

Capitalism in Large Emerging Economies and the New Global Trade Order

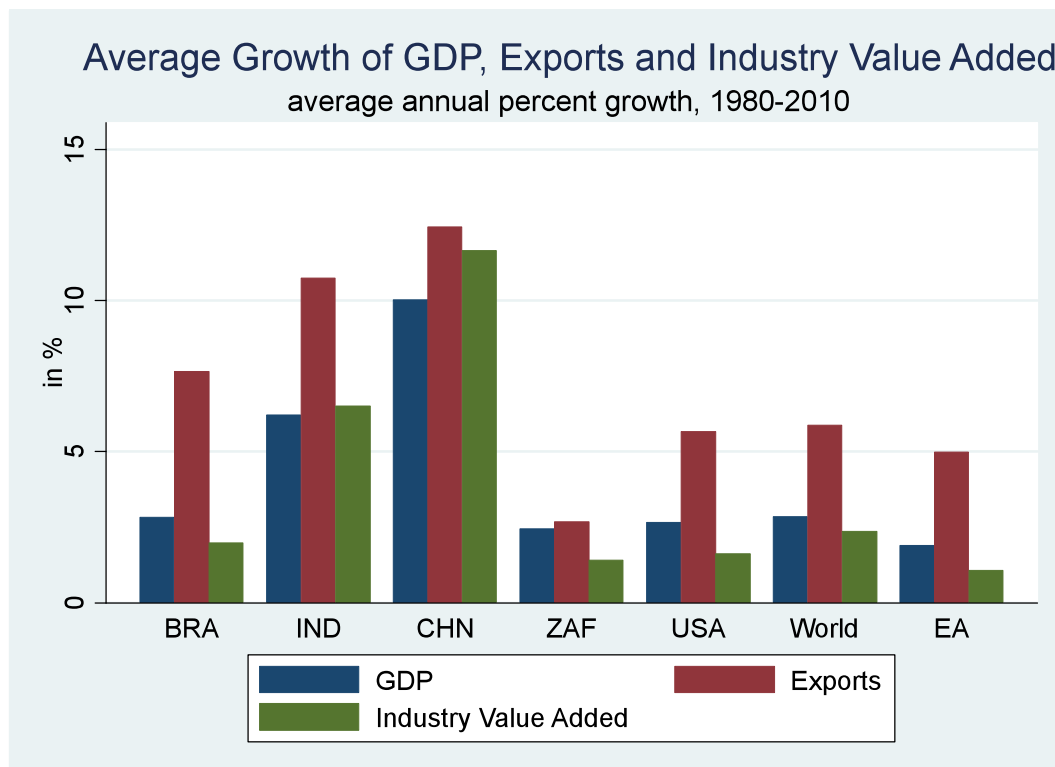
Christian May & Andreas Nölke (Goethe-Universität Frankfurt am Main)¹

A revised and update version is published in David Desse (ed.) "Handbook of the International Political Economy of Trade", Cheltenham, Edward Elgar, 2014.

1. Introduction

Large emerging economies have increased their share of the global economy quite substantially over the last decades. Whereas discussions regarding the international political economy previously were focused on the US, EU and Japan, today this focus would be difficult to uphold anymore. In particular China, India and Brazil easily surpassed the established economies in terms of GDP growth, trade growth and industry value added growth during the last 30 years (Fig. 1).

Figure 1: Economic dynamics of large emerging economies



¹ Author correspondence: may@soz.uni-frankfurt.de; a.noelke@soz.uni-frankfurt.de. The paper is based on findings of a research project on the nature of capitalism in Brazil, India, China and South Africa, started in June 2012 at Goethe-University Frankfurt, Germany (www.bics.uni-frankfurt.de). We gratefully acknowledge support by the German Research Council (Deutsche Forschungsgemeinschaft/DFG, NO 855/3-1) and research assistance by Hauke Feil and Sabine Englert.

Source: World Bank, EA=Euro Area

Although these figures fluctuate quite substantially on a yearly basis, there are no sound reasons to assume that this long-term tendency is likely to reverse any time soon. Correspondingly, countries such as Brazil, China and India increasingly have to be counted as heavy-weights regarding the future of the global economy. Moreover, the large emerging markets recently have begun to organize themselves, in order to coordinate their activities regarding the global economic order. Examples for this coordination include the institutionalized cooperation between India, Brazil and South Africa (IBSA), the BASIC alliance (also including China), or the BRICS grouping, additionally comprising of Russia. In the long term, we thus may assume that we do not only witness a shift in economic importance in favor of large emerging economies, but also a conscious effort by the latter in order to influence global economic rules.

The likely consequences of the rise of the large emerging economies for the global economic order have been discussed widely during recent years (e.g., Cooper et al. 2007; Hurrell 2006; Subacchi 2008). However, the large emerging markets so far have focused on getting a seat at the table (e.g. larger voting rights in the Bretton Woods-institutions, participation in the Basle Committee), and have only just begun to outline their demands regarding specific policies. Thus, on the substance of this new global economic order, many of the existing accounts are either heavily speculative or, in contrast, purely descriptive and thus unable to make any substantial statement regarding the likely future course of events.

In order to overcome this state of affairs, our approach is based on the assumption that we need to develop clear analytical perspectives on the behavior of large emerging economies regarding the global economic order, if we want to surpass a state of discussion that is overly descriptive and/or speculative. The specific perspective that we are developing in this contribution is a “second image” one, in the terminology of Waltz (2001), i.e. we are highlighting the importance of domestic economic structures for the explanation of global economic policies. In contrast to liberal theories of international relations (Moravcsik 1997, Schirm 2012), however, we do not focus on the interactions between domestic societal interest groups and governments, but rather study the broad capitalist structures that have evolved in large emerging markets. The reason is twofold: On the one side, we are interested in the long-term evolution of emerging markets’ positions on the global economic order, a research interest that does not lend itself well to the demarcation of the issue-specific preferences of particular interest groups in individual countries, the usual approach of these liberal theories. On the other side,

we are deeply skeptical regarding the application of conventional liberal-pluralist models of democratic policy-making to countries such as China, but also Brazil and India. Instead, we assume – in a more historical-institutionalist perspective – that the type of capitalism dominating in the large emerging economies will also determine their long-term preferences regarding the global economic order, i.e. they will want to make sure that global economic rules do not inhibit the functioning of their domestic economic order (Fioretos 2011). More specifically, we are situating our analysis in the approach of critical institutionalism within comparative capitalism (May and Nölke 2013), i.e. we are comparing national capitalist institutions from a perspective that is highlighting the historical evolution of specific forms of capitalism, based on their mode of integration into the global political economy and on domestic class struggles. From this perspective, we are arguing that there are important commonalities between the national varieties of capitalism that have developed in the large emerging markets, and that this new type of capitalism is an important determinant of the future global economic order.

Correspondingly, section 2 of the contribution sketches some important aspects of this new type of capitalism. We are highlighting in particular that capitalism in large emerging markets is dominated by national development strategies that are being coordinated by alliances of domestic capitalists and fractions of the state, held together by reciprocal exchanges. Section 3 discusses the implications of the emergence of this form of capitalism for global trade regulation. Crucial findings include a clear preference for reciprocal bilateral instead of universalist multilateral agreements, and an aversion regarding some issues of the WTO Singapore agenda, in particular regarding freedom of investment rule that might challenge the dominance of national capital. In the final section 4 of the paper, we step back from the particular issues of global trade regulation and return to the more general implications of our findings for global economic order. Here we find inspiration in a sociological approach to coordination as formulated by Karl Polanyi (1977, 2001/1944), and apply this approach to the broad lines of global economic regulation. Seen from this perspective, a global order dominated by the large emerging markets can be considered as an illiberal order based on reciprocal exchanges, in contrast to market coordination in the liberal postwar economic order, and to (proposed) coordination by redistribution in the New International Economic Order of the late 1960s/early 1970s.

The focus of our empirical discussion is on trade. Arguably, it is easier to come to a thorough assessment of recent changes as well as the development of clear perspectives for further development of the global economic, if we focus our discussions on one particular issue area

(and, then, compare findings with those on other issue areas).² Trade is particularly important issue area for studies about the global political economy, given the existence of a powerful global institution (WTO), in contrast to issue areas such as production or finance. The empirical focus of our discussion is on the very large emerging economies (i.e. China, India, Brazil and South Africa), not only because these economies are at the centre of the various emerging economies associations, but also because we assume that the type of capitalism in (rather autonomous) large emerging economies differs quite clearly from the type of smaller ‘dependent market economies’ (Nölke and Vliegthart 2009). We exclude Russia from our analysis, since Russia mainly qualifies as a natural resources exporter, more similar to Saudi Arabia than to rapidly industrializing countries such as Brazil, India and China.

2. Large emerging economies as a distinct type of capitalism

The point of departure of our stylized account of capitalism in large emerging economies is the observation that this type of capitalism can best be depicted as a ‘state-permeated market economy’ (Nölke 2012, Nölke et al. 2013).³ State-permeated market economies are dominated by domestic capitalists that are working fairly closely in various alliances with government agencies and ministries, mostly based on informal personal relations. In contrast to dependent market economies, such as the Czech Republic or Slovakia, national control over the economy is maintained, by avoiding a sell-out to (Western) multinational companies. In contrast to the model of the East Asian developmental state, state-permeated market economies are not hierarchically and formally coordinated by a central body, and do not rely on exports as the backbone of their economic model. Below we will illustrate some core traits of this ideal type with a focus on the institutional spheres highlighted by Comparative Capitalism scholarship, i.e. corporate governance, sources of investment finance, industrial relations, education and training (Jackson and Deeg 2006), enlarged by our own concern with the particular mode of integration into the global economy. Next, we will focus in a more detail on corporate governance and on global economic integration, given that these areas are most crucial for an understanding of the stance of these countries towards the global trade order.

Corporations from emerging economies are typically not dominated by dispersed shareholders and the organized forces of global capital markets (mutual funds, pension funds, investment

² For broader, more superficial studies see Nölke and Taylor 2010, Nölke 2011.

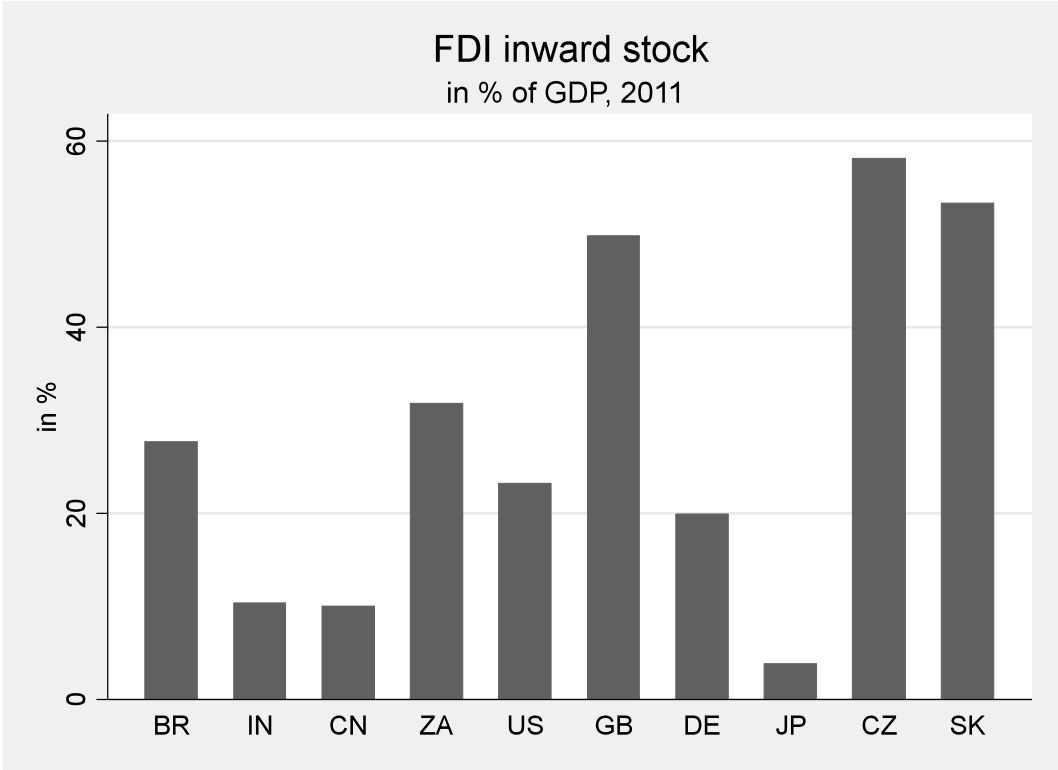
³ The following depiction refers to a theoretical ideal type. Specific countries are more or less identical with this ideal type, and may towards the type or away from it over time. Currently, China is most close to this ideal type, followed by India; South Africa and Brazil are more distant, with the latter recently moving towards the ideal type.

banks, hedge funds etc), but family-owned or state-controlled. Family and state ownership might even be counted among the “distinguishing features” of non-triad multinationals (Goldstein 2007: 148). Foreign direct investments (FDI) and selected privatizations are welcome as long as they do not challenge the predominance of national capital. The latter depends on such modernization in order to provide for the conditions of its own expansion, therefore it supports the selective opening of the producing sector for foreign investments. Usually, however, investments are financed by internal savings of firms and bank credit by state-controlled banks. Raising funds for investments on global stock markets, in turn, does not play a significant role in BRIC capitalism. Industries in emerging economies profit from very low average wages, which are accompanied by low social spending (with the recent exception of Brazil). Emerging economies spend relatively little on R&D and innovation, mostly because new technologies are imported through foreign direct investments and practices of reverse engineering and imitation but also because industrial development in emerging economies requires high labor input, which again makes investment in human resources a minor priority. In order to protect (large) national firms, product markets are heavily protected and foreign direct investment is discouraged. As a consequence, large firms in emerging economies are able to develop in sheltered domestic markets and enter the global market only in a late stage. Central banks in emerging economies actively seek to stabilize external financial relations by accumulating currency reserves in order to prevent volatility in the exchange rate from compromising the competitiveness of domestic firms. Overall, the model of capitalism in emerging economies is characterized by strong but differentiated activity of the state and a high level of protection of domestic firms, albeit in a very selective way. This is because much coordination in emerging economies is based on reciprocal personal relations between state managers on various levels and domestic owners of large firms. In the following we will discuss these two key features in somewhat more detail.

Control by domestic owners

In contrast to capitalism in the European Union and the United States, companies in the large emerging markets are dominated by domestic owners. This can, e.g., be illustrated by looking at the relationship between inward FDI and the size of the economy (Fig. 2). In particular in China and India, the economy is still overwhelmingly dominated by domestic capitalists, either by the state, or by highly concentrated private ownership.

Figure 2: FDI inward stock as percentage of GDP



Source: UNCTAD

While capitalism in emerging economies is neither one-sidedly state-controlled nor market-led, the presence of domestic business communities is crucial. These communities are a result of two characteristic features: High concentration of private ownership and control, as well as a state that is able to allocate crucial resources. Most Indian companies are dominated by the founding family (Allen et al. 2006: 21). It is no exaggeration to assert that the Indian economy is governed by business houses, with the heads of them being eminent persons of Indian social life (Piramal 1996, Dutta 1997). Family-owned businesses are as well "the typical business arrangement of the Brazilian bourgeoisie" (Abu-El-Haj 2007: 106). Obviously, owning families have more long-term stakes in their businesses than anonymous shareholders. As a consequence, much coordination takes place on the base of personal relations and reciprocal trust. Historically, the state acted (and still acts) as a gatekeeper to important resources, such as licences for production in India. Wherever the state has something crucial to distribute, actors depending on such resources tend to seek exclusive access and, over time, personal relations between business and state managers are established. Although Chinese business

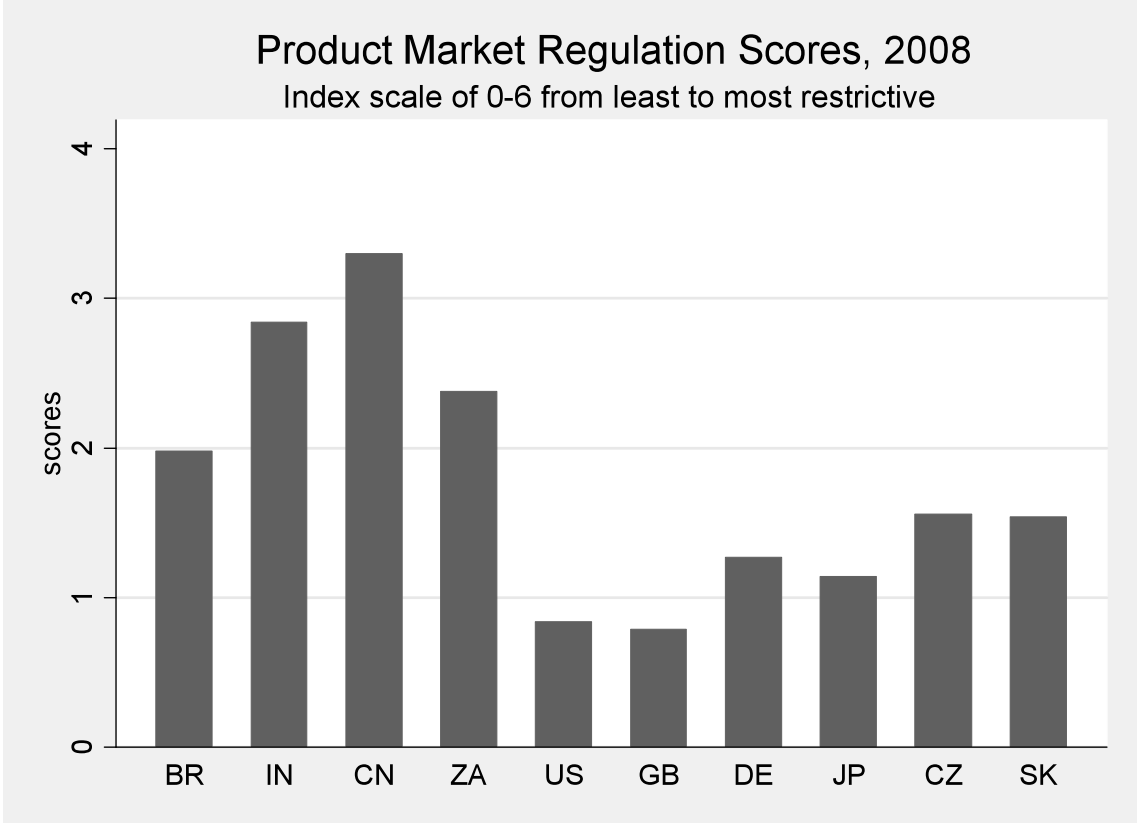
relations are more fragmented than in Brazil or India, personal connections are key as well. Under pressure to fulfill growth benchmarks set from the central state, provincial state officials and businesses cooperate very closely. As an effect, decisions over activities of enterprises are taken within public-private growth communities (Ten Brink 2010, Wank 2001). These business communities become stronger due to the competition they face from rivaling communities in other provinces. Here too, reciprocity between economic actors provide for reliable and long-term forms of coordination.

Selective protection from external competitors

The model of capitalism in large emerging economies is not universally protectionist, but its institutional set-up includes a number of genuinely non-liberal traits. More specifically, emerging economies do not follow an export-led growth path. In contrast to the East Asian "tiger states", in which a strong developmental state fueled a strict export orientation, growth in emerging economies is increasingly driven by domestic consumption. Moreover, investment strategies of firms are heavily shaped by the macro-economical preferences of state agencies. For this reason, the state channels large amounts of credit through ministries and, in particular, state-controlled development banks (Musacchio/Lazzarini 2012). Such preferential support of local companies by way of advantageous credit conditions often allows domestic firms to be more competitive than foreign companies. Furthermore, the state acts as a giant consumer of services and goods, especially with regard to infrastructure and public procurement, foreign firms are structurally excluded from these markets. Such protection from external competitors allows local firms to follow long-term maturing strategies without being subject to short-term interests by shareholders from global capital markets and price pressures by powerful foreign multinationals.

Protection of domestic firms from external competition, also at the cost of conflicting with international norms, is a common policy of all catch-up strategies. Historically, this has been one element of a developmentalist policy: First "infant" firms copy or reinvent products for the domestic market that is shielded by high tariffs and later, as products become competitive on the world market, states follow an aggressive export strategy. However, today's emerging economies keep on walling off the domestic market although many companies are by no way "infant" anymore. They use a differential system of product market regulations that favor national firms to take advantage of their large domestic markets (Fig. 3).

Figure 3: Product market regulation in emerging and OECD countries

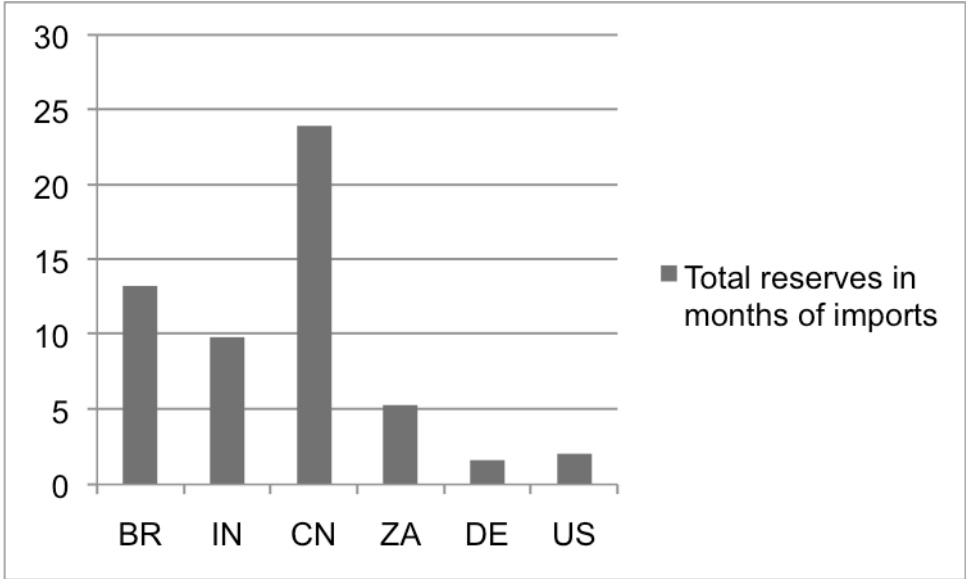


Source: OECD (www.oecd.org/economy/pmr)

The privileged position of large national companies, which often are long-established local market players, is thus strengthened by restrictive trade policies. Although these policies are meant to be developmentalist, emerging countries tacitly accept their protectionist side-effects. Preferential support for large national companies comes in a mixture of direct (e.g. the provision of state credit) and indirect (by the provision of a favorable macroeconomic framework) means. A crucial element is the provision of macroeconomic stability. As most emerging economies knew economic instability, including debt crises, inflation and the deterioration of world market prices, states actively seek to stabilize the value of their currency. This is done mainly by accumulating foreign currency. The main objective is to prevent abrupt devaluation of the national currencies as a reaction to external shocks and crises. It became a priority across central banks after the Asian Crisis, where East Asian central banks were forced to devalue against the Dollar due to speculative attacks. The lack of sufficient foreign currency to pay for imports often forced developing countries to short-term borrowing and

unwanted trade liberalization (see Richter 2013). Contemporary emerging economies aim to avoid both, as it hinders long-term development strategies and correspondingly, these countries amass foreign currency. By now, most of them are able to cover a year of import payments from their currency stocks, whereas they could do so only for five to eight months during the mid-1990s (Fig. 4).

Figure 4: Foreign currency reserves of emerging economies



Source: World Bank database

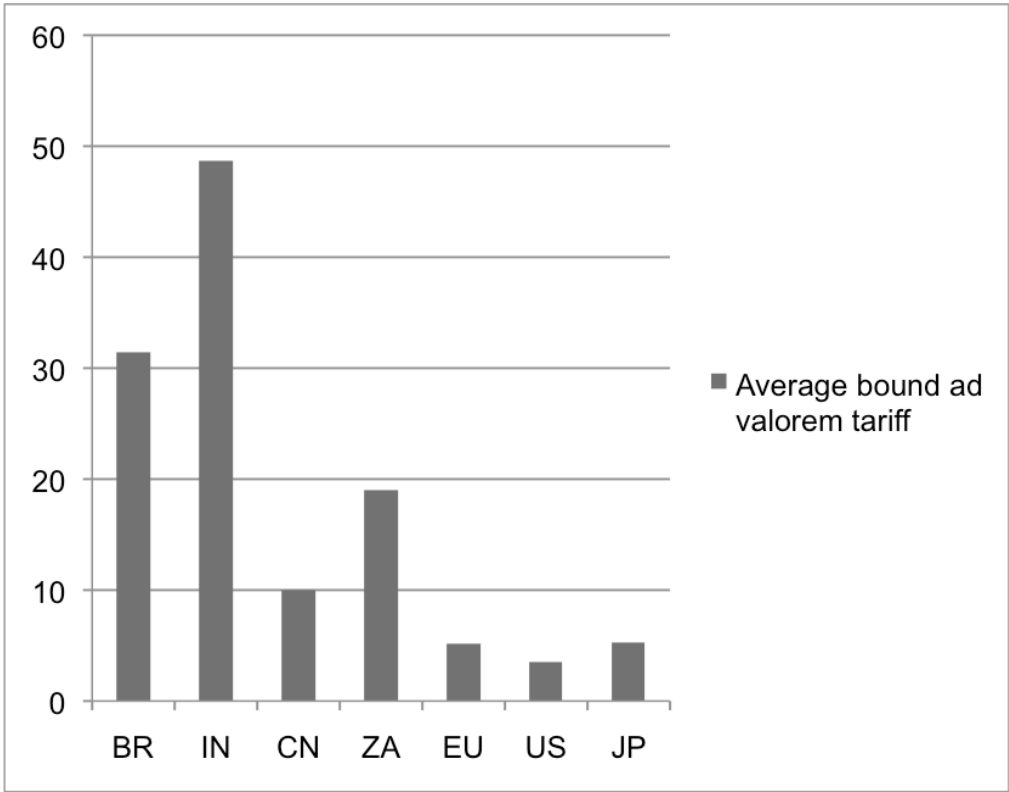
The main thrust behind the accumulation of foreign reserves is not the artificial undervaluation of the national currency to stimulate export-led growth. On the contrary: sudden devaluation should be avoided. What lies behind the large reserves is the establishment of a stable macroeconomic framework that makes it reasonable for domestic firms to invest into capital goods in order to create a competitive industrial base, instead of sticking to simple assembling and the export of primary goods. Thus, emerging economies of the 21st century, such as Brazil, China and India follow a developmentalist agenda but differ strongly from the East Asian New Industrializing Countries such as Korea and Taiwan in at least two ways: Firstly, the state engages in various ways into the economy, but without commanding or planning it from overarching "growth ministries" (Woo-Cumings 1999). Secondly, the interplay of the various institutions of "BRIC capitalism" enables high growth rates, albeit not based on excessive exports.

3. Trade-related implications of the increasing importance of emerging economies

Continuing protection of national product markets

Although they are slowly reducing, average tariffs in emerging economies are still high compared to other major trading countries (Fig. 5).

Figure 5: Average tariff rate, compared to other largest traders (excluding Russia)



Source: WTO 2012a, 2012b

With tariffs being at least four times the average EU and US rates, emerging economies are far from submitting to a global free trade agenda. Moreover, the relatively low tariff rate for China is, in our view, not a sign of China's free trade commitments but on the contrary: we find it highly unlikely that Chinese capitalists will leave the market of the rising middle classes over the next decades to foreign competitors.

Enduring opposition against deep liberalization (of ownership) via WTO Singapore issues

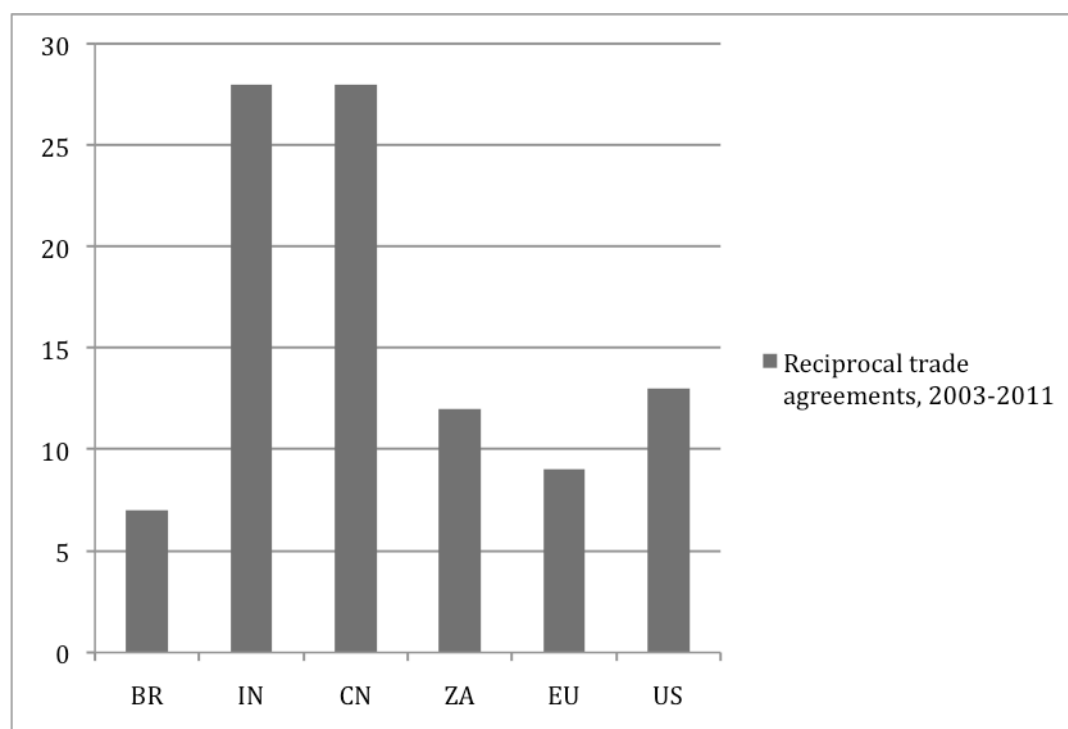
As the large emerging economies are not heavily dependent on exports, their integration into the global trade system is selective and fragmentary. During the last ten years, they succeeded to emancipate from foreign assistance and associated conditionalities. As a consequence, they were able to protect their economic systems from pressures to remove capital barriers and ownership restrictions. The same applies to the attempt of Western countries to open emerging (and developing) economies via trade-related deep integration (Claar and Nölke 2012). Measures of deep integration, also called ‘Singapore issues’ or ‘WTO plus’ were proposed by the EU and the US more than a decade ago, but were turned down consistently by a coalition of emerging and developing economies. From the perspective developed in this contribution, this will likely be an enduring state of affairs.

Investment rules are linked with trade relations because their regulation crucially touches upon the possibility of Western firms of being active in emerging economies. Facing high tariff and non-tariff barriers, foreign firms might endeavor entering large emerging economies by way of setting up branches in these respective countries. The establishment of emerging economies was accompanied by a reorientation of foreign investors in the (semi-) periphery since the 1980s, who switched their focus away from the exploitation of labor and raw materials in developing countries (let alone political priorities of the cold war) towards their growing domestic markets. Such ambitions, however, are hampered by strong restrictions on foreign direct investment (FDI) in the large emerging economies. Often, emerging economies allow FDI only conditionally, for example by forcing foreign investors to engage in joint ventures with local companies or by inhibiting transnational mergers and acquisitions. As a consequence, trade negotiations in the GATT and WTO increasingly expanded into these realms, such as the GATT Agreement on Trade Related Investment Measures (TRIMs) and the inclusion of competitions policy and public procurement into the Singapore issues. However, the issue of public procurement transparency has been dealt with only marginally in the WTO: it is excluded from the GATS agreement and negotiations on this have been halted after the Cancun meeting (WTO 2004). The deadlock at the Cancun ministerial meeting in 2003 was not just about tension about agriculture but especially due to fundamental rifts about the Singapore issues (Narlikar and Tussie 2004). This did not fundamentally change during the last ten years, in spite of repeated initiatives by the EU and the US (Nölke and Claar 2012). The selective regulation of public procurement, investment and competition are crucial pillars of the BRIC model of capitalism and any compromise on these issues would potentially undermine the competitive strength of emerging economies.

A shift from WTO universal trade agreements to bilateral reciprocal trade agreements

The practice to control the inflow of imports by high levels of product market regulation and tariffs is reflected in the increased importance of bilateral and other reciprocal trade agreements (Fig. 6).

Figure 6: Reciprocal trade agreements (goods only)



Source: WTO RTA Database

While recent trade agreements by the EU and US are of minor global importance (such as the US agreement with Morocco or the EU agreement with Papua New Guinea & Fiji), agreements of emerging economies include the MERCOSUR, the MERCOSUR-India and the ASEAN-China agreements. Most reciprocal trade agreements by emerging economies are with other countries of the Southern hemisphere, essentially forming a Southern trade bloc. By now, this is an outspoken aim of the BRICS-group, who announce in their Joint Delhi Declaration of 2012 to "build upon our synergies and to work together to intensify trade and investment flows among our countries to advance our respective industrial development and employment objectives".⁴ As such, this is not particularly challenging for the developed world, if the BRICS were not planning to enable payments for inter-BRICS trade in local cur-

⁴ BRICS Delhi Declaration, <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html>

rency, which means: in Renminbi, not US-Dollars. As the combined share of Brazil, India, China and South Africa already amounts to nearly 20% of world trade (Fig. 7), thereby surpassing the share of the US, this poses a potential challenge to the Dollar-based trade regime. The challenge behind the currency conflict between the USA and China is therefore not so much about a short-term advantage by an undervalued Renminbi, but about the perspective of an alternative trade system. But in order to function as alternative trade currencies, Renminbis, Rupees and Reais have to become stable and trustworthy means of exchange in the first place - for which sufficient foreign reserves are required.

Figure 7: Shifting shares in global trade



Source: World Bank

South-South trade therefore is increasingly bypassing global universal principles as codified in WTO rules. It follows the rules laid down in reciprocal trade agreements, potentially even managed through a BRICs-based payment system and does, since the late 1990s, stand in opposition to the WTO trade regime. Most complaints about trade practices by Brazil, India and China before the WTO Dispute Settlement Body are made by the EU and the US (20,7%). In turn, almost 75% of all complaints by Brazil, India and China are targeted against the EU and the US (Horn et al. 2011). It has been the shift by emerging economies from an export-led

model to an inward-looking developing strategy at the end of the 1990s, which made the current global free trade regime rather questionable (Blustein 2009: 238). The "Southern turn" represents a suitable exit-strategy for those countries that developed a specific type of capitalism. As these countries are by no means economic lightweights, this particular configuration of Southern capitalism has dramatic consequences for the world economic order.

4. Market, redistribution and reciprocity: Long-term implications for the global economic order

In order to make sense of the recent changes in trade policies and to extrapolate towards the contours of a global economic order dominated by the large emerging markets, we are now turning towards categories developed by Karl Polanyi. In *The Great Transformation*, Polanyi distinguished between three principles of economic order beyond the market: reciprocity, redistribution and household production (2001: 49-56), later subsuming household production (correctly) under the header of redistributive economic organization (Polanyi 1977). As he refers to these principles as "forms of integration", Polanyi stresses the socializing aspect of economic relations. In other words, forms of economic integration represent different modes of societalization (*Vergesellschaftung*). Reciprocity, redistribution and the market represent three principles of economic organization.

- Reciprocity aims to achieve symmetry among parties. The classic case of reciprocity is the gift-counter-gift chain, through which economic relations are initiated in the first place. Polanyi refers to the system of trade between the Trobriand Islands as a highly sophisticated institution of economic exchange (Polanyi 1978: 52-3). He also points out that gifts do not need to be of equal value but should be more or less "appropriate" - a delicate criterion for the valuation of goods (compared to prices) which requires abilities for interpretation and empathy.
- Redistributive economies collect goods and other values centrally and distribute them according to pre-formulated criteria among members of a society. This does apply for instance to household economies, although all large-scale economies require some form of redistribution (Polanyi 1978: 53). Political economies vary according to the extent in which these are redistributively organized: modern states established systems of taxation, some even provide for extensive welfare arrangements and socialist economies are entirely dominated by redistributive principles.

- To speak about market economies means that the political economy is dominated by the price mechanism. However, this mechanism can only be effective if the economy is not organized symmetrically or centrally, but diffusely. A major feature of markets is their anonymity: they do not just enable instant transactions between strangers but guarantee equal prices for any market participant. Here, economic relations do not aim towards closer proximity between members but to achieve distance („arms-length“). Anonymity implies that the economic order must be based upon market relations exclusively, i.e. that no other social relations (such as kinship, friendship, loyalty or enmity) interfere as „intervening“ norms of coordination. Consequently, such interventions are known as „market distortions“ in market societies.

Polanyi's analysis of the rise of the liberal market society as a corollary to the rise of capitalism (and how this differs from many non-capitalist societies) does not only shed light on different national economic systems but can also help to understand the emergence and change of the current global political economy. As we shall see, the post-war economic order was dominated by liberalism, before being challenged by the redistributive principles of the New International Economic Order. A global economic order dominated by the large emerging markets, however, likely will be dominated by principles of reciprocity.

Market coordination: the liberal postwar international economic order

The Pax Americana established an order in which key liberal institutions became more and more institutionalized on the global level. At its heart was the principle of freedom, which is understood as the freedom of individual actors to engage in economic actions at his or her will (see Sørensen 2006). Market coordination epitomizes economic freedom because actors neither act upon command (as in a hierarchical coordination) nor upon loyalty (as in reciprocal coordination). Only in markets are economic agents able to pursue their goals with disregard to fellow actors. Markets therefore must be de-contextualized and anonymous: Equal treatment should ensure that strangers can enjoy the same benefits as locals. This principle is translated for instance in most-favored nation treatment provisions within the GATT and WTO.

Liberal (political) ideals were some of the most important principles of the postwar global economic order since the internalization of the economy was one of its very purposes (van der Pijl 1984). But internationalization did not go without tensions. Globally, we found the same constellation that Polanyi saw for the emerging bourgeois (capitalist) society: while one class

strives for maximizing wealth, another class tries to protect itself from dislocation – Polanyi cites the appropriate statement by the emerging bourgeois class: "The poor man shall be satisfied in his end: Habitation; and the gentleman not hindered in his desire: Improvement" (Polanyi 2001: 36).

By the 1960s, most countries were not part of the liberal club, that is, they were not characterized by the liberal principles of governance laid out above. They danced (and still dance) to different beats. Liberal universalism was not in their interest, it did certainly not correspond to their domestic life-worlds because in many countries, capitalism often existed only in "islands": the big cities, industrial districts, special processing zones, etc. It was often absent in the rural *hinterland*, where people often produced for their own needs instead of the market. Their integration into the world economy was conditional upon their need to maintain "habitation" - the ability to protect their economic existence. This became the backbone of the movement for a New International Economic Order (NIEO).

Coordination by redistribution: NIEO

The dominant mode of international economic regulation in the postwar period has been the market - both politically and economically. Since this has neither been a natural order, nor one which is complementary with non-market forms of regulation, it required to eliminate all other forms of governance. But with the same move, it made a "counter-movement" inevitable, to speak with Polanyi's words (2001: 136-57). Ruggie's depiction of the postwar international economic order as an "embedded liberalism" compromise, in which the rigidities of the international market are limited by domestic political intervention (Ruggie 1982), slightly distorts the picture for two reasons: Firstly, this compromise has been negotiated by a leading group of capitalist states, leaving the largest part of the world out of the corresponding protection (ibid.). Secondly, it appears as a static configuration which only lasted until the early 1970s, when the U.S. abandoned the Dollar convertibility and financial markets subsequently were liberalized. However, in this period the formerly excluded (colonies and third world countries) came to the surface while at the same time Western liberalization pressures on these economies intensified - not least due to the activity of MNCs. When the G-77 organized around the NIEO issue, their main objective was protection: First to maintain an economic order that "fits" to domestic social structures and later to overcome the vicious circle of dependent underdevelopment (Frank 1969). As Craig Murphy pointed out, the ideas behind the NIEO were both of an economic and political nature (2005: 107 - 113). Yet the "core of the

NIEO ideology" (107) consisted of an alternative project for the design of the postwar international system. Political leaders of the South in the 1940s envisaged an international order based on inter-state solidarity (within the UN) where

"each state had the duty to aid the economic development of every other state, that this aid should be given no matter what political and economic disagreements a country might have with another country's economic ideology or economic policies. It was, for example, the duty of a capitalist state to aid the economic development of socialist states" (Murphy 2005: 109).

It can be said that political and economic exclusion fostered the radicalization of Southern positions. As we know, the postwar system was characterized by many principles, but not solidarity, thereby marginalizing Southern demands. The implicit ideas of fairness and equality were further frustrated by economic arguments about deteriorating terms of trade which became ever more radical on their way from Raul Prebisch in the 1950s to Andre Gunder Frank in the 1960s. By then, the NIEO project adopted the principle of redistribution: the wealth of the North in this view has been a direct result of the South's poverty and therefore, the New International Economic Order aimed for a redistribution of global wealth.

Even if perhaps the imagination of inter-state solidarity by the early NIEO movement has been idealistic, any chance for its realization became illusory in the wake of bloc rivalry and US interventionism. Any economic system based on redistribution has to establish a centralist institutional structure while a common sense of community (such as "nation") is often indispensable. Both were missing from the postwar global system which is why the NIEO movement was stuck in an antagonistic position vis-a-vis the developed countries. Most importantly, the NIEO could not become a counter-hegemonic force because it never corresponded to the internal structures of most G-77 countries, which were usually not based on solidarity at all. In contrast, even the post-war embedded liberalism dissolved after the 1970s, giving way to neoliberalism, an economic order where market principles not only dominated international institutions, but increasingly all economic (and social) sub-systems.

Coordination by reciprocity: A state-permeated economic order?

The rise of the emerging economies may be considered to provide for an opportunity towards a changing global order. Will this order turn away from the market principle and towards redistribution, as demanded by those countries four decades ago? From our perspective, however, any new world economic order that is led by the large emerging economies would nei-

ther be liberal nor redistributive, but will show significant traits of reciprocity. Not because the emerging economies adhere to a particular ideology of reciprocity (though notions of "fairness" and "balance" often come to the fore in their statements at international negotiations), but because their domestic economies developed institutions that turn a reciprocal form of coordination into a comparative advantage. Our basic assumption thus reads that from a emerging economies' point of view, there is no point in regulating their external relations in a fundamentally different way than their domestic ones.

Where personal relations between national capitalists and state agencies effectively coordinate the economy, there is no need for formal contracts since interpersonal trust ensures the fulfillment of reciprocal obligations. These reciprocal relationships are not only preserved over many decades (such as in India), they are often strongly connected to social norms in general. It is difficult to make sense of e.g. Chinese capitalism without considering *guanxi* as fundamental reciprocal principles of daily life (Michailova and Worm 2003; Ledeneva 2008). Similarly to *blat* in Russia, it delineates patterns of loyalty and mutual obligations that, despite all differences, effectively create communities because members enjoy privileges that outsiders do not. In Brazil, in contrast, loyalty plays out in widespread patronage (Boeckh 2003). But while the sources and characteristics of this mode of coordination are different, common to all is their reciprocal character and its repercussions on political and economic regulation.

Summing it up, "selectivity" is one characteristic feature of capitalism in emerging economies. Loyalty networks establish state-business communities through their active (re-) production of reciprocal relations. As true communities, they constitute in-groups which provide exclusive "club-goods": only members can take advantage of them. While this poses strong objections concerning universalism (from a Western point of view), there are good reasons to think of these modes of regulation as being heavily embedded in general social values and principles. Besides being legitimate within their respective social settings, they are doubtlessly effective. Selective regulation apparently brings about equally efficient and productive results for enterprises as e.g. within Anglo-Saxon market-led governance. We can therefore speak of a successful institutional complementarity that enables steady growth. For Western observers, this is perceived as clientelism, protectionism and patronage but in the absence of liberal universalistic principles, such patterns are well-established modes of social order.

As highlighted in section 3, there are strong indications that the trade policies of the large emerging economies are informed by these domestic structures. Emerging market try to protect

the close linkages between domestic capital and the state, and extend the reciprocity principle governing these relationships to the global economic order, e.g. by favoring bilateral trade agreements over global ones. From the perspective developed in this paper, thus any global economic order which reflects the power shift towards the large emerging markets will be illiberal. It will reject universalist principles of order valid for the domestic and the international level. In particular, it will not be centred around market-compatible equality of access for all participants, but selective policy-making and implementation as well as preferential treatment of specific economic actors. Thus, one cannot expect a further consolidation of global liberal institutions with their emphasis on free access for all. If the external behaviour of the large emerging economies will be based on the dominant economic structures in these countries, we may expect a global economic order that is dominated by the principle of reciprocity, not of the market.

5. References

- Abu-El-Haj, Jawdat (2007) 'From Interdependence to Neo-Mercantilism: Brazilian Capitalism in the Age of Globalization', in: *Latin American Perspectives*, 34 (5), 92-114.
- Allen, Franklin; R. Chakrabarti; S. De; J. Qian and M. Qian (2006) *Financing Firms in India*, Wharton Financial Institutions Center, University of Pennsylvania, Working Paper 06-08.
- Blustein, Paul (2009) *Misadventures of the Most Favored Nations. Clashing Egos, Inflated Ambitions, and the Great Shambles of the World Trade System*, New York, Public Affairs.
- Boeckh, Andreas (2003) 'Der gefesselte Gigant: Politik und Reform (un-)fähigkeit in Brasilien', In: Gerd Kohlhepp (ed.): *Brasilien: Entwicklungsland oder tropische Grossmacht des 21. Jahrhunderts?*, Attempto, 57–80.
- Claar, Simone and Andreas Nölke (2012) 'Tiefe Integration: Konzeptuelle Grundlagen', in: *Journal für Entwicklungspolitik* 28 (2), 8-27.
- Cooper, Andrew F., Agata Antkiewicz and Timothy M. Shaw (2007) 'Lessons from / for BRICSAM about South–North Relations at the Start of the 21st Century: Economic Size Trumps All Else?', in: *International Studies Review*, 2007 (9), 673–689.
- Dutta, Sudipt (1997) *Family Business in India*, New Delhi: Response/Sage.
- Fioretos, Orfeo (2011) *Creative Reconstructions: Multilateralism and European Varieties of Capitalism*, Ithaca, NY: Cornell University Press
- Frank, Andre Gunder (1969) *Capitalism and Underdevelopment in Latin America*, New York: Monthly Review.
- Goldstein, Andrea (2007) *Multinational Companies from Emerging Economies*, New York: Palgrave Macmillan.
- Horn, Henrik; Louise Johannesson and Petros C. Mavroidis (2011) *The WTO Dispute Settlement System 1995–2010: Some Descriptive Statistics*, IFN Working Paper No. 891, Stockholm.

- Hurrell, Andrew (2006) 'Hegemony, Liberalism and Global Order: What Space for Would-be Great Powers?', in: *International Affairs* 82 (1) 1–20.
- Jackson, Gregory and Richard Deeg (2006): *How Many Varieties of Capitalism? Comparing the Comparative Institutional Analyses of Capitalist Diversity*, in: MPIfG Discussion paper 06/02, Köln: Max-Planck-Institut für Gesellschaftsforschung.
- Ledeneva, Alena (2008) 'Blat and Guanxi: Informal Practices in Russia and China', in: *Comparative Studies in Society and History* 50(1), 118 – 144.
- May, Christian and Andreas Nölke (2013) 'Kritischer Institutionalismus in der Vergleichenden Kapitalismusforschung: Konzeptionelle Überlegungen und Forschungsprogramm', in: Bruff, Ian, Ebenau, Matthias, May, Christian and Nölke, Andreas (eds.) *Vergleichende Kapitalismusforschung: Stand, Perspektiven, Kritik*, Münster: Westfälisches Dampfboot, 103-118.
- Michailova, Snezhina and Verner Worm (2003) 'Personal Networking in Russia and China: Blat and Guanxi', in: *European Management Journal* 21(4), 509 – 519.
- Moravcsik, Andrew (1997) 'Taking Preferences Seriously: A Liberal Theory of International Politics', in: *International Organization* 51 (4), 513–53.
- Murphy, Craig N. (2005) *Global Institutions, Marginalization, and Development*, London/New York: Routledge.
- Musacchio, Aldo and Sergio Lazzarini (2012) 'Leviathan in Business: Varieties of State Capitalism and Their Implications for Economic Performance', http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2070942
- Narlikar, Amrita and Diana Tussie (2004) 'The G20 at the Cancun Ministerial: Developing Countries and Their Evolving Coalitions in the WTO', in: *The World Economy* 27 (7), 947-966.
- Nölke, Andreas (2011) 'Non-triad multinational enterprises and global economic institutions', in: Dag Harald Claes and Carl Hendrik Knutsen (eds.), *Governing the Global Economy. Politics, Institutions, and Economic Development*, London; New York: Routledge, 277-291.
- Nölke, Andreas (2012) 'The Rise of the "B(R)IC-Variety of Capitalism": Toward a New Phase of Organized Capitalism', in: Overbeek, Henk and Bastiaan van Apeldoorn (eds.): *Neoliberalism in Crisis*, Basingstoke; New York: Palgrave Macmillan.
- Nölke, Andreas and Simone Claar (2012) 'Tiefe Integration in der Praxis der Nord-Süd-Beziehungen: Vergleichende Perspektiven', in: *Journal für Entwicklungspolitik* 28 (2), 80-98.
- Nölke, Andreas and Heather Taylor (2010) 'Non-triad Multinationals and Global Governance: Still a North-South Conflict?', in: Morten Ougaard and Anna Leander (eds.), *Business and Global Governance*, London; New York: Routledge, 156-177.
- Nölke, Andreas; Tobias ten Brink; Simone Claar and Christian May (2013) *The Rise of Emerging Economies. Expanding 'Varieties of Capitalism' into 'Global Political Economy'*, paper prepared for panel "State Capitalism, Emerging powers and Comparative Political Economy", International Studies Association Annual Convention San Francisco, April.
- Nölke, Andreas and Arjan Vliegthart (2009) 'Enlarging the Varieties of Capitalism: The Emergence of Dependent Market Economies in East Central Europe', in: *World Politics* 61: 4, 670-702.
- Piramal, Gita (1996) *Business Maharajas*. New Delhi: Viking.

- Polanyi, Karl (1977) *The Livelihood of Man*. New York, San Francisco, London: Academic Press.
- Polanyi, Karl (2001/1944) *The Great Transformation. The Political and Economic Origins of Our Time*, Boston: Beacon Press.
- Richter, Thomas (2013) 'When do Autocracies Start to Liberalize Foreign Trade? Evidence from Four Cases in the Middle East and North Africa', in: *Review of International Political Economy*, forthcoming.
- Ruggie, John G. (1982) 'International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order', in: *International Organization*, 36(2), 379–415.
- Schirm, Stefan (2012) 'Global Politics are Domestic Politics: A Societal Approach Towards Divergence in the G 20', in: *Review of International Studies* (FirstView), DOI: <http://dx.doi.org/10.1017/S0260210512000216>
- Sørensen, Georg (2006) 'Liberalism of Restraint and Liberalism of Imposition: Liberal Values and World Order in the New Millennium', in: *International Relations* 20 (3), 251–272.
- Subacchi, Paola (2008) 'New Power Centres and New Power Brokers: Are they Shaping a New Economic Order?', in: *International Affairs* 84 (3) 485–498.
- ten Brink, Tobias (2010) *Strukturmerkmale des chinesischen Kapitalismus*, Cologne: Max Planck Institute for the Study of Societies, Working Paper 10-1.
- van der Pijl, Kees (1984) *The Making of an Atlantic Ruling Class*, London: Verso.
- Waltz, Kenneth N. (2001) *Man, the State, and War. A Theoretical Analysis*, New York: Columbia University Press.
- Wank, David L. 2001. *Commodifying Communism: Business, Trust, and Politics in a Chinese City*. Cambridge: CUP.
- Woo-Cumings, Meredith (1999) *The Developmental State*, Ithaca/London: Cornell University Press.
- WTO (2004) *Decision Adopted by the General Council on 1 August 2004*, Document WT/L/579.
- WTO (2012a) *International Trade Statistics 2012*, Geneva.
- WTO (2012b) *World Tariff Profiles 2012*, Geneva.