Regions in the “World Economic Triangle”

Dirk Messner

Published in: Hubert Schmitz (ed.): Local Enterprises in the Global Economy, London 2004, 21-52

1. Introduction

The geography of the world economy is 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/Schmitz 1999), global cities (Sassen 2000), global city regions (Scott 2001) and global value chains (Gereffi 1999,) 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. 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.

Along with its geography, the world economy's governance patterns are likewise in the midst of a process of change: beyond classical international organisations like the IMF, global regimes like the WTO; global clubs like the International Stability Forum; globally operating firms, organising transnational production and trade networks; and, internationally active NGOs, negotiating with multinational corporations over social and ecological standards, are growing in significance – shaping the dynamics of the global economy. Against this background of growingly dense global interdependencies and transnational interactions in the world economy we are forced to readdress the issue of whether and to what extent economic development can be formulated and shaped by political means.

This chapter following study centres on the question of the scopes of action open to regions (i.e. local firms, public organisations, and policymakers) in the new world economy. Which global governance structures are relevant for local actors. How do global governance mechanisms determine local development? Do local actors have the autonomy and the resources they need to deal actively with the new demands placed by the global 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 world economy?[1]

[1] By “regions” we mean subnational units. The trend has been for locational policies to be formulated at the subnational (regional and local) level. This trend is of course a function of the size of a given economy. In

From the perspective of various views on the role of regions in the world economy, for example, research on clusters (Parker 1998, Nadvi/Schmitz 1999), systemic competitiveness (Esser et al. 1996; Messner 1997), innovation systems (Lundvall 1992, Braczyk et al 1998), territorial development (Storper 1997), one can derive a relatively optimistic view of the scopes of action open to local actors (firms, local policy networks). Regional theorists underline two important trends of globalisation:

Gelöscht: [It would be useful to include one or two references from regional science. None of the cited authors are "proper regional theorists".]

- 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 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. This implies that globalisation does not lead to a disempowerment of politics: regional governance matters.

The key variable of these approaches is the quality of local linkages. Regions whose local actors, by building business networks and developing policy networks in their business environment, have succeeded 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/ 1998). In this way they can actively influence and improve their position in the world economy. Regions that lack the collective capacity to 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. It is on this view that the World Bank, UNDP, the Interamerican Development Bank, or the German "Gesellschaft für technische Zusammenarbeit" (GTZ) now base their strategies aimed at strengthening competitiveness and supporting the private sector in developing countries.

But the regional theorists and the policy recommendations based on them, neglect the specific demands made on concrete regions by the world

small countries like Uruguay or Costa Rica, locational policy continues 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.

market. The frame of reference defined by the world market is perceived in terms of framework conditions that are beyond influence. The world economy is treated as if it were a "black box". Regional theorists overlook the significance of global governance structures for the options available to industrial locations and regions. 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.

Thise chapter 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 strategic capabilities. The study looks at the impacts of global governance structures for local development strategies. In other words, the focus is on the interplay between local and global governance in the world economy.

Section 1 starts discussing the two established 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 and the intergovernmentalist perspective on global governance in the world economy.

Section 2 looks at the world economy from the bottom-up perspective of local clusters. The analysis is based on the empirical studies, presented in this book. What emerges is a picture that deviates from both the neoliberal and the intergovernmentalist interpretation of global governance in the world economy. This is captured in the concept of the "world economic triangle" that is based on the process of interaction between regions, global value chains, and global networks dedicated to setting standards (see Diagram 1). Compared with the established discourses on global economy, the "triangle view" gives rise to new insights about challenges for regions in the process of globalization.

Section 3 looks into the options and limits of local actors and local strategies in the context of the world economic triangle. What new demands do we see emerging in the world's regions? The triangle concept makes clear that the efficiency of regions depends not only on intracluster relationships but also and above all on transnational interactions and network structures in the world economic triangle. 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 world economic

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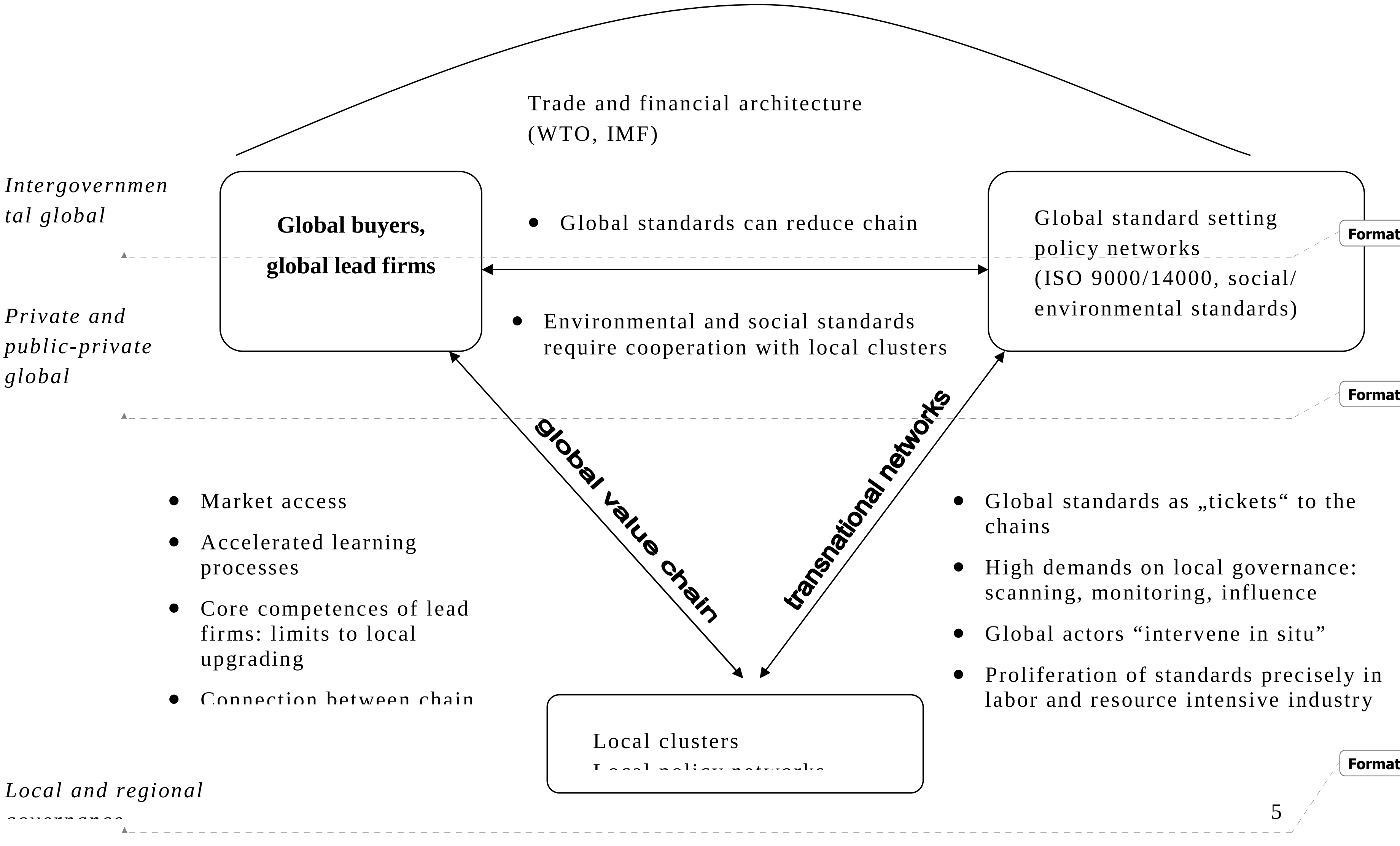
triangle. Systemic competitiveness in situ and systemic competitiveness in the world economic triangle are linked together in a tense relationship that

Diagram 1: The World Economic Triangle



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opens up new scopes of action for local actors and at the same time new challenges and limits for local firms and policy makers. The analysis demonstrates that we can still say: “Regions matter!”. But we also see that local development strategies are decisively influenced by global governance mechanism in the triangle and the interactions of local and global governance (Messner 2002).

2 The established discourses on global governance in the world economy

This section outlines the two central discourses on the world economy as a means of reconstructing the state of the discussion on main 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

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 covered by a minimal regulative framework. 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 co-operation and co-ordination 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, safeguard free trade, ensure free movement of capital and minimise state intervention. Neoliberalism's concept of world economic order thus provides for largely open and unregulated global markets, based on a "weak" multilateral regulatory framework, developed by international organizations or co-ordination between states. The "Washington Consensus" sums up the core elements of this model (Williamson 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/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.

The real world economy diverges in many areas from the neoliberal model because a variety of market barriers continue to exist and because of the fact that 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 real capital, and the latter in turn is more mobile in the long run than labour, where high mobility is found only in the upper range of the income scale. Subsequently, these different mobilityies translate into socio-economic effects that remain unconsidered in the neoliberal perspective: income distribution effects, reallocation of power between mobile and immobile actors, social and ecological races to the bottom.

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, Mittelmann 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).

Now, what is central to our discussion is that in the eyes of neoliberal authors regions are tied into global, decentrally organized, anonymous markets to which they are forced to adjust. They are furthermore faced with international regimes designed to guarantee worldwide competition, free trade, property rights, and the lowest possible level of government intervention. These global governance structures are created by nation-states, and for regions they thus constitute another external set of framework data that are beyond their influence and to which they have to adapt. And this perspective fails to address the question of interactions between local and global governance as well as the scopes open for active regional locational policies.

Thomas Friedman, for instance, argues 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

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 (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 is: because economic processes are increasingly international 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 co-operation and co-ordination 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 co-operation and organisation at the level of globalisation. According to Reimut Jochimsen (2000, 36), "*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*".

There are three patterns of argumentation that run counter to the neoliberal worldview and lead to a 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. **Gelöscht:** e

- *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). –At the same time, it would be essential to develop world-wide framework conditions geared to preventing the overexploitation of environmental resources (Young 1999).

- *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 (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). **Gelöscht:** ,

The discourses on the formulation of a future architecture for the world economic order is marked by a variety of controversies but there is also a large measure of concurrence: 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. 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 21st century, therefore, centres on the model of an intergovernmentally and multilaterally constituted world economic order.

The key too global governance is presented as an "external set of framework data." Interactions between local and global governance are – as in the neoliberal paradigm – not addressed as an issue. States and "their" international organizations provide for global governance, while the field of action open to regional actors appears to be restricted to their own (territorial) locations.[2]

2.3 Limits of the neoliberal and intergovernmental perceptions of governance patterns in the world economy

The established discourses on the world economy reproduce 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, we concur 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.But as we will see in Chapter 2, these views are not sufficient to properly understand 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 anonymous market coordination and multilateral bargaining systems, other important *global governance structures* that are of central importance to regions.

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[2] 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.

3. Neoliberal and intergovernmentalist authors concentrate on *universal rule systems* that are obviously relevant for regions (multilateral rules and standards). Above and beyond these, however, there are more *specific global governance* mechanisms that must be processed by local actors. The following section argues that there exist in the world economy specific global governance structures that favor local development and others that restrict local development options.

4. The dominant economic discourses outlined above subscribe to a *stratified model of governance.* 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.

5. The following section looks at the interactions between local and global governance, which are at cross-purposes to stratified models. It demonstrates that *global and local governance are closely interwoven* and that transnational networks and governance patterns are becoming increasingly important in the world economy.

3 The world economic triangle.

When we look from specific 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 presented in this volume make it plain that aside from interaction between firms in global anonymous markets (arm's length relations, i.e. market co-ordination) and rules of multilateral organisations (e.g. the WTO), there exist two 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 co-ordination; 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 global governance dimensions 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 regions, global value chains, and "the world of standards" give rise to a system context, the "world economic triangle"(see Diagram 1).[3]

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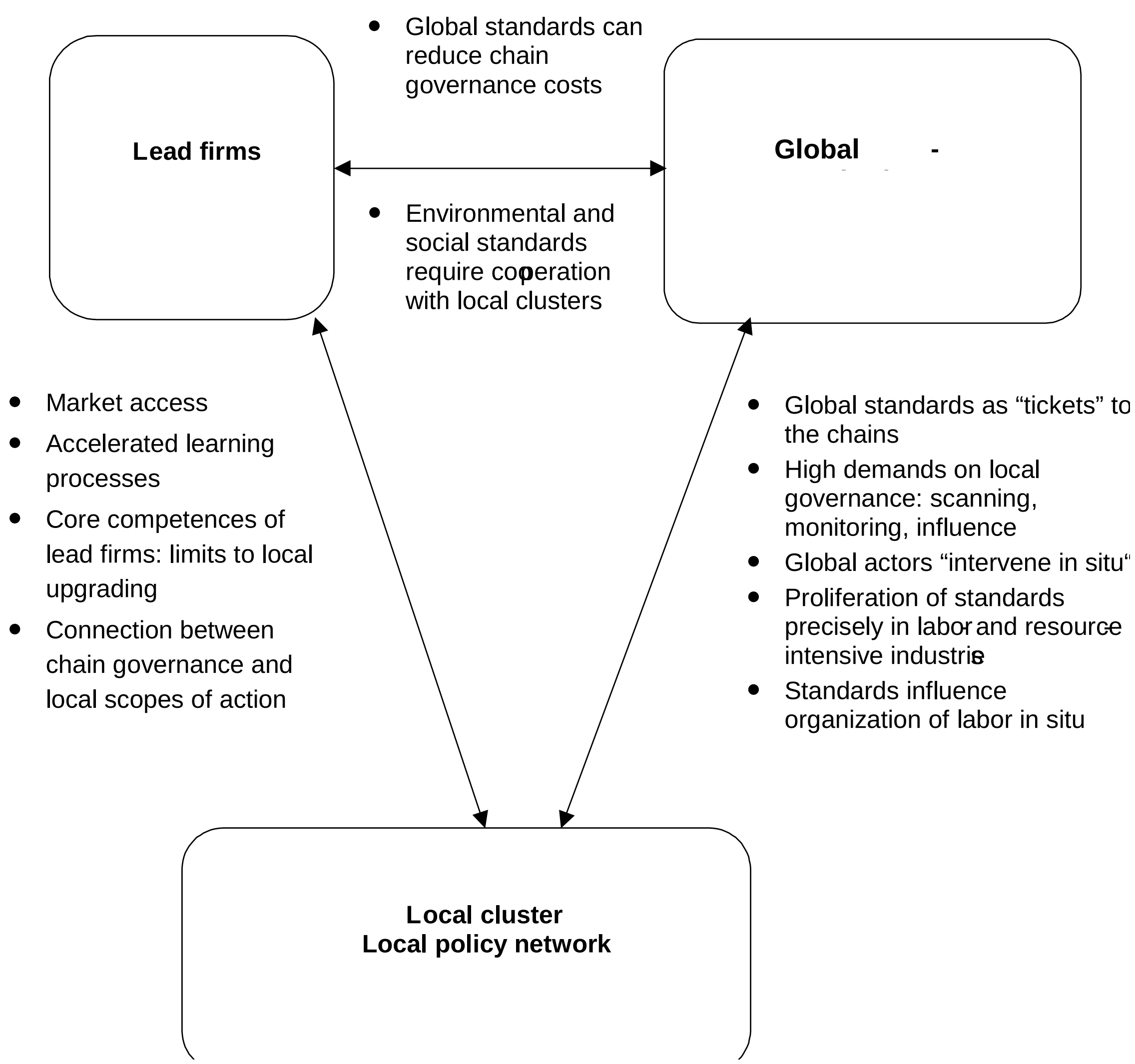
[3] The triangle perspective at first leaves intergovernmental governance structures (like the WTO) out of consideration, but without underestimating their significance. The intergovernmental regulative patterns in the world economy constitute a kind of "global macropolicy" which the triangle approach 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.

Diagram 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 (Gereffi1999, Humphrey/SchmitzChapters 4 and 13) indicate that 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 co-ordinated 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 co-ordinated 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 (Gereffi1999), the trade in horticultural products between Africa and the UK (Dolan/Humphrey 2000), footwear exports from China, Brazil, and Italy to the US and Europe (Schmitz/Knorringa 2000; Bazán/Navas-Alemán chapter 5; Rabellotti, chapter 6), as well as on the trade relations between Pakistani manufacturers of medical equipment and importers in the US and Germany (Nadvi/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. In other words, the local companies and clusters do not produce 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 means integration into global private governance structures as well.

Much of the global value chain research has focused on these governance issues. The 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 co-ordination of the chain is achieved*" (Humphrey/ 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,Chapter 4) work out *what* it is that is governed in global value chains by different forms of co-ordination and control. They note that 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*".

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 co-ordinated can be described along a continuum extending from market co-ordination (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 (networks) and others in which the lead firms (as a rule large global buyers) use power resources that lead to highly asymmetrical relationships (quasi hierarchy).Humphrey and Schmitz (chapter 13) characterise the four patterns of interaction and governance as follows:

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- *"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 co-operate in a more information-intensive relationship, frequently dividing essential value chain competences between them. The relationship is characterised by reciprocal dependence. 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 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.

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

The existence of network governance and quasi-hierarchy 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 often market co-ordination (arm's-length market relationships) and vertical integration (hierarchic governance) lead to suboptimal solutions.

Jones at 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).

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Now, why is it that these considerations are relevant to the discussion on regions in the world economy of the 21st century? They 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 and to be able, in this context, to exploit or extend their own concrete options. In other words, we find highly different requirements and options for local actors (companies, policymakers, intermediate organisations), characterised by specific governance structures, in different value chains. 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.

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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 co-ordination) 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.[4] 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 structure-building in the world economy (Barrientos 2000, Mah 1997, Clapp 1998).

Khalid Nadvi and Frank Wältring (chapter 3) bring 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 industrial locations that are oriented to global markets. *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.

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[4] 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/Kazmi 2002, Navas-Alemán/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.

Proceeding from the work of Nadvi/Wältring (chapter 3), this section seeks to categorise the great number of existing standards with an eye to outlining trends relevant for our discussion about latitude for regional policy. . A first important observation is that the the emergence of new global standards is increasingly driven by private actors in particular NGOs and corporations. The ILO core labour standards, for instance, have been with us for many decades, although their impacts have been very limited. On the other hand, in recent years a number of industries and business networks have developed industry-specific or company-specific social, labour, child-protection, and environmental standards that have in some cases been monitored and certified in an extremely effective fashion. Such social and environmental standards come about in global policy networks, sometimes in conflict, sometimes in co-operation between "concerned" companies and NGOs, labour unions, or consumer groups. (Fuchs 2000, Blowfield 1999, Hilowitz 1997).

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Apart from company- and sector-specific standards, recent developments have also seen the emergence of universal social standards (like SA 8000, Ethical Trade Initiative/ETI), the reach of which is world-wide and cross-sectoral. The Ethical Trade Initiative, 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). 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.

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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 co-operation), there are other global standards that have been created or actively promoted by (individual, several, or many) corporations operating in their own interests. Four 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, Sainsbury's, 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;[5]

- 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 or initiatives of German development policy; see Dolan/Humphrey 2000, Reichert 2000). Thus, below and beyond the threshold of intergovernmental negotiation systems (such as WTO or ILO), it is also

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5 In his study on Brazilian automotive suppliers, Quadros (chapter 10) 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.

global policy networks that contribute to the setting of standards in the world economy.

(Falls in dem Nadvi/ Wältring Text keine Tabelle drin ist: Schaubilder von S. 12 und/ oder 23, INEF-Report einfügen; sonst Verweis)

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The dynamics of standard formation can be well illustrated with reference to African-British trade relations and production networks in the horticulture industry (Dolan/Humphrey 2000, 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*".

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);

- *second*, we can note a pluralism of governance (as a rule co-operative 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 these global standards are emerging "from the bottom up", in self-organising networks, rather than coming from a central institution in the world economy (this would be the logic of "intergovernmentalism")? Three central lines of arguments can be advanced here:

1. Neoinstitutionalists (North 1990) 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*.

2. 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.

3. March and Olson (1989) point out that standards (beyond purely technical rules) always have an *orientational and sense-giving dimension* – generating social legitimation for markets. Standards are not merely marginal, action-channelling conditions for utility-maximising actors. They also define a "*logic of appropriateness*". a 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.

It becomes evident against the background of this line of argument that the successive development and generalisation of global standards results not

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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.

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 21st 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 means only acting on 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 local social conditions.

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

Now we bring together the strands of the presented arguments in five key points. First there are two dimensions of global governance (co-ordination of 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 21st 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 neglected global governance mechanisms work in very specific ways and are of particular importance to sectorally specialised regions. The triangle concept was introduced to open up these new perspectives.

Second, against this background, globalisation can not be described as a unilinear process of universal "market-economisation(as done by neoliberals and many critics of globalisation). What we observe instead is that, in parallel to processes of deregulation and liberalisation, new, non-market co-ordination patterns are emerging in the global economy. Neoliberal theorists should note that these new forms of governance beyond the market are being advanced by private actors. Global production and trade structures are increasingly organised in global value chains in which market co-ordination 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 co-operation and collaboration among firms, NGOs, labour unions, scientists, and (as a rule in subsidiary roles) governments and international organisations. The global economy is not a giant anonymous market, but embedded in significant private governance structures –which means coordination distinct from arm´s length market relations. World-market-oriented companies and regions must be familiar with these governance patterns and their modes of operation if they are to be capable of actively building viable competitive advantages.

Third, many advocates of a more regulated world economy likewise neglect the new global governance patterns, which are marked above all by interaction with and between private actors. They 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 our world economic triangle reveals that "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.

Fourth, our world economic triangle offers regions a difference view of how they are affected by and how they can participate in the global economy. Compared with intergovernmental perspective,it leadson the one hand, to a new consideration of new actors such as NGOs and companies, local and global business networks and , local and global policy networks. 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 co-operation, enter into negotiations with global lead firms on labour standards; the result is interaction between local and global governance), while the intergovernmental perspective tends to focus above all on creating and strengthening international organisations.

Fifth, 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 advanced industrialised countries).

- *Second*, global market co-ordination 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 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".

- *Fourth,* the interactions between local and global governance mechanisms and between local and global actors in the "world economic triangle" shows that the *architecture* of the global economy cannot be depicted adequately by a stratified model but is best represented in the form of an *interwoven multilevel system*.

- *At least,* while intergovernmentalist (and neoliberal) economists focus on the universal rules governing the world economy, the concept of the world economic triangle indicates 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.

To conclude, 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 that it is not alone 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 21st century.

4 Local development strategies in the world economic triangle

The triangle perspective, focussing on the interaction of local and global governance, opens up a new perception on determinants of international

Gelöscht: 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 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 geared to strengthening geographically bound technological competence and dynamic competitive advantages. ¶

Gelöscht: *a third view*

competitiveness and local development strategies. The triangle view, taking into account the specific form in which regions are integrated in concrete global value chains and "worlds of global standards", paves a way to a more precise understanding of the options and limits of local industrial upgrading processes, to the scopes of action for local actors to design and implement their development strategies, and for new demands placed on local development policies.

Gelöscht: locational policy issues: competitive advantages and technological and organisational competences develop not only in local and regional spaces but also in global value chains in which various locations are connected through networks. 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. ¶
[Delete the above 20 lines and add instead a paragraph which sets out what section 3 of this chapter tries to achieve.]¶
¶
[I have deleted section 3.1 because (1) the chapter is too long and these pages are the least necessary for the overall argumentation. (2) Section 3.1 only deals with two poles of the triangle, making the reader wonder why you do not include anything on the third pole (global standards). This problem arises also in section 3.2 but is less apparent.]

4. 1 The significance of global value chains for local development policy

Chapters five and six on the Italian and Brazilian footwear clusters and chapter 7 on the tile clusters in Italy, Spain and Brazil indicate specific correlations between the governance structures in global value chains, the core competences of lead firms, and local scopes for independent cluster and development strategies:

- 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.This is demonstrated in the case of the Brazilian footwear producers in the second half of the 1990s and of the Italian footwear cluster during the last years.

- The Brazilian footwear producers of the Sinos Valley 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.

- Recently the Sinos Valley cluster successively pursued a strategy of diversifying their ties to global value chains. Groups of local footwear companies are now increasingly integrated in European and Latin American value chains, characterized by network and market co-ordination, in this way significantly enlarging the options to the Brazilian producers to build up competences in marketing and design. This example shows first, that it is possible to open up new local scopes of action even in the context of global value chains. In the second place, it underlines the fact that different structures in value chains define framework conditions essential to local

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- 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.

- 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 replaced 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.

- 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). However, the research also shows that the individual tile producers’ attempts to control the external marketing operations makes their participation in local policy networks less likely.

Gelöscht: <#>[Add a bullet point summarising Luiza and Lizbeth’s study which shows that the scope for action increased later on due to…]¶

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). Furthermore, the global values chain perspective opens up a more precise understanding of the limits and potentials of locational policy at the local level. This is clearest in the case of 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 large in the context of value chains that are organised in networks. Whether this scope is then used depends on other factors.

Chain Governance and Scopes of Action in Regions

Arm´s length market	High autonomy for local actors to design and implement local development strategies. Absence of interventions of global firms restricting local scopes of action coincides with the challenge to develop local strategies without the support from global firms and without access to their strategic knowledge. (Examples: Sinos Valley cluster integrated in the "Latin American Chain; Brenta cluster exporting to different European buyers)
Networks	High autonomy for local actors based on symmetrical interdependences between local and global actors. Very favourable conditions for fast learning processes in the cluster, combining local and global resources (knowledge, information flows, technological capabilities) and local and global competitive advantages. (Examples: Brazilian, Italian, Spanish tile clusters; Sinos Valley cluster integrated in the "European Chain")
Quasi hierarchy	Restricted autonomy for local actors to define their own development strategies. Global firms determine the parameters for local actors; local

actors have to adjust. Building up local development strategies is likely only if the interests of global firms (core competences) are not touched. Tensions between local and global interests are transformed in interest tensions within the cluster , therefore complicating local collective action. (Examples: Sinos Valley cluster integrated in the US-Chain; Brenta cluster integrated in the "Top brand Chain")

Linking the cluster perspective with the global value chain concept enables us to see the following demands facing local development policy that are neglected in the context of an exclusively local frame of reference.

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- *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 development 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).

- *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 (as is shown in particular by the case of Sinos Valley).

- *At least*, local policy maker should realize that 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".

These demands on local policymakers have rarely been considered in the context of the established cluster strategies. The challenges are considerable given that local policy networks are increasingly reliant on know-how on global contexts and need a capacity to interact with global actors. These factors are the *sine qua non* of successful local development policies.

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This means that linking the local cluster perspective and the global value chain approach is a good guard against voluntarist recommendations on local development that may come about when the relevant actors are blind to specific structures in concrete global value chains, which tend to limit local scopes of action. Conversely, it can also help to identify and assess options which had not been considered before.

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 locational policy can help strengthen these advantages. Yet, local development strategies, in order to build up systemic competitiveness, must, *first*, be viewed in the context of their specific global value chains. *Second*, the specific needs, options and limits of locational policy come better into focus here: Regions matter, but they form part of a larger, more complex and intertwined transnational economic context.

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4.2 The significance of the "world of global standards" for regions

The growing significance of the "world of global standards" in the world economy was addressed at length above. The issue here is what relevance do global policy networks that develop standards have for the development dynamics of industrial locations and what demands do they entail for local firms and policymakers?

The studies presented in this volume 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 quality management 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 (as shown by Quadros in chapter 10 for automotive suppliers in Brazil; Dolan/Humphrey 2000 for fruit production in Africa; Nadvi/Kazmi 2002 on Pakistani producers of medical equipment).

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Second, the demands on local firms and policymakers are rising against the background of a proliferation of different global standards (Quadros, chapter 10). 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/Humphrey 2000; Nadvi/Kazmi 2002; Barrientos 2001). These Gelöscht: 1 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 advanced 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.[6] As in the analysis of global value chains, we see here 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 bilateral or multilateral institutions of international development co- that join forces in transnational networks with an eye to gaining social concessions from global lead firms or even local producer clusters.. From the perspective of industrial cluster or innovation system approaches, 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 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 think local and global and to act at the local and global level in networked multilevel systems.

Third, the study by Nadvi/Kazmi (2002) on Pakistani instrument producers Gelöscht: 1 and the Dolan/Humphrey (2000) 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 (Clapp 1998, Glaser 1999). It is in this way that in the process of interaction between local and global governance

[6] Dolan/ Humphrey (2000) 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.

“local networks” become transnational networks in situ in which completely new alliances and political forces may arise. As stressed in section 1,, 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 “from the outside”; local actors seeking to influence who must undertake efforts to influence and shape standards discussed in global networks; local and global actors interacting in regions.

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 advanced 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. Even on the "low roads" of the world economy knowledge-based competitive advantages and governance capacities of local actors 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 (2002) document that the establishment of global social 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 co-operation with larger 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

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reducing costs. In contrast, global social 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[7] 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".

5 Regions in the world economic triangle - conclusions

Compared with the emphasis of Gary Gereffi (1994,1999) that local development options are primarily determined by the specific structures of global value chains, our empirical studies 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!*"

But the empirical studies also point to the limitations of concepts of industrial clusters, innovation systems or systemic competitiveness, all of which, concentrated on local relationships without taking adequate consideration of the specific global contexts in which localities or regions are integrated. The triangle perspective shows us that, depending on the governance structures in specific global value chains there exist "windows of opportunity" or "dead ends" for for local development strategies aimed at strengthening competitiveness. "*Regions matter, but …*" the scopes and limits for local governance are influenced by the following global forces highlighted by the world economic triangle:

Gelöscht: approaches which focused

- the specific governance patterns in global value chains;
- the specific core competences of global lead firms in value chains;
- the specific governance structures in global networks involved in the setting of standards;

[7] 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 in developing countries from global value chains.

- 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.

Beyond that, the triangle concept is useful to show that if regions are to strengthen their competitiveness, it is not enough to use locational policy focused on local forces (intracluster relationships). It is essential at the same time:

- to use the analysis of global governance structures to assess the scopes open for local strategies and to develop realistic strategies, compatible with the dynamics in the triangle, as a means of avoiding any voluntarist efforts;
- to build up local governance capabilities in order to play a role in shaping global governance structures (e.g. global social and ecological standards);
- to prudently link local competences with global resources (e.g. local technological potentials with technological nodes in global value chains);
- 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 expanding, above all in complexity (multilevel policy; multiactor constellations). 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 governance gives rise to restrictions on local 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 is a question that can be answered only empirically.

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