks in particular, "trust" is a central and invaluable resource, because here the actors are reliant on one another and the situation is dominated by informal rules and arrangements. Trust is fostered by: (a) value contexts, social and moral resources, on which societies can fall back; (b) stable social relations and legal certainty; (c) learning-by-doing mechanisms (trust as a product of repeated cooperation); and, (d) trust-promoting institutional structures (Axelrod 1984; Gambetta 1988; Messner 1997; Humphrey and Schmitz 1998; Zucker 1986). Networks would be hard pressed to come about without a certain measure of trust. The greater the trust between actors, the more likely it is that difficult interest constellations can be solved and high transaction costs (e.g. endless bargaining, control costs, veto threats, reluctance to exchange information) can be avoided or overcome. The transnational actor constellations can be put to a hard test by we-identities and collective cognitive models anchored in local industrial locations. Is this process also likely to erode trust-based relationships in local networks, or does the pressure of global competition tend, instead, to strengthen local trust pools?

The following section analyses the hexagon in three steps with an eye to working out the governance patterns:

- in efficient industrial locations, from the perspective of cluster research (5.1);
- in the play of tensions between local industrial locations and global value chains (5.2); and,
- in the play of tensions between local industrial locations and the world of global standards (5.3).

The section then goes on to draw conclusions for the basic governance patterns in the world economic triangle (5.4).

5.1 Governance patterns of efficient industrial locations as seen from the industrial district perspective and the view of "systemic competitiveness"

The core idea of the concept of systemic competitiveness and the theories of "collective efficiency" in industrial districts and local clusters must be sought in the fact that competitiveness comes about in and

through an interplay between intensive competition (market) and dense interaction, cooperation, and networking between firms and between firms and policy networks devoted to formulating locational policies (mesopolicies) (Pyke and Sengenberger 1992; CEPAL 1990 and 1992; Lundvall 1992; Humphrey and Schmitz 1996; Esser *et al.* 1996; Messner 1997; Meyer-Stamer 2000 and 2001). According to this view, two dynamics come together in internationally efficient industrial locations and regions of developing countries that succeed in finding active integration in the world economy:

First, it is true that international competitiveness is based on the technological competence of individual firms, although broadly effective innovative dynamics come about only in connection with and through collective and cumulative learning processes in clusters and networks of firms in geographic proximity to one another. High local competitive pressure, dense, often informal flows of information, and highly various forms of cooperation between firms (e.g. in the training and qualification of workers, in marketing and sales, the development of shared infrastructures) constitute an incentive structure which can give rise to competitive advantages.

Second, apart from the above-noted dynamics at the micro-level of the firm, an industrial location's strength is based chiefly on the capacities of public or public-private institutions and private business organisations (e.g. chambers of industry and commerce, business federations) to design and deploy mesopolicies aimed at creating and continuously developing a business environment that strengthens growth, innovation, and the development of specific competitive advantages (e.g. specialised technology institutes geared to fostering local clusters, vocational training systems, R&D institutions, business start-up centres). Mesopolicies are as a rule based on the collaboration of a great number of actors in network structures.

The interplay between the microlevel (firms) and the mesolevel, at which policy networks act to develop supportive locational conditions, gives rise to spatial agglomeration advantages, positive external economies, collective competitive advantages, and "systemic competitiveness". Seen from this view, competitiveness can no longer be explained solely with reference to market processes and the behaviour of individual firms. Competitiveness is also the result of a high level of organisational and governance capacity on the part of private and public actors that are in a position to create and continuously develop dynamic network structures. Competitiveness is accordingly based not least on specific governance structures and capacities in specific industrial locations (Humphrey and Schmitz 1996; Meyer Stamer 1996; Messner 1997).

Against the background of the research on industrial districts, clusters, and systemic competitiveness, the governance structures of efficient industrial locations can be described in a simple and ideal-typical fashion by the above-described governance hexagon.

Actor constellations: the analysis centres on local actors and the interactions between them. We can observe that, thanks to the complexity of the challenges involved and the broad dispersion of governance

resources (e.g. ability to recognise problems, work out possible solutions, implement and monitor strategies), the hierarchic governance ("planning") of locational policies is becoming less important and that network structures are becoming increasingly relevant. In local networks, autonomous actors work together because they are forced to rely on cooperation with other actors to solve specific problems (e.g. worker training and qualification). These actor constellations tend more to be marked by horizontal decision-making processes and a prevalence of interdependence among actors. The reason why mutual interdependencies emerge is that dynamic business clusters are reliant on complementary contributions from different local actors (R&D systems, vocational training, technology transfer, and the like). The problem of "divided sovereignties" (due to the broad dispersion of governance resources) can be solved by drawing local actors in networks (Esser *et al.* 1996; Messner 1997).

Interests: proceeding on the assumption that interests are not constants but come about as a function of changing actor constellations and specific situational actor mindsets and action orientations, we come up with the following picture: despite competition between firms and conflicts of particular interests, successful industrial locations are dominated by a shared interest on the part of local actors in optimising "their" location. The constraint imposed by the world market to achieve "collective efficiency" in geographic agglomeration spaces and develop "systemic competitiveness" in specific local (or national) institutional and business landscapes characterised by difficult-to-copy local (or national) competitive advantages is a motor that drives and consolidates "we-identities" (Norbert Elias) and common interests. This is because in the long run individual firms can prove successful only in an efficient local environment that "local communities of fate" come about precisely in a globalised economy.

Power structures: local clusters and policy networks are not "power-free spaces". Local clusters are often organised by local lead firms which, like the lead firms in global value chains, define various parameters for suppliers. In policy networks, too, it is not unusual for certain private organisations (e.g. business federations) or public actors (local/regional governments, powerful research institutions, public financial institutions) to have more say than other actors in influencing decision-making processes and the development and realisation of locational strategies. But in the context of local industrial locations even powerful actors are forced to rely on the cooperation (and cooperativeness) of other actors when systemic competitiveness is at stake. Thus, "power" is, first, a question of local power distributions in the context of systemic competitiveness and, second, power is embedded in local interdependence structures, common interests, and "we-identities".

Situational mindsets: actors act on and assess their interests against the background of specific mindsets (cognitive models, divided normative ideas and values "collective myths"). The action capacities of local actors in efficient industrial locations are based not least on common interpretations of situations and "we-identities" that favour decision processes in policy networks, the negotiation of compromises, the solution of distribution conflicts, the focusing of action resources, and agreement on collective locational strategies. In regions in which actors operate on the basis of incompatible "mental maps," "collective

efficiency" and "systemic competitiveness" have little chance to develop. Network governance is thus made far easier by common interpretations of situations. Indeed, in many cases the former is not possible without the latter (Messner 1997: 263ff.). Common mindsets (e.g. of the key challenges, of the role of public institutions in the economy, of the fair allocation of costs and benefits of decisions, of goals of structural economic change, of principles used to evaluate a service provided, of the perception of a region's potentials in the world economy) are thus an important foundation and resource of the collective action capacities of local actors. Common mindsets in regions are historically preconfigured. They come about by means of continuous close interaction between actors, common rule systems, cultural roots, shared public spheres, and lifeworlds. The industrial district approaches in particular have pointed to the significance of this social capital of regions for the development of competitiveness (Becattini 1990; Grabher 1993; Brusco and Righi 1989).

Action orientations: action orientations consist of the basic rules of collective action (bargaining orientation/Pareto optimum), confrontation orientations, and a common problem-solving orientation (arguing/Kaldor optimum). In reality, of course, all these action orientations (and other mixed forms) exist side by side. Empirical studies conducted from the angle of cluster research and the concept of systemic competitiveness come to the conclusion that competitive regions are as a rule dominated by a "common problem-solving orientation" on the part of actors. Otherwise networks would scarcely be able to deal with typical problem constellations (in game theory, "battle of the sexes" and "chicken game") that inevitably occur when actors, despite their common interests (without which they would not join networks), feel obliged to act out their conflicting interests. If egoistic bargaining orientations, or indeed confrontational orientations, are dominant in networks, the former tends to end up in endless disagreement, blocked action, and network failure.[15]

Trust: systemic competitiveness is based on the interplay between market and network governance. Network governance (between firms, in policy networks) rests, as opposed to conventional contract-based relationships between actors, on noncodified arrangements, agreements, negotiated deals and reciprocal exchange relationships. Actors who work together in networks must trust that agreements will as a rule be honoured. Trust is a central condition of network governance. Regions in which generalised mistrust is dominant will generally not be able to build dynamic business clusters and efficient policy networks. Thus, the emergence of systemic competitiveness and collective efficiency in local industrial locations is also based on soft locational factors such as "trust-promoting value patterns and institutional designs" that are anchored in the "deep structures" Dieter Senghaas) or in the "ligatures" (Ralf Dahrendorf) of societies and cannot be "created" on a voluntarist basis (Humphrey and Schmitz 1998; Messner 1997).

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[15] For more detail, see Messner (1997: 229ff).

The above-sketched ideal-typical dimensions of the governance hexagon describe the basic pattern of governance that, according to the concept of systemic competitiveness and cluster research, can lead to economic development dynamics in regions. The six dimensions reinforce each other mutually: interests are shaped by specific mindsets, action orientations, and the degree of trust or mistrust given; trust is influenced by specific action orientations, mindsets, power structures; network-like actor constellations rest on reproduced trust, common mindsets, and we-identities, etc.

The following section will outline, against the background of the empirical findings of the IDS-INEF project, the various shapes that the hexagon may assume in the context of the world economic triangle. We see that analysis of interactions between local governance (in industrial clusters and local policy networks) and global governance structures (in global value chains and standard-setting networks) lead to a significantly different perspective of governance patterns in regions.

5.2 Governance patterns in the field of tension between local industrial locations and global value chains

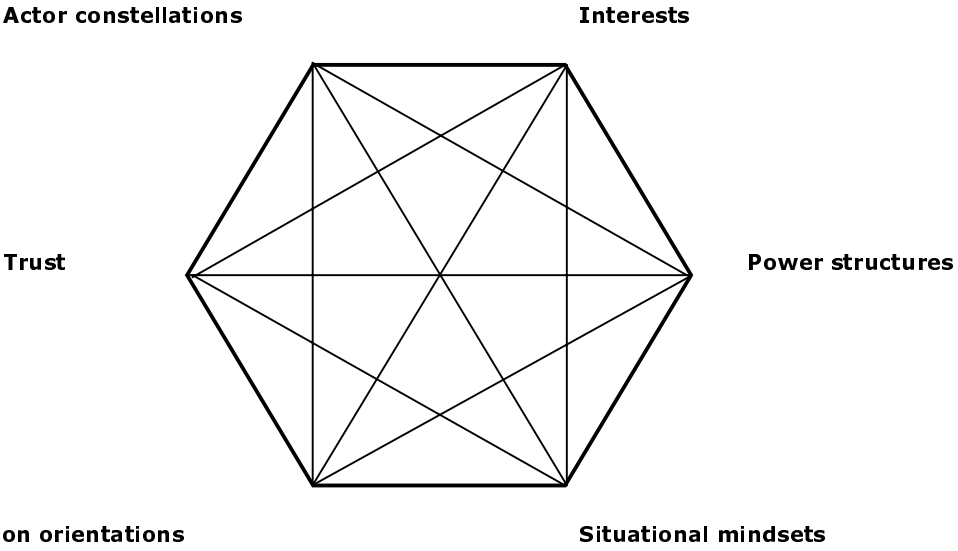
Both the cluster approaches and the concept of systemic competitiveness stress the significance of governance patterns in regions and governance capacities of local actors as a factor central to explaining economic dynamics. In their studies, the authors focus exclusively on local (or national) governance structures, neglecting the interaction between local and global governance in the world economy. The following analysis of the interplay between local and global governance in the triangle indicates that we may come up with a significantly different picture of regions when we open up the "black box" of the world market.

Actor constellations: cluster analyses and studies on systemic competitiveness have centred on intracluster relationships in regions. Enlarging the perspective by observing the interrelations between local clusters and policy networks and global value chains expands the analysis of the playing field and casts light on actor constellations that extend far beyond the concrete local industrial location. Local networks are tied into complex cross-border network formations that in turn alter local governance structures. "Intralocal" actor constellations are joined by:

- *local-global actor constellations*, for example, in the case of the Sinos Valley (Brazil) footwear cluster with the informal, but strong relationships between local lead firms and the lead firms of the global value chain (Bazan and Navas Alemán 2001);
- *transnational actor constellations*, for example, transnational networks active in technology development which come about through dense interrelations between lead firms, such as the medical equipment cluster in Tuttlingen (Germany) and global technology and competence clusters in the global value chain in which the Tuttlingen cluster is integrated (Halder 2002: 35);

- *interlocal actor constellations*, for example, in the framework of direct relationships between the producers of medical equipment in the Tuttlingen cluster and the Sialkot cluster in Pakistan (Nadvi and Halder 2002).

Diagram 5.1 Governance hexagon I
Industrial locations: the cluster-research perspective



Actor constellations:
- local business clusters
- local policy networks
- mutual interdependence ("shared sovereignty")
- local coherence/local complementarities

Interests:
- competition between companies
- collective interests in building up a strong location
- complementary interest constellations
- "we-identities" based on the race to create collective efficiency and systemic competitiveness

Power structures:
- local power constellations
- power embedded in patterns of local interdependence
- few "exit options" for local actors

Situational mindsets:
- "shadow of history"
- shared cognitive models, collective norms and values, "collective myths"
- economy embedded in "lifeworlds"

Action orientations:
- common problem-solving orientation

Trust:
- "we-identities", shared mental and cognitive models, local collective action, mutual interdependencies creating trust

But analysis of local networks in the context of global value chains not only reveals new quantities (greater reach of actor activities and more complex relationships), it also points to qualitative changes in actor constellations. We can observe, *first*, that the relationships between local firms and global actors in global value chains, especially global lead firms, have gained in intensity and significance in the period under observation (i.e. the past five to ten years). It appears as though the lead firms of global value chains have been able to expand their strategic position under the conditions of intensifying global competition. The case studies on the footwear cluster in Brenta (Italy) (Rabellotti 2001), the footwear cluster in Sinos Valley (Brazil) in the 1990s (Bazan and Navas-Alemán 2001), and the medical equipment cluster in Tuttlingen (Germany) (Halder 2002) all point in this direction. It is, however, also interesting to note that since the end of the 1990s the actors of the Sinos Valley cluster in Brazil have used an active diversification strategy to win new global lead firms as customers, in this way reducing local dependencies and enlarging local options.

Second, we can observe both in the three above-mentioned case studies and in the studies on the tile clusters in Brazil, Italy, and Spain (Meyer-Stamer, Maggi and Seibel 2001) that, in particular, it is the most efficient local firms that are intensifying their ties to global nodes (to centres of technological competence, to design pools, marketing networks and lead firms of value chains). International competitiveness increasingly appears to be dependent not only on local competitive advantages and local collective efficiency but on local-global cooperative relationships as well (transnational collective efficiency).

Third, denser actor relationships between local and global firms in value chains (local-global, transnational and "interlocal" structures) may correspond with close network relations between local firms, a fact which was pointed out, for example, in the case studies on Brenta and Sinos Valley. More dense global networking does, however, lead to a loosening, or indeed dissolution, of relationships to weaker local firms or local firms whose competences are becoming less important in the context of the global value chain (e.g. because they are replaced by external actors in the chain). The Brenta study shows this in an especially impressive way. Local design capacities and associated local networks (which have long been some of the world's most efficient designer-suppliers) are abandoned in favour of dense relationships to the "top brand global value chains". Deepened integration of parts of local clusters in global value chains goes hand in hand with the exclusion of other actors of local production networks, i.e. with fragmented local network structures that are at times only loosely linked.

Fourth, Most studies published in the context of cluster research point more in the direction of horizontal, i.e. network-based, relationship patterns between the actors involved in local industrial locations. The literature on global value chains shows that the structures prevalent in value chains tend to be more quasi-hierarchic. The horizontal structures in local clusters are mainly explained with reference to close mutual interdependencies between the actors there. The dominance of quasi-hierarchic relationships between lead firms and other firms in value chains can be explained mainly by the possibility open to lead firms to sign on suppliers throughout the world. This diversity of options implies "power" and a variety of exit options

for lead firms. In contrast, local suppliers are exposed to correspondingly high levels of competition, due to the world-wide availability of certain competences, therefore, they are relatively easy to replace. This pattern is all the more effective the smaller the number of relevant global buyers in the world market segments concerned. In global value chains balanced network structures and symmetrical interdependencies, therefore, appear to be the exception (see the tile cluster studies by Meyer-Stamer, Maggi and Seibel 2001).

If we compare the discussion on actor constellations in the framework of the cluster debate (in analogy to "systemic competitiveness" and "local innovation systems") with the above-sketched perspective of local clusters in the context of global value chains, we come up with the following picture: the first discourse is concerned with *coherence* in local actor relationships, with *focusing local competences and potentials* in local networks, on the basis of *complementarities* of local production factors, know-how pools, problem-solving and governance resources. For the second discourse the frame of reference is no longer the "locality". What is crucial here is the focusing of competences and potentials and complementarities in the global value chain, i.e. in transnational actor constellations, functional spaces, and networks. The price for competitiveness within transnational business networks can apparently be fragmentation of local network structures.

Interests: precisely under the conditions of world market interaction, the cluster approaches proceed on the assumption of convergent interests on the part of local firms and other actors in the business environment. These firms are interested in optimising their common location as a means of securing systemic competitiveness and collective efficiency. "We-identities" and shared interests are a consequence of global competitive pressure and a favourable point of departure for successful locational strategies.

If we look at *local clusters in the context of global value chains*, the interest constellations involved take on a distinctly different aspect. The empirical studies conducted in connection with the IDS-INEF project appear to be an appropriate approach for describing the local-global field in which interests are reshuffled.

The interest structures at the local level change effectively when global lead firms open up a playing field for some local firms or groups of firms that offers them an economically lucrative exit option from the local cluster. The studies on Brenta, Tuttlingen, and Sinos Valley during the 1990s show that situations can occur in which it is more attractive for some local firms to seek closer ties to the value chain than to invest in existing local network structures and local collective efficiency. The lead firms of all three clusters loosened their established relationships with local actors in order to realise new chances in the value chain (see Chapter 4). Under these conditions "we-identities" and an orientation geared to optimising a shared location are sharply relativised. Conflicting interests assume greater significance when promising strategies of some local firms in the context of global value chains are realized at the expense of other local firms, whose position in global and local networks erodes.

In other words, in local industrial locations heterogeneous and divergent interests gain significance in the context of global value chains, while common interests may come under "globalisation pressure". The

result is a field of tension between the interests of local actors in an efficient local environment, on the one hand, and interest in optimising interactions in the value chain on the other. This field of tension may be dominated by convergent interests (as illustrated by the studies on tile clusters in Italy, Brazil, and Spain) if most or at least many firms profit from integration in the value chain. But massive clashes of interest may also develop (see the cases of the Tuttlingen, Brenta, and Sinos Valley clusters) if a significant number of local firms are cut off from the dynamics within the value chain.

This complex situation will not see the disappearance of common convergent or complementary interests held by local actors, though they will increasingly be bound up with more complex and tension-filled constellations of interest. Although cluster research proceeds on the assumption that precisely successful local industrial locations are reliant on, and characterised by, common and convergent interests, the studies on Brenta and Tuttlingen show that the success of *parts* of an established local cluster may be achieved at the expense of other segments of local business networks, with massive clashes of interest then resulting from the fragmentation of local actor constellations in the context of global value chains.

These altered interests also affect in many different ways the policy networks in which local initiatives are developed. Business federations that are integrated within policy networks tend above all to act differently against the background of conflicting interests among their members than they would in the context of relatively convergent interests (see the exemplary case of Sinos Valley). Local firms with "exit options" that bank more on global links than local links (see the case of Tuttlingen) are often not available as strong partners in the further development of systemic competitiveness in situ. Local policymakers are of course geared to optimising their locations and, therefore, develop other interests than firms with markedly global interests (Leite 2002). Consequently, in view of the growth of situations marked by conflicting or divergent interests in local clusters, local policy networks and, especially, public actors tend to lose their ability to moderate conflicts (Schmitz 2001).

To sum up, we find at the local level a panorama that tends to be characterised by:

- more or less pronounced fragmentation of collective interests;
- common, convergent, and complementary interests operating side-by-side with divergent and conflicting interests; and,
- fields of tension between the interests of the global value chain (including its local components) and local networks (transnational versus local system integration).

The constellations of interests in global value chains may be characterised as follows:

First, under the conditions of global competition the lead firms of value chains are oriented to pursuing their self-interests, i.e. to strengthening the chain's competitiveness. Due to the possibilities offered by global sourcing (i.e. diversity of options, good exit options) the *point of departure of the interaction* between lead firms and local suppliers is characterised chiefly by strategic interaction and cost-benefit aspects, and

certainly not by "common interests". Thanks to the great variety of options open to lead firms, they are in possession of a leverage which they can use to bring about asymmetric bargaining situations that typically amount to hierarchic governance patterns.

Second, over the course of time common interests develop between lead firms and "decoupled" local firms that are geared to strengthening competitiveness within the chain. The fact that the lead firms in value chains are often wary of purely market-based transactions and prefer instead to invest in governance (e.g. in the interest of limiting risks or because market transactions involve higher transaction costs than durable bargaining-based relations) indicates a gradual development of *inter*dependent relationships between lead firms and local firms, even though these interdependencies may turn out to be markedly asymmetrical. Empirical studies indicate that lead firms may invest in many different ways in relationships with local suppliers (technology transfer, provision of market information, designs, etc.). The higher the asset specificity of these investments and the more strategic the resources available to local firms (e.g. production know-how, design competence), the denser the patterns of cooperation in the value chain and the greater, first, the trend toward the development of common interests between lead firms and local firms and, second, the likelihood that more network-like and less hierarchic governance patterns will be established in the chain.

Third, lead firms may very well be interested in the efficiency of local clusters that are integrated in value chains. In other words, common interests may grow not only between lead firms and individual local firms but also between a lead firm and local business networks. As a rule, however, these common interests will concern *parts* of the local cluster, with inclusion and exclusion taking place at the same time.

In summary, value chains present the following picture: the starting point of the interaction between lead firms and local firms is marked by strategic and self-interest-oriented action. This interest structure contrasts with the image usually subscribed to in cluster research: common interests on the part of local actors in optimising their shared local site, because individual interests (growth and strengthening the competitiveness of the firms involved) can be reached only through "collective efficiency". If common interests develop in a global value chain, they remain fragile due to the often highly asymmetrical interdependence structures between local and global firms and the variety of exit options available to the lead firms.[16] Borrowing from Michael Walzer's (1994) terminology, which distinguishes between "thick morality" (in local contexts) and "thin morality" (in global contexts), we might speak of "thick common interests" in local clusters and "thin common interests" in value chains as a way of marking the qualitative differences in the governance structures of local clusters and global value chains.

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[16] This characterisation is a description of a tendency that tends to be less pronounced in more network-based global value chains.

Power structures: the important trend here is that "power" is increasingly located at the global level (with global lead firms) or among local actors who are tied closely into global networks, while other local actors lose power. The forms of a more or less horizontal distribution of power in local industrial locations that are stressed in the context of cluster research are said to involve actors engaged in building "collective efficiency" and, therefore, bound to one another by dense (more asymmetrical) structures of interdependence These actors, it is noted, come under globalisation pressure in the context of global value chains.

Various power shifts can be observed:

- between the local firms that are closely tied to lead firms and other local actors who may be on their way out of global value chains (e.g. in Brenta firms that offer design services) or firms that are of little interest to global and local lead firms because they are replaceable;
- in favour of closely integrated local exporters in local policy networks that develop locational strategies, so that regional locational policies are as a rule more strongly geared to the interests of globally oriented firms than to local firms. The latter are marginalised within the local clusters in the process of restructuring in global value chains (this is highlighted by the case of Sinos Valley);
- between local and "immobile" policymakers (who are reliant on "voice" mechanisms in their policy networks) and local firms that can credibly threaten to drop out (have exit options).

For the actors concerned "loss of power" implies growingly restricted scopes of action and less chance to influence decision-making processes and development dynamics in business clusters.

The empirical studies on global value chains indicate that power, understood as the ability to:

a) define parameters governing the activities of others; and,
b) facilitate and constrain upgrading processes of others, thereby significantly influencing the development dynamics of both the global value chain and the local sites involved,

is often in the possession of lead firms. This applies not only for global lead firms that cooperate with suppliers from more or less weak developing economies but also, for example, for the lead firms that are networked with world-class producers such as those in the Brenta footwear cluster.

It must at the same time be emphasised that "power" is not a static factor. Power constellations change. Many analyses of global value chains show that local firms may go through rapid techno-organisational learning processes in the context of global value chains (Gereffi 1995,2000; Schmitz and Knorringa 2000; Kishimoto 2001). This process gives rise (as noted above) to interdependencies and mutual interests between global lead firms and local firms, i.e. to balanced power structures. On the other hand, local firms can successively develop independent competences, competitive advantages, and action resources that enable them to "drop out" of power structures that block their development potentials. The example of firms in the Sinos Valley that finally managed to diversify their global sales channels, i.e. developed additional options of their own, in this way enlarging their scopes of action *vis-à-vis* the lead

firms, points in this direction: strengthening local competitive advantages with an eye to systematically enlarging options in global value chains. However, it was already noted that it is by no means easy to put in place such a strategy in the context of complex power structures, multifarious divergences of interests, and "thinner and thinner" common interests at the point of intersection of global value chains and local clusters.

Situational mindsets: mindsets include cognitive models, normative values and ideas, and "collective myths". Local clusters and policy networks are characterised by common lifeworlds, historically grown cognitive models and value orientations, collective notions of state, market, fairness, equity, etc. In this context, locational strategies of clusters or policy networks are never characterised exclusively by economic rationality's; they are always influenced by social, cultural, and political mindsets, for example, when the concern is to include weak firms in adjustment processes or to reduce their competitive disadvantages. Earlier studies on the "Third Italy" (Brusco and Righi 1989; Becattini 1990) pointed out that local policy networks, seeking their orientation in principles like solidarity and social balance, created the foundations needed to deal with distributional conflicts and structural adjustment processes, which are more and more frequently encountered under the conditions of global competitive pressure, as well as to build trust potentials and strengthen political stability and "we-orientations". The "Third Italy" studies argue that it is precisely in local industrial locations that have succeeded in bringing economic and social rationality's into balance that incentive systems conducive to collective competitive advantages and systemic competitiveness have been developed (Piore and Charles 1984).

Therefore, in local industrial locations economic rationalities are always embedded in social foundations. Cluster research (as opposed to the work of neoliberal theorists, for example) by no means regards this intertwinement of economic and social rationality's as a disadvantage when the concern is to develop competitiveness. Instead, it stresses the significance of specific soft locational factors (like trust and "we-identities") and "social capital" for collective efficiency and network governance capable of action. Local clusters and policy networks can fall back on social and moral resources that the market itself cannot produce.

In global value chains common mindsets are, in essence, reduced to an orientation to world market standards, strengthening competitiveness, and economic rationalities and rationales. "Shadows of history" in which common lifeworlds and "myths" are rooted are without significance for the mindsets of actors in global value chains. Restructuring processes in the chain are pushed through by lead firms with a view to market efficiency. Categories likes "fairness," "solidarity", solutions that include potentials losers of the adjustment process are not of central significance here (as opposed to the action dynamic in local contexts).

As long as value chains are dominated by market-based governance patterns or quasi-hierarchic governance structures, this lack of common mindsets and the above-described weak common interests is unlikely to give rise to any governance problems (though it may generate a variety of social distortions).

Under the conditions of the market it is the selection mechanism of competition that decides, and in quasi-hierarchic structures lead firms can, in cases of conflict (distributional conflicts, chain reorientations, etc.), push through one-sided decisions at the expense of other actors. The relatively few global value chains that build on balanced network structures, i.e. which are marked by a rough balance of power and an even distribution of strategic resources between global and local firms, are nevertheless forced to come up with joint decisions and solutions if blockade situations are to be avoided. Network-based value chains are, therefore, threatened by network failure (Messner 1997) when specific distributional conflicts have to be solved in the chain (game theory: battle of the sexes, chicken game). Otherwise they will lack access to the social resources on which network governance is reliant in such cases of conflict (social compromise, trust, reciprocity and shared understanding of fairness).

When we observe local industrial locations in the context of global value chains, we note that the dominant patterns of interpretation in the chains (reduction to economic rationales and "market-economisation") "trickle down" into local clusters. The mindsets in local business clusters and policy networks, anchored in deep social structures, will not of course simply vanish into thin air. They do, however, become far more heterogeneous (e.g. due to situations marked by more complex interests, new power structures) and tend as a whole to come under globalisation pressure. The logics of the economic rationality's of the world market, which are conveyed to local industrial locations via global value chains and local firms that are closely integrated into global chains, may seriously conflict with mindsets in situ, which are shaped by lifeworld factors and the "shadow of history" (divided value concepts, models, etc.). The case of Brenta shows how established common mindsets, perceptions (design and marketing competence as a "collective identity") and action patterns are adapted, under pressure from lead firms, to "new world market realities". Competing models, competing perceptions of realities and different approaches to knowledge pools (local versus global knowledge resources), i.e. cognitive views that are drifting apart, characterise the new panorama.

Mindsets of different scopes emerge that make collective action difficult, for example, between globally oriented firms in situ that think and act in global actor constellations and action strategies and local policymakers whose horizon and influence is mainly restricted to their local environment.

The integration of local industrial locations into global value chains can accordingly lead to conflicting mindsets and erosion of social capital. Any such development would undermine local coherence, lead to the fragmentation of local clusters and policy networks, and "use up" social resources on which network governance (of central importance in local structures to ensure collective action capacities) is reliant. Different regions will certainly deal differently with this kind of globalisation pressure. Apart from the above-sketched "negative" impacts, "external challenges" (perception of new cognitive models and mindsets, access to new knowledge pools) can of course also mean positive irritations and stimulations for local actors which can accelerate local learning processes. The direction in which regions will move in the context of these challenges, demands, and tensions is determined by the concrete interplay between the dimensions represented in the governance hexagon in specific locations. In other words, it is an empirical question.

Action orientations: the action orientations of actors in global value chains, the "basic rules" according to which firms act, are based on the "exchange and bargaining orientation" of the egoistic *homo oeconomicus*. This pattern stands in a tense relation to "common problem-solving orientations" on the part of actors that have often been observed in successful and dynamic local industrial locations. As was noted above for "situational mindsets", the action orientations of global value chains gradually "trickle down" into local industrial locations, providing for competing action orientations and placing traditional local basic rules of interaction under globalisation pressure.

If one-sided "bargaining orientations" gain the day in local industrial locations, this may entail undesirable consequences not only in social terms. A fact that is just as important in the long term, though, is that network governance in local clusters and policy networks are reliant on a "common problem-solving orientation". First, in order to avoid persistent blockades and, second, with an eye to mobilising the innovation potential of networks, for instance, to avoid having to agree on the lowest possible denominator and, instead, seek orientation in terms of the Kaldor optimum (see Messner 1997: 238–92). On the other hand, without network governance it is not possible to develop systemic competitiveness and collective efficiency because the latter cannot be created on the basis of pure market governance or hierarchic governance (planning and top-down locational policy). Instead, a combination of market dynamics and network governance is required. If competitiveness is to be developed in situ, then social resources and action orientations that could gradually erode the action logic prevalent in value chains are called for. This points toward a dilemma.

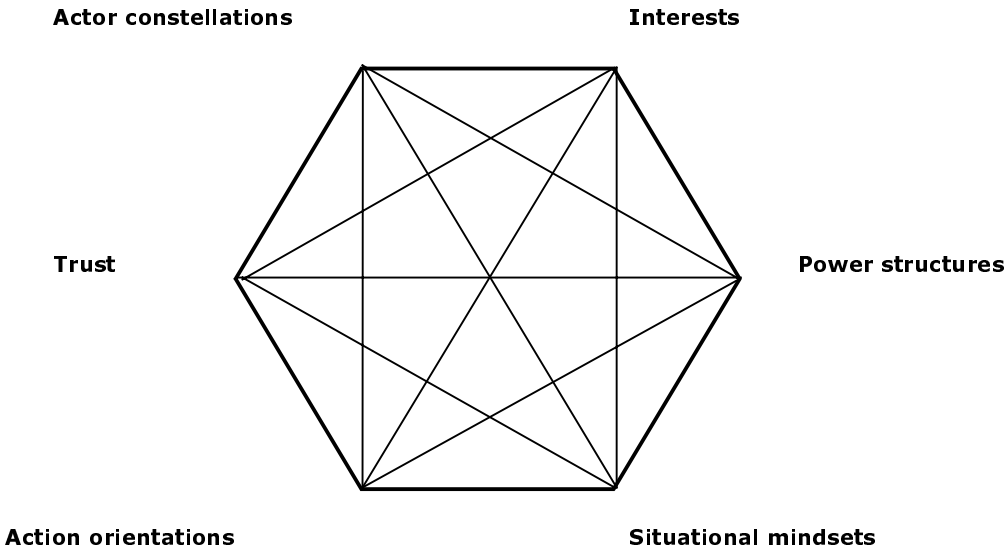
Trust: "We-identities", joint problem-solving orientations, and dense common interests (in collective efficiency and systemic competitiveness in situ), reproduce and multiply "trust", i.e. the social capital on which dynamic networks rely. "Trust capital" is used up and destroyed by increasingly conflictual constellations of interests, power transfers to the global players of value chains, competing or contrary situational mindsets on the part of local actors and a creeping universalisation of the action orientation typical of the *homo oeconomicus* at the expense of "joint problem-solving orientations". The dynamics in the five dimensions of the hexagon worked out above tend to vitiate the conditioning factors that favour the reproduction of trust. This potential development may threaten to erode one of the central social resources of collective action capacities in local clusters and policy networks. This development has been particularly striking during the 1990s in the Sinos Valley and in Brenta since the 1990s.

5.3 Governance patterns in the field of tension between local industrial locations and global standard-setting policy networks

The interaction patterns between local actors and global value chains in the triangle are tied into an additional global governance context: global policy networks dedicated to working out, codifying, monitoring, and, in some cases, certifying standards. Chapter 2 discussed this and explains why the "world of global standards" is increasingly important for global value chains and local industrial locations. The following section concentrates on global networks in which social and ecological standards are set. It

Diagram 5.2 Governance hexagon II

Industrial locations: interacting with global value chains



Actor constellations:

- local-global, transnational and interlocal actor constellations
- dense interaction with global lead firms
- strong links between highly competitive local firms and global lead firms – erosion of links to weaker local firms
- transnational coherence and complementaries

Power structures:
power "goes global":

- global lead firms
- strong local exporters
- new "exit options" for globally connected firms
- declining power of immobile actors (small firms, local government etc.)

Action orientations:

- *homo oeconomicus* orientation (tensions with common problem-solving orientation)

Interests:

- conflicting interests gaining in importance
- tensions between "we-identities" in the chain versus the cluster
- tensions between collective interests in the cluster and in the chain
- most competitive local firms are more interested in global than in local networks
- fragmentation of local interests

Situational mindsets:

- eroding "shadows of history" (collective norms, values, mental models)
- pluralism/fragmentation of situational mindsets
- pure economic logic of the chain penetrates local environments (*homo oeconomicus*)
- social embeddedness of markets under the pressure of globalisation

Trust:

- logic of the chain "consumes" local trust pools (fragmentation of local interests, erosion of the shadows of history, etc.)

shows that local governance structures (whose transformation in the process of interaction with global value chains was outlined in the last chapter) are again modified in the context of global standard-setting policy networks. We see here that some trends toward fragmentation and a weakening of local governance structures that are set in motion by global value chains may be counteracted or balanced out by global standard-setting policy networks.

Actor constellations: global standards are as a rule negotiated and defined in network-like constellations of actors that involve multinational corporations (not least lead firms of global value chains), NGOs, experts, scientists, and, at times, governments and international organisations as well (see Chapter 2; Nadvi and Wältring 2002 for more details). The "world of global standards" is dominated by stakeholder structures. Social and ecological standards are often forced onto the agenda by NGOs and international public pressure. It can, however, be observed that multinational corporations and lead firms of global value chains which are positioned in sensitive industries that can be easily observed by the international public (natural-resource- and labour-intensive industries) are increasingly moving to develop proactive strategies as a means of avoiding legitimisation problems and potential damage to their reputations (Waddel 1999; van Liemt 1998; Merck 1998; Fuchs 2001).

Global policy networks do not only set the "external parameters" that local firms have to meet to secure their competitiveness in specific world market segments and value chains. They also incisively alter local constellations of actors (and governance patterns), as the few empirical studies concerned with the interactions between local and global governance have shown (Nadvi and Kazmi 2001; Maskus 1997; Dolan and Humphrey 2000):

- *Global actors penetrate local constellations of actors*: global actors (lead firms, NGOs, international organisations) gain influence at the local level as monitors of global standards, or they offer technological and organisational aid in meeting global standards. Thus, in regions it is local and global actors that interact, and novel ("glocal") actor constellations develop at the local level and are tied into transnational interaction patterns (Dion *et al.* 1997).
- *Transnational actor constellations emerge*: new alliances and a variety of different actor constellations between local and global actors are conceivable here. For example, between local and global NGOs that have set their sights on obtaining social standards from global lead firms or local business clusters; or alliances between global lead firms and local policy networks geared to establishing ecological standards that can serve to ward of any potential losses of reputation for regions and the lead firms active in them. In addition, the actors involved in the "world of global standards" often move at several levels of action at once, for example, NGOs active in global policy networks, in the local industrial locations "affected," and in the public sphere of the countries in which they are based. This gives rise to transnational multilevel actor constellations (Nadvi and Wältring 2002; Haufler 2000).

- *Local actors as global players*: local actors (firms, business federations and policy networks) can seek to become players in global policy networks with an eye to influencing the decisions taken in them. As a result, they are then actively involved in multilevel constellations (Chahoud 1998).

In other words, local constellations of actors not only expand into the space of global value chains, they also move in the direction of global standard-setting policy networks. The world economic triangle is becoming a networked local-global multilevel playing field. In the context of the interaction between local industrial locations and global policy networks, one can envisage both quasi-hierarchic actor constellations (e.g. when powerful lead firms push through global standards in situ) and network-based structures (e.g. between local and global NGOs).

Interests: the growing relevance of global social and environmental standards for world-market-oriented developing regions and for lead firms of global value chains (in sensitive industries) tends to give rise to a new basis for "common interests", both in local industrial locations, and between the latter and global lead firms. To protect, or defend, themselves against international campaigns against environmental degradation and exploitation in developing regions (risk minimisation, avoidance of high costs stemming from legitimisation crises and losses of reputation), it is not enough for local actors, be they firms or public institutions, to undertake individual efforts. International public opinion does not distinguish between some companies in region X that comply fully with social and ecological standards and other companies in which environmental degradation and exploitation are rampant (Chahoud 1998; Bazan and Navas-Alemán 2001; Nadvi and Kazmi 2002). Therefore, local actors must be increasingly concerned, as a local system (as a quasi-collective actor), to develop a positive social and ecological image (which ultimately calls for institutions and monitoring) if they are to attract direct investments, avoid obstacles to their integration into global value chains (which are highly vulnerable to international campaigns), and secure their competitiveness over the long run. Under the pressure of global ecological and social standards, lead firms of global value chains must also be interested in cooperating with local industrial sites that are tied into their chain and that are of great significance for their value chain if they are not to be "targeted" by global NGO campaigns (Diller 1999).

In short: global social and environmental standards may become a source of development of "common interests" and "we-identities" in regions because actors cannot protect their international reputations individually but must act collectively toward that end – collective efficiency matters. The public good that must be produced collectively may be termed "building a region's ecological and social image". Furthermore, this can even give rise to important common interests between global lead firms and local industrial locations, above and beyond the group of direct suppliers. This is because the "fine differences" (Bourdieu) between direct suppliers and the broader local setting are for all intents and purposes not perceived by international public opinion. If they are to minimise risks, global lead firms are going to have to develop strategies aimed at inducing local suppliers to comply with global social and environmental

standards and to support the development of a "positive regional image" or give up their engagement. In the interplay between local industrial locations and global policy networks that are relevant for global standards, this encourages the emergence of collective constellations of interests which run counter to the otherwise conflictual, polarising, and fragmentising interest structures between local industrial locations and global value chains. In concrete empirical cases these constellations of interests will tend to overlap in the context of the triangle. Analysis of the interest structure leads to three important observations on the triangle's mode of operation:

- *Reorganisation of the "exit and voice mechanisms" in the triangle*: the potentials offered by global sourcing on the one hand provide global lead firms with a variety of "exit options". On the other hand, the growing importance of global NGOs, consumer organisations, and international public opinion (e.g. social dimension of globalisation) makes these same firms vulnerable world-wide to campaigns such organisations might launch against questionable business practices. In the framework of world-spanning production strategies, global NGOs and other private agents are gaining "voice options" at the global level that tend to erode under the pressure of relocation threats by firms (i.e. their exit options) in local contexts. This involves a paradox. While relocation threats may weaken the bargaining potentials of local political actors *vis-à-vis* industry, world-wide corporations are, de facto, increasingly accountable at the global level to transnational policy networks. Whether this "voice potential" of civil-society actors in the world economy will fall on fertile ground remains to be seen.
- *Revitalisation of the role of local policy networks in the triangle*: as a result, local policy networks are again growing in relevance. Without them it will be difficult to achieve "collective efficiency" in this field, to shore up a region's reputation, to bring about interaction with global policy networks, etc. All of these needs and requirements are beyond the reach of individual actors, and in particular of firms, and can in the end be met only by policy networks (Nadvi and Kazmi 2002; Dion *et al.* 1997). New fields of "meso-policy" emerge: local politics matters . . . in working out and dealing with global standards as one of the essential requirements for securing international competitiveness in the triangle (Navas-Alemán and Bazan 2002; Nadvi and Kazmi 2002).
- *The tense relationship between local and transnational interests in the triangle*: the dichotomy between "local interests" on the one hand and "interests of global actors" on the other becomes brittle. Alliances of local actors (NGOs, policymakers and firms) geared to strengthening social standards may see themselves face to face with alliances of other local and global actors more concerned with preventing the establishment of social standards. Transnational interests and transnational constellations of actors become the focus of attention. In the triangle, "we-identities" and common interests are no longer necessarily tied to territorial spaces; they can just as well come about in border-crossing functional spaces. This observation once again indicates that the world economy must no longer be conceptualised in terms of strata but must be regarded as an interwoven multilevel system.

Power structures: local actors tend to view policy networks that define global standards as power structures because such networks set parameters that must be implemented at the local level (Quadros 2002). Global policy networks from the "world of standards" also have power *vis-à-vis* the lead firms of global value chains in that the latter are also obliged to respect existing global standards[17] if they are to avoid "costly" losses of reputation. It is proving unrealistic that global players in the world economy can attempt to evade social and environmental regulations. Economic globalisation goes hand in hand with new norms of political and social globalisations that are giving rise to new global governance patterns in which the dynamics of the world market are gradually being embedded. Global policy networks are slowly building social and ecological guard-rails for the world economy. As a result, the global economy of the twenty-first century can develop in the direction of a stakeholder economy.

It must be noted here that local actors cannot ignore the power of the relevant global players. To this extent the interplay between local and global policy networks entails a transfer of power to local players. However, global policy networks can also force the lead firms of value chains to comply with rules. The distribution of power within the triangle is, therefore, not simply a zero-sum game between local and global actors. Global economic power (of lead firms), global social power (of NGOs, "epistemic communities", experts, international organisations, global policy networks), local power potentials (of clusters and policy networks), and the power of alliances of transnational actors (local NGOs, international organisations) form a complex and tense nexus, the concrete shape and balance of which can be worked out only empirically from case to case. One factor that should not be neglected here is that power potentials at the local level can be strengthened if local actors manage to gain influence on the standard-setting activities of global policy networks, i.e. if they succeed in developing global governance capacities. This is likely to be a realistic option for advanced countries, though weakly developed countries are unlikely to be able to implement it.

Situational mindsets: global policy networks in which standards are defined evolve either on the basis of forward-looking multinational corporate policy or through pressure exerted by NGOs and other actors of international civil society. The situational mindsets and the interests of firms and other relevant actors in global policy networks can at first prove to be highly conflictual (as in the case of national collective bargaining: what are "appropriate" social and ecological standards?; or disputes over procedural questions). The motives that induce actors to participate in global networks can likewise differ substantially. NGOs are interested in achieving normative standards and values. Labour unions may be more interested in protecting the interests of their national membership and in preventing social dumping. Firms may be more concerned about their international reputation and social legitimisation, in securing their long-term expectations, defining clear-cut rules, perhaps in normative orientations as well. Despite

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[17] If global standards are monitored and certified by independent actors, it is very risky for the firms concerned not to comply with the standards. It is also important to note that the setting of global standards tends to develop a dynamic of its own (see Chapter 2).

such differences and conflicting interests, actors in networks interact because market transactions and hierarchic governance (e.g. via the ILO or the WTO) are unable to come up with any solution for this kind of conflict over social and ecological standards in world trade and in value chains. Permanent refusal to cooperate would mean disadvantages for all actors concerned (i.e. never-ending conflict).

In the end, NGOs and other actors interested in minimum standards will only be able to advance their interests in negotiations with firms; multinational corporations can refuse to negotiate only if they are willing to run the risk of being pilloried in the international media and by NGOs. Global networks are accordingly characterised by interdependence structures, and the actors involved in them will gradually have to work out joint mindsets (cognitive models, normative ideas and values, collective myths) if they are not to fritter away their capacity to act and damage one another in never-ending confrontational negotiations.

It is interesting that these *common mindsets in global networks* of necessity exist without any backward links to common lifeworlds (Lebenswelten), historical experience of collective action, and deep social structures ("the shadow of history") which, in national societies, constitute the foundation of collective mindsets. Since the actors that come together in global networks for limited periods of time are as a rule from different countries and milieus, they cannot, in their processes of interaction, fall back on social resources within regions that are inscribed in historically established institutions and rule systems.[18] Thus, global policy networks act in a socio-economic context entirely different from that in which local and national policy networks operate, which can and indeed must fall back on grown mindsets (cognitive models, normative ideas and values, collective myths). Here, too, we see once again that globalisation is not only an economic process but also and at the same time a social dynamic that confronts all actors involved with new challenges.

The standards for specific value chains and industries set by global networks are binding for local clusters that are tied into these global governance structures. It is in this way that global norms, standards and mindsets trickle down into regions. This process intensifies once more when global actors become active in situ with an eye to promoting, monitoring, or supporting global standards or to strengthen the capacities of local actors to meet global standards. From the perspective of the triangle we see that global social and environmental standards are conveyed to local sites via the structures of global value chains, i.e. via world market mechanisms and global policy network mechanisms. The economic and social dimensions of globalisation are gradually coalescing.

We now have the following picture: in *local industrial locations* and national societies, economic rationality, competition, and the market are always embedded in social lifeworlds, social deep structures,

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[18] It is interesting to note that global policy networks often refer back to existing inter- or supranational rules and standards (e.g. the ILO's core labor standards or sections of the Human Rights Charter). By plugging into standards (e.g. the ILO standards) that have been ratified by many states (though they may be at times limited in their impacts), global policy networks construct something like a "global shadow of history" which paves the way for a minimum of joint situational mindsets. On the other hand, transnational actors may find an anchor of legitimacy in inter- and supranational standards.

and normative patterns. *Global value chains* and firms are first and foremost dominated by the cold logic of economic rationality, because global value chains have detached themselves from the social structures of concrete territorial nation-states and regions. As described above, the economic action logics and mindsets of global value chains gradually trickle down into local industrial locations. In noting that increasingly it is *no longer markets that are embedded in societies but societies that are embedded in markets*, Wolfgang Streeck is describing the same processes (Streeck 1998). The social and ecological standards developing in *global policy networks* are something like a "thin" equivalent of the social lifeworlds and interwoven norms encountered in regions, but now in the context of the world economy. The global value chains that have detached themselves from the social structures of territorial loci are embedded in these "world society" social structures of global networks. To continue with the ideas developed by Streeck, it seemed as though entire societies were being tied into markets, but now the world markets are increasingly being reintegrated into structures of world society. Furthermore, local industrial locations of "peripheral economies", which "earlier" no one was interested in, see themselves, in the networked world economy of the twenty-first century, confronted with global social and environmental standards that must be met in the name of international competitiveness. In other words, while global value chains tend to set in motion a "market-economisation" of interactive relationships and governance structures in local industrial locations, the "world of global standards" can foster the social and ecological dimensions of development in regions.

Action orientations: all three action orientations that are distinguished in organisational theory (exchange and bargaining orientations, confrontational orientations and common problem-solving orientations) are conceivable in the context of global policy networks. Permanent confrontational orientations, which are often prevalent prior to the establishment of global networks, when NGOs and other actors resort to public campaigns to put multinational corporations under legitimisation pressure, lead to network failure if they are not gradually alleviated. Bargaining orientations are typical in the constitutional phase of networks when each participating side pursues its own egoistic self-interests. However, because difficult distributional conflicts have to be resolved (and this is what is at stake with social and ecological standards), global networks are forced to seek at least a minimal level of problem-solving orientation. In addition, global policy networks are not concerned solely with issues of income redistribution (e.g. minimum wages levels). They are also involved in disputes among highly different actors (e.g. US managers and NGOs from Asia and Europe) concerning:

- basic normative issues (e.g. how are we to understand fairness? Under what conditions is child labour acceptable?);
- cognitive perceptions (e.g. who is mainly "to blame" for exploitation patterns or environmental degradation and who is "responsible" for redressing them: global lead firms? local firms? local policymakers?);
- models of social order (e.g. who is to monitor standards: local public institutions, private certifying organisations or transnational NGO networks? Do global actors have the "right" to intervene in

location industrial locations and enforce specific rules by means of monitoring, control systems and pressure on local institutions?).

If actors in global policy networks do not manage to develop common mindsets and build a minimum of problem-solving orientations, networks tend to move toward "endless disagreement" and blockades. This makes it impossible for them to fulfil their specific purposes:

- enforcement of social and environmental standards in which NGOs are interested; and,
- the stable expectations, clear-cut rules, and social legitimisation that multinational corporations rely on.

These are common and convergent interests that can, despite simultaneous conflicting interests, generate a dynamic of their own towards development of minimal common problem-solving orientations.

One important consideration is that this trend toward a common problem-solving orientation in global policy networks is a trend that runs counter to the dynamics inherent in global value chains, which operate in the direction of "pure exchange orientations based on the principle of egoism" (in the same way as "interests" and "situational mindsets"). To this extent, releasing local industrial locations into the "world of global standards" also constitutes a counterweight to the tendency marked by erosion of common problem-solving orientations in regions due to their integration in global value chains. In the triangle, the action orientations in regions are influenced by the superimposition of these two conflicting global trends. It is in the field of tensions defined by the triangle that the conflict between the shareholder and the stakeholder economy is acted out. Which action orientations will develop in this field of local-global governance is, in the end, a question that can be answered only empirically.

Trust: in the context of the global value chain, "we-identities", common interests, mindsets, and action orientations come under globalisation pressure, i.e. they are fragmented, used up, consumed or at least diluted. In global policy networks devoted to setting standards, the actors must either come up with common solutions or enter into permanent conflicts; this is a development that would harm the interests of all participants but cannot of course be ruled out (Axelrod 1984). Because global networks can at least give rise to common interests, mindsets, and problem-solving orientations, the actors involved in the "world of global standards" are faced with a favourable incentive system that can encourage the gradual development and reproduction of trust.

The mechanisms that are assumed in the literature to foster "trust" (Gambetta 1988; Zucker 1986; Humphrey and Schmitz 1998) can unfold their impacts in the context of global networks. Trust is fostered by:

- stable conditions and certain rules: this is the point of, and the idea behind, the standards developed in global networks;

- value contexts, common social and moral resources: these can develop gradually in the global policy networks devoted to the setting of standards;
- learning-by-doing mechanisms, i.e. the development of trust as a product of repeated cooperation. These processes also take place in standard-setting networks; and, finally,
- trust-promoting institutional structures into which actors with conflicting interests are integrated. These are understood as global policy networks.

In local industrial locations the pressure of local standards can strengthen and foster "we-identities" and common interests and problem-solving orientations, because a region's "social and ecological reputation" can be made or undone not by individual firms or isolated activities of individual organisations but, as a rule, only by collective activities of actors. The collective challenges that global standard-setting networks pose for regions are also easier to master on the basis of trust-based relationships between local actors than they are by "autistic *homo oeconomicus*-type actors", and this builds functional pressure toward developing trust or strengthening existing trust-based structures.

5.4 Résumé

The hexagon-based analysis, synthesised in overview 5, will now be used to address the following issues: (1) What impacts do the manifold interactions between local and global governance in the world economic triangle have on the governance patterns in regions and the options of local actors and policy networks? (2) How might we best outline the governance patterns in the three poles of the triangle?

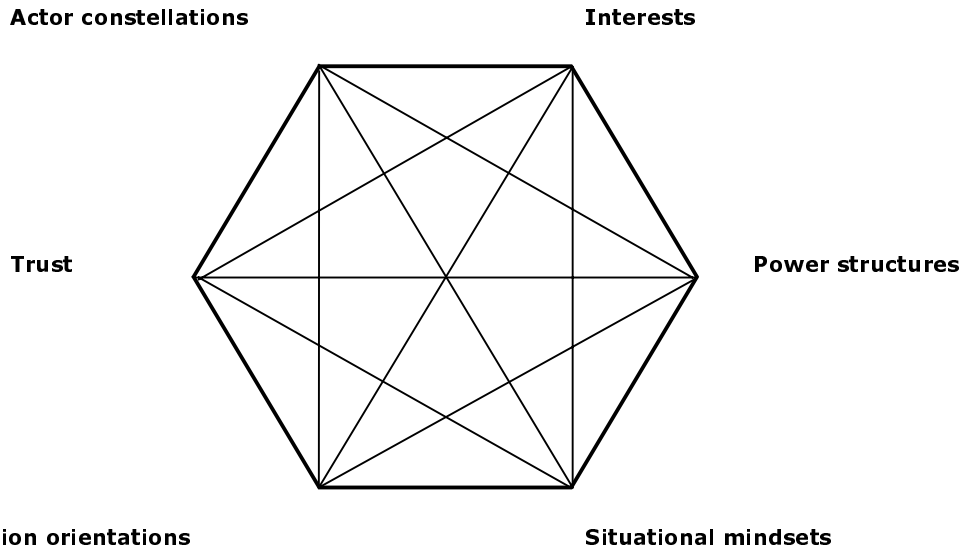
5.4.1 Change of governance patterns in regions

It must first be noted that the development dynamics discussed above are general trends and that the specific forms they take depend on conditions in concrete regions and value chains. The analysis based on the hexagon grid explicitly underlines the influence of certain dimensions on the activities of actors which are highly context-dependent. Regions in which there are strong historically anchored trust-based relationships deal with integration in the world economic triangle in ways that differ from those open to socially disintegrated locations. Also, the clusters in developing countries and industrialised countries clearly differ in terms of their action capacities. Furthermore, Chapter 4 showed, first, that local scopes of action are greater in network-based global value chains than they are in quasi-hierarchically governed value chains. Second, we noted that different global standards (e.g. technical versus environmental standards) and specific governance patterns in transnational standard-setting networks (e.g. business-driven networks versus NGO-driven networks) place different specific demands on local actors.[19]

[19] The governance hexagon is thus a heuristic frame of reference, an analytic tool that can be used to conduct studies aimed at analysing interactions between local and global governance in the triangle.

Diagram 5.3 Governance hexagon III

Industrial locations: interacting with "world of global standards"



Actor constellations:

- transnational multi-stakeholder constellations
- local actors going global; global actors intervening in regions
- transnational networks, promoting social and environmental standards
- multilevel policymaking

Interests:
collective interests

- in the chain, to secure social and ecological reputation
- between chain and cluster to avoid negative social and environmental images
- at the local level: social and ecological reputation as a "public good"
- re-emergence of (transnational and local) we-identities
- new conflicting interest constellations: transnational alliances promoting or struggling against global standards

Power structures:

- global rules (of the chain and the "world of standards") gaining importance for local and global actors/firms
- new power constellations between local firms, NGOs, policymakers and global firms, NGOs, international organizations

Situational mindsets:

- divergent situational mindsets (global firms: clear rules; NGOs: normative limits on global markets; labor unions: avoid "social and ecological dumping")
- compulsion to create common situational mindsets in global policy networks (what is "fair"; acceptable environmental standards etc.) to avoid never-ending

Table 5.1 Synopsis. Basic governance patterns in the world economic triangle

	Industrial locations the cluster-research perspective ("the ideal world")	**Industrial locations interacting with global value chains**	**Industrial locations interacting with the "world of global standard"**
Actor constellations	• local enterprise clusters • local policy networks • mutual interdependence ("shared sovereignty") • local coherence/local complementarities	• local-global, transnational and interlocal actor constellations • dense interaction with global lead firms • strong links between highly competitive local firms and global lead firms – erosion of links to weaker local firms • transnational coherence and complementarities	• transnational multi-stakeholder constellations • local actors going global; global actors intervening in Regions • transnational networks, promoting social and environmental standards • multi-level policy making
Interests	• competition between companies • collective interests to build up a strong location • complementary interest-constellations • "we-identities" based on the race to create collective efficiency and systemic competitiveness	• conflicting interests gaining importance • tensions between "we-identities" in the chain versus the cluster • tensions between collective interests in the cluster and in the chain • most competitive local firms are more interested in global than in local networks • fragmentation of local interests	collective interests • in the chain, to secure social and ecological reputation • between chain and cluster to avoid negative social and environmental images • at the local level: social and ecological reputation as a "public good" • re-emergence of (transnational and local) we-identities • new conflicting interest constellations: transnational alliances promoting or struggling against global standards

	Industrial locations the cluster-research perspective ("the ideal world")	**Industrial locations interacting with global value chains**	**Industrial locations interacting with the "world of global standard"**
Power structures	• local power constellations • power embedded in patterns of local interdependence • few "exit options" for local actors	power "goes global": • global lead firms • strong local export firms • new "exit options" for globally connected firms • declining power of immobile actors (small firms, local government, etc.)	• global rules (of the chain and the "world of standards") gaining importance for local and global actors/firms • new power constellations between local: firms, NGOs, policy makers and global: firms, NGOs, International Organisation • re-balanced power between global firms and global policy networks
Situational mindsets	"shadow of history" • shared cognitive models collective norms and values, "collective myths" • economy embedded in "lifeworlds"	• eroding "shadows of history" (collective norms, values, mental models) • pluralism/fragmentation of situational mindsets • pure economic logic of the chain penetrates local environments (*homo oeconomicus*) • social embeddedness of markets under the pressure of globalisation	• divergent situational perceptions (global firms: clear rules; NGOs: normative limits for global markets; trade unions: avoid "social and ecological dumping") • compulsion to create a common situational perception in the global policy networks (what is "fair"; acceptable environmental norms etc.) to avoid never ending conflicts • absence of shadow of history
Action orientations	• common problem-solving orientation	• *homo oeconomicus* orientation (tensions with common problem-solving orientation)	• between egoistic oriented negotiations and common problem solving orientation
Trust	• "we-identities", shared mental and cognitive models, local collective action, mutual interdependencies, creating trust	• logic of the chain "consumes" local trust pools (fragmentation of local interests, erosion of the shadows of history, etc.)	• trust may emerge in the global policy networks (via stable rules) • the challenge to build up a local "social and environmental reputation" requires local collective action and may foster trust

Despite these references to specific forms of interaction between local and global governance in the triangle, analysis based on the hexagon does permit relatively fundamental conclusions to be drawn. Chapters 3 and 4 point to the complexity of world-economic structures and global governance patterns that constitute the action context which local actors must bear in mind if they are not to fall prey to voluntarist strategies. These sections also outlined some new challenges facing firms and policy networks in regions (e.g. gaining knowledge on dynamics in the value chain and the "world of global standards", developing global governance capacities). Hexagon-based analysis of the interactions between local and global governance in the triangle adds to our knowledge. Not only are the global framework conditions to which local actors must adapt changing, the interactions between local and global governance are at the same time profoundly transforming the *basic* governance patterns in regions (see Table 5.1). Knowledge of these changes also affords protection against location-related voluntarism.

The hexagon-based analysis of the triangle indicates that realistic and viable strategies in regions depend not only on efficient institutions and cooperative locational actors who are able to deal adequately with the global framework conditions in the world economic triangle. Analysis of the hexagon's dimensions clearly shows that the process of integration of regions in the triangle indicates a fundamental transformation of some important conditions for collective action and network governance in clusters as well as among institutions in the business environment. Perception of these changes of basic governance patterns in regions is just as important when avoiding voluntarist locational concepts as knowledge of new global challenges that must be met by local actors. Hexagon-based analysis makes it plain that and why local development policy, network governance, and "collective efficiency" in the triangle are, for reasons that will be summed up again below, becoming increasingly difficult. The analysis also indicates why strategy recommendations that are based on economistic reductionism and fail to take into account cognisance of governance structures and pitfalls of collective action in locational policy are as a rule doomed to failure, however plausible these may appear in economic terms.

Five observations are of particular importance in this connection:

First, we note that important social resources that favour network governance[20] are threatened by erosion in the process of the integration of local industrial locations into global value chains. In the context of global value chains, "dense" trust-based relationships, "collective mental maps", "we-identities", and collective "shadows of history" (e.g. traditional norms and value contexts, rule systems) in regions tend to be transformed into more or less "loose trust-based relationships", divergent "mental maps", fields of tension between "we-identities" in the transnational chain and "we-identities" in local networks, conflicts

[20] Network governance is, like hierarchic governance and the market, reliant on a set of conditioning factors. If these factors are not, or not wholly, given: (a) the development of dynamic networks is less likely; (b) erosion of existing networks is more likely; and, (c) the efficiency of existing networks (as regards their problem-solving capacities) will be restricted. The social resources that favor network governance include: trust, reciprocity, the ability of actors to seek compromise and work out conflicts, respect for the legitimate interests of others, a problem-solving orientation, a shared understanding of fairness (Mayntz 1991 and 1993; Messner 1997).

between traditional norm and value contexts and the logic of global competition, and power disparities between globally networked actors and locally isolated actors. This process of social fragmentation has two sides. On the one hand, it produces growing regional competition (e.g. for the positions of local firms in the value chain, between divergent mindsets and models), thereby stimulating innovation (Schumpeter's "creative destruction"). On the other hand, it entails an erosion of social resources and thus obstructs cooperation-oriented network governance in local industrial locations. In other words, growing competition in the context of global value chains leads to the development of individually efficient firms and institutions in industrial locations, particularly in locations that are globally networked. However, social fragmentation, at the same time, obstructs the local networking between firms and their institutional environment that is required to provide, or further develop, quasi-public goods (e.g. vocational training institutions, local innovation systems) and to strengthen systemic competitiveness in situ. The case studies on the footwear clusters in Brenta (Italy) and the Sinos Valley (Brazil), the medical equipment manufacturers in Tuttlingen (Germany), and the automotive and plastics industries in Sao Paolo (Brazil) provide instructive material on this state of affairs. Local networks are thus not doomed *a priori* to failure in the context of global value chains, but they are forced to operate in a difficult and demanding environment. From this perspective, analysis of the interaction of local and global governance between clusters and global value chains gives rise to a distinctly more sceptical assessment of local scopes of action in the world economy than that of cluster research and studies on "systemic competitiveness", which focus on analysis of intralocal structures and processes.

Second, the social fragmentation outlined above, as well as the erosion of social resources in regions integrated in global value chains, create a environment conducive to network failure (Scharpf 1991b; Messner 1994 and 1997: 190ff.) in local networks:

- Networks invariably move in a field of tension marked by disintegration (too weak ties) and overly dense relationships, which are detrimental to innovativeness. The tendency toward erosion of social resources in regions integrated in global value chains (play of tensions between "we-identities" in value chains and clusters and local policy networks; "weak trust-based relationships"; divergent interests and models and the like) reinforce trends working toward the disintegration of local networks.
- Strong local exporters that are successful and closely tied into global value chains often have *veto power*, and thus the *power to block* local networks. An example of this is the obstruction of a collective proactive upgrading strategy in the Brazilian footwear cluster (Sinos Valley in the 1990s; see Schmitz 1999) by a few big local exporters interested in averting any competence conflicts with global lead firms. The present development dynamics of the Brenta footwear cluster, where the strongest exporters forced through a reorientation of the cluster toward "top-brand value chains" against other interests within the local business network (Rabellotti 2001) as well as a collective locational strategy

that is blocked by the dominance of the biggest medical equipment manufacturer in the Tuttlingen cluster (Halder 2002) can both be interpreted in this sense.

- Networks are threatened with blockades or even breakdown when it comes to apportioning social costs among participants who are unable to agree on *joint apportionment criteria*. The processes of regional social fragmentation outlined above increase the risk posed by this type of network failure. Tensions in the Brenta cluster, which were not unexpected, can likewise be interpreted in the light of this type of network pitfall. Firms that were earning high returns thanks to their orientation to "top-brand chains" and at the same time were unwilling to participate in collective investments, for example, in design capacities in the region, and companies producing for other value chains, were earning lower returns and were simultaneously negatively affected by deteriorating design capacities. Experience indicates that networks can resolve distributional conflicts only if they can fall back on "dense" social resources (reciprocity, common problem-solving orientations, collective situational mindsets and shared notions of fairness and trust) (Mayntz 1991; Messner 1997: 263–82). If these "lubricants" of network governance erode in the interaction between global value chains and local industrial locations, then network failure will usually result.

Since, in strengthening systemic competitiveness and enhancing "collective efficiency", locational policy is reliant on network governance, these observations are of particular relevance. To avoid any false impressions, integration of regions into global value chains does not automatically lead to network failure. In the end, this depends on specific conditions in concrete cases. But the interaction of local and global governance between local industrial locations and global chains entails a number of elements that may lead to local network failure. The cases discussed above indicate that the emergence of dynamic transnational networks (of global value chains) often obstruct the formation of local networks and may pave the way to regional network failure.

Third, the hexagon-based analysis of the interactions between clusters and the "world of global standards" indicates that in this context such clusters may give rise to centripetal dynamics. As we see from the case of the Pakistani region of Sialkot, which was affected by an international campaign against child labour in local sporting-goods firms (Nadvi and Kazmi 2002), global environmental and social standards put both individual firms and entire clusters under pressure to act. To avoid negative "social and ecological images" and avert economic damage to a region (e.g. declining exports, "exodus" of global buyers, removal of local clusters from global value chains, declining direct investments) as well as to create local framework conditions appropriate to reducing the risk of international campaigns against environmental degradation or violations of social rights, collective efforts are called for involving both firms and political actors (Nadvi and Kazmi 2002; Bazan and Navas-Alemán 2001). We-identities, shared interests and models, and joint problem-solving orientations on the part of local actors are strengthened in this way. The pressure stemming from global standards can, therefore, reinforce centripetal forces in a region.

Fourth, the hexagon-based analysis illustrates the fact that integration of local clusters into the world economic triangle serves to build a variety of transnational actor constellations. Examples would include:

- local firms that are tied into clusters and local institutions and at the same time integrated in one or more global value chains;
- local actors and policymakers who are involved in transnational policy networks and take a hand in shaping relevant environmental and social standards or seek global partners to help them achieve specific goals in situ (e.g. interplay between local and global NGOs and international organisations devoted to strengthening social rights in given regions).

The growing importance of transnational networks in the triangle on the one hand reflects an increasing diversity of the options opened up to local actors by transnational networking. On the other hand, however, this trend can reinforce the forms of social fragmentation outlined above, in this way undermining the conditions needed for collective action in regions. One central factor here is the ability of political actors to minimise social fragmentation in regions and engage in a kind of "conflict management" (Schmitz 2001) aimed at controlling centrifugal forces in situ and limiting the erosion of the social resources that favour "systemic competitiveness" and "collective efficiency". At the same time, transnational constellations of actors imply new challenges for local actors, for example, the ability to move in transnational constellations of actors and in doing so to develop global governance competences. Local business actors who are unable to build such competences are doomed to a role as passive and marginal actors in the world economic triangle, even if they do manage to develop minimal technological world market competence.

Fifth, The hexagon-based analysis of the world economic triangle clearly points to the inadequacy of the container concept of the region on which cluster research is based and which has guided studies on systemic competitiveness and local innovation systems focusing on analysis of intracluster structures and intralocal networks:

- Regions are open systems, embedded in transnational actor constellations as well as in a field of tensions between territorial and functional (transnational) systems (cluster versus value chain, local versus global policy network).
- Important dimensions that influence the basic governance patterns in regions, affecting the conditions needed for collective action and strategic capacities (interests, models, power structures, action orientations), are generated by interactions between local and external actors, local and global governance, i.e. by border-crossing processes.
- The internal capacity to act (sovereignty) of local actors sometimes depends on cooperation with external actors (phenomenon of divided sovereignty).

- It is precisely in dynamic clusters that more and more relevant actors find global networking more important and occasionally even more cost-efficient than investments in "local collective efficiency".

What this means is that (as Chapters 3.3 and 4.3 have argued) regions continue to be important "places" in the world economy; places in which local actors have real chances to shape events ("regions matter": see Chapter 4). "Regions", however, must not be misinterpreted as functional units in the sense of the container concept (as in cluster research or the "stratified model" encountered in discourses on the world economy). This implies four considerations: local business actors must (a) learn to gain influence on the global processes and structures in the triangle that are relevant to them; (b) they must be aware that global actors may become important players in local industrial locations; (c) they must take leave of the illusion of the region as a quasi-collective actor; and, (d) they must realise that the durability of collective action and network governance is shaped by complex interactions between local and global governance in the triangle (e.g. a weakening of "we-identities", emergence of contrary interest structures).

5.4.2 The basic patterns of governance at the three poles of the world economic triangle

The line of argumentation presented in the course of the hexagon analysis clearly indicates that *different governance patterns* are prevalent at the *three poles of the world economic triangle*. Referring back to neoinstitutionalist theories, we can characterise the three poles as follows:

1. *The governance patterns of local clusters and policy networks can be modelled within the framework of the institutional theory set out by James March and Johan Olson* (1984 and 1989). March and Olson stress the importance of institutions for the action of agents and for the development processes in specific social contexts: 'The organisation of political life makes a difference, and institutions affect the flow of history" (March and Olson 1989: 159). Institutions (formal and informal rules; collective action orientations and mindsets) create systems of order that offer individual actors a repertory of behavioural rules which they can follow without having to constantly recalculate the net utility of every conceivable alternative. Because actors usually act and decide within a context of established rules and standards, institutions provide highly *stable expectations* among actors. *Confidence* that others will also abide by the rules is in turn the condition required to reproduce institutions. March and Olson emphasise in particular that *institutions* are not merely "neutral instruments" used to create stable expectations but that they at the same time also contain meaningful *normative and orientational dimensions*. Institutions embody fundamental "guiding ideas" on the sense of living together in communities (Lepsius 1995).

   Institutional arrangements are, therefore, not only action-channelling framework conditions for egoistic and utility-maximising actors, they also define a "logic of appropriateness". Due to information deficits and uncertainties (Herbert Simon 1985: "bounded rationality"), actors seek their orientations not only (indeed not even primarily) in individual maximisation strategies but look instead to proven, collectively shared action patterns that are rooted in deep social structures. It is possible to explain in the context defined by March and Olson how, in successful industrial locations,

"we-identities", collective mindsets, and trust emerge and are reproduced, even though the individual actors are in a competitive situation and are forced to look to their own self-interests. March and Olson's guiding ideas and concept of actors, which are at once based on self-interest and collective orientations, are a frame of reference in the context of which we can model the functional social logics of local firms and policy networks, which are reliant on trust, common action orientations, and mindsets of actors as well as on their ability to link their self-interests with collective action orientations. March and Olson do, however, neglect the dimensions of "interest" and "power" that are features of the governance hexagon. Thus, they "overlook" the fact that not all action is value-based, and that action can *also* be geared to egoistic interests and power rationales.

2. *Governance patterns and action dynamics in global value chains can be interpreted in the context of theories of rational choice*: rational choice theories (Dowding and King 1995) also see institutions as structures of the actions of actors. Rational choice theories borrow from economic institutionalists like North (1990a; 1990b) and Williamson (1985), who stress the importance of social rules, routines, and "shared mental models" for economic action. They note that the latter provide an important contribution to resolving problems bound up with limited information and information-processing capacities. An important contrast to March and Olson is that rational choice theorists and economic neoinstitutionalists base their approach on the assumption of egoistic, utility-maximising calculators who gear their activities to specific individual preferences. In this context, social or economic development dynamics are understood in the end as an aggregate of individual choice acts that are geared to the interests of a *homo oeconomicus*. Institutions here have the character of marginal conditions of action, exogenous factors, as it were. March and Olson criticise the rational choice approach for its reduction of actors to the status of individual utility calculators, its neglect of identity-creating and normative functions of institutions for the action of actors, and thus for its neglect of the procedural character of preferences, which as a rule are not "given" and static but develop in specific contexts and in interactions with other actors. March and Olson's critique of rational choice theory is plausible in local (or national), social, and economic contexts. There is reason to believe that global value chains follow the logic of rational choice. It is true that global value chains are also reliant on governance (otherwise they would be based solely on market transactions), but they focus more on the stability of expectations, stable rules and risk minimisation in the process of internal "chain rule formation". The guiding ideas of value chains can be reduced to economic efficiency and cost rationales only because business networks are not tied into social deep structures. Institutions in this way lose a large measure of their normative and definitional functions.

3. *The governance patterns and action dynamics in global policy networks devoted to setting global standards are based more on the "March and Olson logic" than on the "logic of rational choice", even though they are unable to fall back on historically shaped common guiding ideas and social resources.* In national economies economic rationality's and dynamics are invariably embedded in social institutions. The fact that the market is embedded in

institutional rules is a source of stable expectations, but this state of affairs *also* reflects guiding social ideas (March and Olson 1989). This unity of economic rationality and norm-bound rules that applies in territorial spaces breaks apart in global value chains. But the world economy cannot get along without social legitimisation and normative orientations, either. These, however, emerge not in functional economic spaces but also, under the pressure of international public opinion, in global policy networks that define global social and environmental standards. These global standards obviously have the twofold function that March and Olson attribute to "institutions": they provide for stable expectations and have a normative, definitional function. However, in contrast to social rules and institutions that are developed within territorial boundaries and are binding there, the actors of global networks are forced to operate without any historically grown "guiding ideas", "we-identities", and common mindsets. While authors of the school of "historical institutionalism" (Steinmo, Thelen and Longstreth 1992; Thelen 1999) in particular stress that institutional development must be understood as an incremental process that proceeds along historically configured development paths of societies, global networks are forced to create and (re)produce themselves out of their own resources. In contrast to the "dense" social resources on which local actors can fall back in regions, the resources available to global policy networks consist of "weak" or "thin" common mindsets, action orientations, and we-identities.

6 Conclusion: governance patterns and scopes of action in the world economic triangle

The present study has pursued the objective of casting a new light on the specific world market context in which concrete clusters are integrated by seeking to open up a perspective that includes global value chains into which local clusters are tied and global standards which must be met by world-market-oriented firms. The intention was to bring out the global demands which local business actors must live up to if they are to become internationally competitive. Our look at the interactions in the local-global governance triangle, however, led us to further examine the core concepts and basic assumptions of cluster research. In the context of the world economic triangle, local clusters assume the character of subsystems of cross-border business networks; actors from many different countries interact in the "world of global standards"; local policy networks become players in global networks, and in this way they gain influence on the development of global standards. The boundaries that were constitutive for cluster research (the cluster with its internal structures, set off from the external environment/world economy) begin to blur. The new perspective opens up a view of cross-border actor constellations, interactions between local and global governance, multilevel policy, more complex differences of interest, with the altered conditions they imply for trust based relationships, new imbalances of power, divergent situational mindsets, and cognitive "mental maps" of more or less globally networked, more or less mobile actors. Thus, our analysis of the triangle leads us not only to specify the "external framework conditions" for local clusters and policy networks. It also enables us to better understand the complex actor constellations and the

multilevel structure of the triangle; and on this basis to work out, against this vista, and beyond the cut-and dried picture of local clusters and industrial locations, propositions on the scopes of action open to regions in the world economy.

6.1 The world economic triangle as an interwoven multilevel system

What we see in the triangle is not only the intensification and consolidation of the relations *between* the three poles (global lead firms of the value chain, local clusters and policy networks, global policy networks engaged in developing global standards), i.e. processes of ***inter****national exchange*. At the same time we see local actors becoming players in global structures (e.g. local organisations in global standard-setting policy networks), and vice-versa (e.g. global lead firms or NGOs in local policy networks seeking to ensure that global standards are complied with). In other words, what we realise here is the growing significance of ***trans****national relations*. The three poles of the triangle do not amount to a model based on stratification or stacking, with clear-cut boundaries between the local and global levels of action. Instead, they represent a complex interwoven multilevel system.

6.2 From territorially defined networks in regions to functional and transnational networks in the triangle

While cluster research has stressed the dense relationships between firms in given territorial spaces as the basis of dynamic development, the interwoven multilevel system of the triangle approach sees the growing development of *functional networks* that do not coincide with territorial boundaries. This process gives rise to *new demarcations*. Cluster research has primarily been concerned with the development of "systemic competitiveness" in a given region, while the triangle perspective clearly indicates that for many firms the "relevant system" in which systemic competitiveness must be developed and safeguarded is the global value chain. This view applies not only for global lead firms but also for local firms and clusters which are closely linked with global value chains. Systemic competitiveness in situ and systemic competitiveness in a global value chain are linked together in a tense relationship that, in local industrial locations, generates (apart from economic dynamics, growth and technological learning processes) fragmentation, exclusion, and a heterogenisation of interests. The "world of global standards" is also a transnational actor constellation in which rules are developed that are conceived not for territorially defined spaces (nation-states, regions/federal states and municipalities) but for functional spaces. These are often at variance with territorial boundaries, for example, standards for global value chains, standards for specific industries (food, medical equipment, football gear manufacturers) whose production networks are located at various places throughout the world, standards for suppliers of a global lead firm (e.g. IKEA). Since these new rules are concerned not only with technical parameters but, increasingly, also with social and ecological standards, it happens more and more frequently that different sets of rules coexist in one territory (e.g. a developing region) in order to regulate the interplay between economy, society and nature.

6.3 Global private and public-private governance patterns in the world economic triangle

In the context of the *triangle's global governance mechanisms intergovernmental actors play a subordinate role*, whereas *the part played* by *private actors is a central one*. This is not surprising in that the triangle governance perspective centres on structures in functional economic spaces that do not coincide with territorial boundaries. On their own, nation-states can enforce rules only within their territorial borders. Private governance (e.g. in global value chains) and private-public governance structures (e.g. in the policy networks of the "world of standards") also clearly show that the world economy is not only based on market allocation. The triangle's economic actors are in need of rules for transnational spaces, and these can be provided neither by nation-states by themselves or by rounds of intergovernmental negotiations.[21] What is produced in the triangle in the context of private and private-public governance structures are "quasi-public goods".

6.4 In the triangle, action parameters are increasingly defined at the global level

Local actors that seek integration in the triangle must realise that crucial parameters of their activities are defined at the global level. This does not only follow for technical standards and criteria of economic efficiency but also applies increasingly to social and ecological rules that are defined in global networks and are binding for local industrial locations. In the triangle, power potentials thus tend to migrate to global levels of action. This does not mean any absolute loss of scopes of action at the local level, though it does imply that "internal sovereignty" (in the sense of the autonomy of local actors within their own territory) is incisively restricted. The action corridors within which world-market-oriented local clusters and policy networks can move are defined mainly by global lead firms and development dynamics in value chains. As is shown by the world-class footwear cluster in Brenta, this applies not only for weak economies of developing countries.

6.5 Fragile common interests, mindsets, and we-identities in the triangle – impacts on network governance

Cluster research has shown that successful local industrial locations have been characterised by a variety of interlinkages and more or less symmetrical interdependence relations between local actors as well as by the existence of "dense and robust" common interests, mindsets, and we-identities in the business and policy networks anchored in the deep structures of the societies in which they are operate ("in the shadow of

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[21] Individual nation-states are obviously unable to enforce global (environmental and social) standards on their own. Rounds of intergovernmental negotiations can, in principle, do the job; but the "problem of large numbers" (Messner 1997: 190) leads to protracted, often blocked negotiations and gives rise to results based on the smallest common denominator. Networks dedicated to developing standards for specific value chains are faster than large-scale intergovernmental rounds (e.g. the WTO). They are more and more able to develop standards that go beyond the minimum standards that are developed by intergovernmental rounds and must include the weakest actors in their orientation.

history").The interplay between the three poles of the triangle likewise gives rise to interdependence structures between local and global actors that lead to different forms of cooperation and exchange. If the actors were fully "independent" of one another, market coordination would be the adequate form of governance for interaction-based relationships (it being the simplest and thus the less costly form). However, actor constellations are marked by highly asymmetrical patterns of interdependence and "*thin and fragile*" *shared interests, common mindsets, and* "*we-identities*", and these are not rooted in deep social structures. The global governance structure in the triangle (in particular in value chains) lead, *first*, to an erosion or fragmentation of important social resources on which "collective efficiency", "systemic competitiveness", and network governance in local industrial locations are based. *Second*, global networks, forced to get along without the lifeworld-rooted "shadows of history", are certainly less stable and more vulnerable to network failure (in the face of specific conflict situations) than local networks that can fall back on common norms and values and collective mindsets that are favourable to network governance.

6.6 Global standard-setting networks create social resources that are used up in value chains

Analysis of the interactions between local industrial locations and the global networks that set standards indicates that this context gives rise to local and global governance dynamics that can be interpreted as countertrends to developments that proceed from global value chains in the six dimensions of the governance hexagon. It appears as if some of the social resources and forces of integration that local clusters and networks need to create "collective efficiency" and "systemic competitiveness" are "used up" with the increasing integration into global value chains. In other words, value chains tend to reinforce centrifugal forces in industrial locations, while the "world of global standards" may favour centripetal dynamics in regions.

The development of global standards is accordingly a process that emerges out of the dynamics of economic globalisation, and at the same time points to the limits of market rationality. Like national economies, the world economy is forced to rely on institutions, rules and social resources that it cannot produce on its own, i.e. communication and bargaining processes in global and local networks, agreement on normative principles, cognitive models, and common problem-solving orientations between global and local firms, NGOs, and other actors (of world society). Globalisation of the market accordingly does not lead to any fundamental neutralisation of the primacy of political action or general detachment of the market from social structures. Instead, it induces a transformation of politics in the global frame of reference and a gradual reintegration of market dynamics into sets of social rules. Although these are now of course no longer anchored in the territorial nation-state but are developed instead by global networks and develop their impacts in transnational functional spaces (e.g. global value chains).

That is the good news. It has also been argued that "we-identities", common mindsets and action orientations in global networks tend to be "weaker and thinner" than in regions or nation-states: ". . . transnational social activity is increasing dramatically. However . . . another dimension of potential social

globalisation – collective identity, or solidarity – remains at negligible levels ..." (Keohane and Nye 2000: 29). Whether the interaction between the divergent dynamics of these two global governance structures in the context of the world economic triangle will turn out on the whole to be "positive" or "negative" for given local industrial locations and the governance capacities and options of local actors is a question that will have to be examined empirically.

6.7 Three types of network governance in the triangle

The world economic triangle is characterised by governance patterns beyond the dichotomy of market and state. The hexagon-based analysis has made it clear that *three different types of network governance* are prevalent at the *poles of the world economic triangle*. [22] Borrowing from neoinstitutionalist theories, we can outline the governance patterns in the triangle as follows:

The governance pattern of local clusters and policy networks can be described in the framework of the institutionalist theory of James March and Johan Olson (1984; 1989): they underline the importance of "institutions" for the actions of agents as well as for development processes in specific social contexts. They emphasise in particular that *institutions* are not merely "neutral instruments" whose function is to provide for stability of expectations but that institutions at the same time also contain sense-giving, *normative and orientational dimensions* that are looped back to social deep structures. Institutions embody fundamental "guiding ideas" on the sense of life shared in communities. Institutional arrangements are not only action-channelling framework conditions needed by egoistic and utility-maximising agents, they also define a "logic of appropriateness". In regions, market dynamics and competition are embedded in historically developed institutions and norm systems which shape the interactions in clusters and policy networks. Concrete institutional and normative landscapes can foster, or obstruct, the emergence of the conditions required for "collective efficiency" and systemic competitiveness.

The governance patterns and action dynamics in global value chains can be interpreted in the context of rational choice theories: the crucial difference from March and Olson is that rational choice theorists proceed on the assumption of egoistic, utility-maximising calculators that gear their actions to specific individual preferences. While global value chains often depend on governance (otherwise they would be based on market transactions), lead firms, in forming their internal rules, are mainly interested in stable expectations, stable rule systems and risk minimisation. The "guiding ideas" of value chains are economic efficiency and cost rationales in that business networks are not coupled back to social deep structures. The institutions in global value chains in this way lose a large measure of their normative and sense-giving function.

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[22] The "quasi-hierarchic governance" often encountered in global value chains is subsumed here as a special forms of network governance: as a "guided network" with an actor highly prominent in the structure (a primus inter pares), as opposed to networks that are more marked by balanced power and horizontal decision-making.

The governance patterns and action dynamics in global standard-setting policy networks tend more to be based on the "March and Olson" logic than on the "rational choice" logic, though they are unable to fall back on historically developed common guiding ideas and social resources. Global standards quite evidently have the dual function ascribed to them by March and Olson: they provide stable expectations (stable sets of rules) and have a normative, sense-giving function. However, unlike social rule systems and institutions that are developed, and apply, within territorial boundaries, the actors in global networks are forced to make do without any historically developed "guiding ideas", "we-identities", and situational mindsets, i.e. without the "shadow of history", that marks the deep structures in regions. This important difference indicates that global networks are less durable than local networks.

6.8 Local scopes of action and the limits set to them by global governance structures in the triangle

The evaluation of the empirical studies of the IDS-INEF project in the context of the triangle makes it clear that the ability or inability of local actors to deal with world economic challenges and develop autonomous techno-organisational competences are key factors influencing the development successes or failures of local industrial locations in the world economy. So we can still say: "Regions matter!" But we also see that the scopes of, and limits to, action in regions are influenced decisively by the following global governance mechanisms in the triangle:

- the specific governance patterns in global value chains (network-based, quasi-hierarchic, market-based);
- the specific core competences of global lead firms in value chains;
- the specific governance structures in global networks involved in the setting of standards (e.g. business- versus NGO-dominated networks);
- the concrete rules agreed on in standard-setting networks and the manner in which these rules are implemented and sanctioned, as well as the impacts they unfold in regions.

6.9 New demands facing local actors

The triangle perspective shows us that what is needed to strengthen competitiveness in regions is more than locational policy geared to focusing and bolstering local forces (intracluster relationships). It is instead essential:

- to analyse global structures in the triangle with an eye to identifying the options open to, and demands placed, on local strategies and to avoiding the voluntarism trap;
- to become actively involved in formulating global governance structures (e.g. global and ecological standards);

to prudently link local competences with global resources (e.g. local technological potentials) with the technological nodes in the global value chain; and,

- to take advantage of the increasing presence of global actors in "local policy networks" (e.g. NGOs, lead firms, international organisations involved in implementing and monitoring global standards on the ground) to advance locational interests.

The "playing field" of local actors is growing larger and above all more complex. Locational policy is developing into multilevel policy.

6.10 Social and environmental standards obstruct the low road to the world economy

The number of global social and environmental standards is on the rise in sensitive sectors (labour-intensive industries and resource-intensive industries). It is in these sectors that social abuses, ecological problems, and health-relevant impacts occur at particularly high rates, attracting the interest of consumers and NGOs in industrialised countries. These are the driving force behind the proliferation of social and environmental standards. In other words: it is precisely in industries marked by low levels of technological complexity, and in which developing countries have "natural competitive advantages". that global standards and the challenges they pose to the global governance capacities of local actors are assuming growing importance. Building competitiveness is thus no longer merely a matter of conformity with the classic parameters of competition (time, price, quality of products and services), competitiveness now also depends on the ability to orient products and production processes to global social and environmental standards. Knowledge-based competitive advantages are gaining importance even on the low roads of the world economy.

6.11 In the world economic triangle, regional governance patterns are being transformed – collective action is growing more and more difficult

The use of the hexagon to analyse the interactions between local and global governance in the triangle indicates that not only are the global framework conditions changing to which local actors have to adjust but the basic governance patterns in regions are undergoing a process of profound transformation at the same time. The hexagon-based analysis clearly indicates that realistic locational strategies not only depend on effective institutions in regions and cooperation-oriented actors that are able to effectively address the given global framework conditions in the triangle. At the same time the analysis makes it plain that important conditions for collective action and network governance in clusters and in local policy networks are undergoing fundamental transformation in the process of regional integration into the world economic triangle. Clear-sighted perception of these changes in the basic governance patterns in regions is an effective guard against political voluntarism in that, as the hexagon-based analysis indicates, local locational policy and network governance aimed at "collective efficiency" in regions are growing

increasingly difficult in the context of the triangle. The hexagon-based analysis indicates why strategy recommendations based on economistic reductionism, systematically ignoring specific governance structures and the options for and limits on collective action in regions, are likely to remain ineffective. One need think here only of the many strategy consultations conducted in dozens of developing countries throughout the world that are based on Porter's "diamond concept".

6.12 The scope of the triangle concept

The concept of the world economic triangle turns out to be a viable analytical matrix:

- The frame of reference defined by the triangle makes it possible to gain a more comprehensive understanding of the governance patterns, development dynamics of, and demands placed on firms, clusters, policymakers, and policy networks than we could obtain using the instruments of established cluster research and the concept of "systemic competitiveness".
- Analysis of interaction patterns and dynamics in the context of the triangle also leads us to a clearer understanding of development dynamics and changes as well, as of governance structures and their efficiency in global value chains, than we could come up with in the framework of most of today's global value chain research.

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