SYMPOSIUM

Institutional Voids and the Governance of Developing Economies

16 May 2011

Erasmus University Rotterdam, Campus Woudenstein
T-building, Room T3-14 (third floor)
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PROGRAMME

9.00-9.30 Opening
- Barbara Krug (Rotterdam School of Management, Erasmus University Rotterdam, the Netherlands)
- Dick Douwes (Erasmus School of History, Culture and Communication, the Netherlands)
- Manon Osseweijer (International Institute for Asian Studies, the Netherlands)

9.30-11.00 Session 1
Chair: Tak-Wing Ngo (IIAS and Erasmus University Rotterdam, the Netherlands)

Historicizing the concept of institutional voids: England and China
Eric Jones (La Trobe University, Australia)

Agency and institutional change in emerging markets: The case of the Ciputra Group from Indonesia
Marleen Dieleman (NUS Business School, Singapore), Bennet Zelner (Duke University, USA), and Michael Carney (Concordia University, Canada)

Mimicking the state: An entrepreneurial mission to serve the people in Harbin, Northeast China
Mun Young Cho (Yonsei University, Korea)

Discussant
Gijsbert Oonk (Erasmus School of History, Culture and Communication, the Netherlands)

11.00-11.30 Coffee break

11.30-13.00 Session 2
Chair: Marleen Dieleman (NUS Business School, Singapore)

Institutional conversion and innovation in market voids: Informal finance in China
Tak-Wing Ngo (IIAS and Erasmus University Rotterdam, the Netherlands)

Building a favorable ecosystem for venture capital: Lessons from Brazil’s INOVAR Program
Susana Moreira (Johns Hopkins University, USA)

Local path dependency in institutional voids: The re-emergence of local capitalism in China
Mark Greeven (Rotterdam School of Management, Erasmus University Rotterdam, the Netherlands)

Discussant
Hugo van Driel (Rotterdam School of Management, Erasmus University Rotterdam, the Netherlands)

13.00-14.00 Lunch
14.00-15.30  Session 3
Chair: Mark Greeven (Rotterdam School of Management, Erasmus University Rotterdam, the Netherlands)

Emerging institutional arrangements in India’s land market
Lorraine Kennedy (l’École des Hautes Études en Sciences Sociales, France) and Vijayabaskar Manimegalai (Madras Institute of Development Studies, India)

"Illegitimate“ transfer of rural land in China: Institutional void and local response
Ray Yep (City University of Hong Kong, Hong Kong)

Elite collision or elite collusion? Tackling elite capture by institutional change in Bangladesh and Ghana
Sam Wong (University of Liverpool, United Kingdom)

Discussant
Ashwani Saith (International Institute of Social Studies, the Netherlands)

15.30-16.00 Coffee break

16.00-17.00  Session 4
Chair: Tak-Wing Ngo (IIAS and Erasmus University Rotterdam, the Netherlands)

How do business-government ties affect firm value in an emerging market?
Pei Sun and Hoaping Xu (Fudan University, China)

Industrial competitiveness and technology accumulation process of Taiwan
Yuri Sadoi (Meijo University, Japan)

Discussant
Barbara Krug (Rotterdam School of Management, Erasmus University Rotterdam, the Netherlands)

17.00 – 17.30 Closure and Final discussion


Historicizing the concept of institutional voids: England and China
Eric Jones (La Trobe University, Australia)

‘[O]ne institutional breakthrough is worth a dozen textile mills or shipping companies established within the framework of traditional society and its system of values.’ (Albert Feuerwerker)

Institutional voids are historically contingent. Although they may be filled, the results may be neither optimal nor permanent. Understanding this necessitates investigating the long-term. Cross-sectional studies cannot so readily identify the swings of fortune which arise from over- or under-government at the level of the central state; the state may introduce a command economy or wither away. Withering means reduced infrastructural investment, with some business opportunities foregone, while under-regulated, second-best institutions may be adopted. Historical studies can contribute to understanding the relationships and act as controls on modern cases since, unexpectedly, past data may be superior. History matters because ideas may be tested where initial conditions are verifiable and outcomes are known, thus avoiding stylised facts. Two cases will be considered: late Qing China, and the classic of social science history, industrial revolution England. The preliminary sketches below will be elaborated and variations in institutional provision analysed.

China had a longer but more interrupted history of economic growth than Europe. The puzzles are, first, why late Qing China saw a retreat of central government from many functions, and secondly what the effects were of a void at this level. Generalizing is difficult because institutional change occurred unevenly. At least China was no uniform command system and provided little by way of infrastructure. The guilds lacked independence and supervisory powers. Nor was the legal system independent or systematic – the courts conciliated rather than adjudicated.

Economists would anticipate the emergence of substitutes to fill the void of a shrinking state. Some did indeed appear. Self-regulation by merchants took over; they belonged to native place associations which provided sanctions able to punish default on contracts, as well as offering reasonably reliable circles of business contacts. They placed stern informal sanctions on fraud. Villagers formed associations for guarding the crops. Such substitutes worked well enough for economic expansion but without the achievement of rapid growth. It has been suggested that a major omission was the lack of funding of the national debt whereby European governments made bonds and annuities as safe as land.

Subsequently Western interests and trading enclaves remedied some deficiencies by transferring to China business models and practices such as the collection of customs duties. Chinese firms downplayed relationship business and referred disputes to the courts and customary law. But in Republican and Warlord times, and a fortiori under Japanese occupation, there was a move from open markets and shareholder power towards what today are stereotyped as the attributes of decentralised overseas Chinese business: personalised corporations and business dealings, opaque accounting practices, and a dispersal of activities among industries. The five Confucian levels of filtering contacts was a means of shaking out crooks but doing business via guanxi and personal contacts had a high marginal cost. While the differences between Western and Chinese practices can be overdrawn, China lacked equivalent recourse to black-letter law. Yet there was nothing there of timeless custom but instead rational responses to absent or insecure government. The void was filled but only by incurring high transactions costs.
England also avoided a command system. The Glorious Revolution of 1688 and establishment of a limited monarchy with its finances overseen by Parliament is a reasonable starting point. This was an elite settlement offering political stability based on a separation of powers. Government did not much impede private investors, while the earlier civil conflict did not resume. Investments with long gestation periods, such as in improved routes, were now forthcoming. An 'open access economy' was solidified, in which the elite, though not free of all conflict within its ranks, increasingly eschewed political rent-seeking in favour of economic competition. This fundamental transition, unusual in history, has still not been achieved today in many of the poorest countries, so warrants close examination. The precise link to growth, let alone industrialisation, also needs to be investigated.

Clearly, although it had been interrupted, growth began well before 1688. The judiciary was independent-minded and curbed guild power in favour of the market, a classic case being when guild rights to seize the goods of non-members were struck down in 1599. The guilds were independent of the state; their actual function is disputed and in any case was not uniform over time. Regulations were ignored in good times but enforced again when business conditions tightened. This might delay, but could not halt, competition. The ambiguity is that the judges did not automatically favour the free market; for instance they were inclined to regulate food markets in the name of social order.

Far from concluding that England’s institutions especially favoured growth, modern legal scholars have been reduced to the despairing conclusion that ‘something in the mix worked.’ Counting supposedly progressive Acts of Parliament does not help since so little is known about enforcement. England possessed no superior system of codified property rights and imprecise definitions of real property bounds long persisted. Weber, who saw this as his ‘England Problem’, thought that the uncertainty must have depressed investment. Much corruption, similarly well known to reduce investment, persisted until the second quarter of the 19thC. Protective duties were imposed just when a free-trade literature was appearing.

An open access order implies minimal intra-elite conflict. The standard contractual view of privatisation further implies that over-exploited common resources would come into the hands of the individuals most willing to exploit them. However the ‘Tragedy of the Anti-commons’, i.e. ‘group exclusion’ by some owners, delayed many enclosures. Moreover the frequent privatisation of routes for amenity purposes created no social gain whatsoever. Strict settlements which restricted the productive use of estates may have been nullified by private estate Acts, but only in certain areas. Despite 1688, therefore, industrialisation was delayed. Clark claims that this constitutes nothing less than ‘the great and enduring puzzle of human history’. The English case remains to bemuse anyone anticipating simple theorems of institutional rearrangements.

Agency and institutional change in emerging markets:
The case of the Ciputra Group from Indonesia
Marleen Dieleman (NUS Business School, Singapore), Bennet Zelner (Duke University, USA), and Michael Carney (Concordia University, Canada)

Using an in-depth case study of a large Indonesian property group, we investigate how firms from emerging markets can effect institutional change and become institutional entrepreneurs in their home market, and can subsequently leverage their unique institutional strategies in other emerging markets. The article unpacks mechanisms of institutional change enacted by private sector players and re-thinks the respective roles of governments and private sector players within the institutional field of urban planning and property development in an emerging market characterized by institutional voids.
Mimicking the state:
An entrepreneurial mission to serve the people in Harbin, Northeast China
Mun Young Cho (Yonsei University, Korea)

THE ETHNOGRAPHIC MOMENT

In August of 2006, around 60 laid-off workers gathered at a Street Office (jiedao) in east Harbin. A placard on which was written “Bringing Health Home: Community Startup of a Business” was hanging on the wall. An official in the Street Office introduced the Bringing Health Home program (hereafter the BHH) to the audience as part of the Youth Development Center in the Harbin Academy of Social Sciences.

Intriguingly, it was guasha, a traditional Chinese healing technique, which the BHH members selected as a topic of this training session. How is guasha related to job training for laid-off workers? Wang Yan, an advisor to the BHH, enumerated three characteristics that had been key to the success of the guasha project as a new business: first, the BHH project was “advantageous to the state” (liguo) because it not only revitalized Chinese traditional medical culture but also contributed to the re-employment of laid-off workers and the employment of youth. Second, it was “advantageous to the people” (limin) because it liberated them from pursuing difficult access to healthcare and from paying exorbitant medical expenses. Finally, it was “advantageous to oneself” (liji) because learning guasha helped one to maintain one’s own health. “All in all,” she said, “our goal is to realize a ‘harmonious society’ (hexie shehui) by extending healthcare benefits and creating opportunities for employment.”

It was not until this long speech that I realized that the BHH also goes by another name – “guasha health massage franchiser.” Since its opening in July of 2005, the BHH had mobilized those who would open new guasha franchises or work in the franchises. At the time when the training session was held, the BHH already had four chains and 30 members, including both franchisees and their employees, throughout the city of Harbin.

Although the BHH belonged to a private small business, the BHH nonetheless positioned itself to look like a state entity. This confusion raised in me a series of questions: Why does this local massage shop go to the trouble to pass through a government channel and to act as a proxy for job training? Why is it important to publicize guasha’s social contribution to the state and the people as well as to the individual self? What was also intriguing was that many of the BHH members are urban laid-off workers, most of whom have felt very abandoned by the state in the process of market transition. What does it mean that these laid-off workers, whose grievances to the state are more severe than anyone else’s, incorporate the state’s concerns about a crisis in healthcare and unemployment into their business instead of castigating the state for its failure to deal with them?

THE STATE-MARKET COMPLEX IN CHINA

Based on my ethnographic research in Harbin from 2006 to 2008, this paper examines the ways in which China’s social actors in the healthcare sector constantly mimic the state through their entrepreneurial activities. By “mimicking the state,” I mean that these actors use the state as an exemplary model for their own entrepreneurial efforts. Moreover, these actors are anxious to defend the state’s norms – particularly its maxim of “Serve the People.” Although expected to become self-managing subjects who no longer depend on the state, these actors constantly turn back and embrace state effects -- which I will detail later -- voluntarily and enthusiastically. They even make their small businesses appear as if they are parts of state apparatuses.
With an eye to “mimicking the state,” I examine how business people’s persistent appeal to “the state” and “the people” is bound up with volatile market activities in China’s socialist market economy. China’s flexible “postsocialist” condition disrupts any teleological examination of history framed by the antagonism between socialism and capitalism, the planned economy and the market economy. Further, newly emerging institutional voids are not being filled by state bureaucrats only; these voids are being created, sutured or exploited by numerous others in varied and uneven ways.

As a way of rethinking the workings of institutional voids in many “developing” countries, this paper particularly challenges the presumed distinction between “the state” and “the market.” Anthropological studies on the state have demonstrated that the state is not a fixed entity but a set of processes and practices. In this sense, the seeming transcendence and coherence of state power should be treated “not as a taken-for-granted fact, but as a precarious achievement”. The creation of “the state” as the dominant and overarching entity is not the achievement of the state apparatus only. The totalizing of “the state” is substantiated not only through the banal practices of bureaucracies, but also through the performance of other subjects who try to take advantage of its effects for their own purposes.

Accordingly, I intend to disrupt the distinction between “the state” and “the market” by focusing not on government bureaucracies but on market participants who try to convert the state’s transcendental appearance into a pragmatic value for their entrepreneurial purpose. The BHH members, which I will detail ethnographically, are prime examples of such subjects. Their acts of appropriating the state suggest that the boundaries between “the state” and “the market” are murky and porous rather than completely distinct.

Many scholars have focused on the illicit and corrupt nature of the state-market complex in post-Mao China. However, I argue that the murky encounter between “the state” and “the market” does not merely address the persistent power of the so-called “authoritarian” state. Given the history of the PRC, in which the leading role of the party-state was blatantly displayed through the production of the entire population, highlighting the attachment to and bond with “the state” often becomes an effective strategy for self-interested players in the market.

In all, this paper intends to expand upon the work of scholars who disrupt the state-market dichotomy. It theorizes an ethnographic scene in China in terms of a Moebius strip where “the state” and “the market,” which are seen as completely distinct, are continuous with one another.

Institutional conversion and innovation in market voids:
Informal finance in China
Tak-Wing Ngo (IIAS and Erasmus University Rotterdam, the Netherlands)

Rapid economic transformation very often creates institutional voids. This is particularly true in China when the shift from a command economy to a market economy was achieved within a short period of time. Many of the institutions which regulate economic exchanges have to be created from scratch. The fact that the Chinese economy has been continuously growing in a spectacular and unprecedented rate suggests that institutional creation and innovation have been rather successfully in meeting the need of developmental governance. The China case thus provides a fertile ground to explore the question of institutional voids.

This paper focuses on the problem of industrial financing for private enterprises in China. Despite their export earning ability, small and medium enterprises have difficulty in obtaining bank loans and credits during the reform period. State-owned banks and other financial institutions have deliberately refrained from lending to

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these enterprises. In response to the situation, two traditional forms of private finance, namely private consortium and pawnshops, have emerged to fill the void. Subsequently, one was banned while the other has been formalized. This paper analyzes the different consequences.

The contrasting result underlines an important question about institutional creation. Existing scholarship has drawn our attention to institutional entrepreneurship as the exogenous actor in catalyzing institutional innovation and creation. Insightful as it is, the literature tends to overlook the broader socio-political conditions which facilitate or constraint such entrepreneurship. By comparing the two cases of industrial financing in China, this paper examines the broader politico-institutional conditions that allow institutional entrepreneurs to experiment with new practices to fill institutional voids.

**Building a favorable ecosystem for venture capital: Lessons from Brazil’s INOVAR Program**
Susana Moreira (Johns Hopkins University, USA)

This paper examines how a government agency – FINEP - was able to address inadequate early stage funding for technology-based firms by actively promoting the venture capital industry in Brazil. Analysis begins with a discussion of Brazil’s innovation gap: its origins and the measures adopted by the government to address it. It continues with a short overview of FINEP’s history and then turns to the INOVAR program, designed by FINEP as a support tool for venture capital in Brazil. Analysis of INOVAR’s trajectory between 1999 and 2010 indicates that developing a venture capital industry poses significant challenges to policy-makers that can, however, be successfully overcome (and produce very positive results in terms of innovation). Key to this success is finding a set of simple solutions that constantly adjust to the changing circumstances of what is a very complex problem. The development and implementation of these solutions in turn depends on several actors (both private and public) working as partners under the coordination of a determined, bright, independent and committed leadership.

**Local path dependency in institutional voids: The re-emergence of local capitalism in China**
Mark Greeven (Rotterdam School of Management, Erasmus University Rotterdam, the Netherlands)

Existing scholarship has long studied societies where the absence or weakness of particular institutions has inhibited social and economic development. While it is an established wisdom that institutions matter in development, most developing economies are characterized by the absence of much-needed institutional arrangements to regulate market exchange, mobilize economic resources, and coordinate social activities, i.e. institutional voids. However, the success of emerging capitalist economic development across Asia, in particular China, underscores the need to understand who are the actors that fill institutional voids and what are the micro-mechanisms that enable the emergence of capitalism.

Institutional voids are sometimes filled by unconventional actors that in the process of negotiating rules, resources, and discourses with formal and informal circuits of power, contribute to the emergence of alternative forms of governance. It is important to recognize the two sets of actors involved: private actors and state actors. Private actors and state actors can fulfil diverging roles in either adapting to or influencing institutional conditions. Two distinct arguments have emerged in the economic sociology of China’s economic development, reflecting contrasting views on the role of the state. Whereas state-centred approaches see private actors as recipients of institutional constraints (North, 1990) at the central and local level (Oi,
entrepreneurship-centred approaches see private actors as agents of institutional change (Nee, 1989; Krug and Hendrischke, 2010). In the former top-down approach institutional change is exogenous and institutional voids are filled by the state, in the latter bottom-up approach institutional change is endogenous and institutional voids are filled by the interaction between state and private actors.

Two important observations about China are important for understanding the micro-mechanisms that enable the emergence of capitalism: institutional change and local diversity of institutions (Dixon, Meyer & Day, 2010; Krug & Hendrischke, 2008; Lu & Tao, 2010; Tang, 2010). The pace and continuity of institutional change leave China unlikely to converge towards formal institutional arrangements but rather sustain a governance mode that balances formal and informal institutional arrangements (Puffer, McCarthy and Boisot, 2009). While formal institutions are generally organized by committed state political elite (North, 1990), informal institutions are generally socially embedded governance mechanisms of group of non state organizational actors. Therefore, it is likely that both state and private actors play a role in the successful evolution of economic institutions (Krug and Hendrischke 2008; Nee and Opper, 2007; Zheng, 2007). Furthermore, the heterogeneity of China’s local business environments suggests that economic development is place-dependent (Martin et al 2006; McSweeney, 2009). Therefore, it is important to identify micro-mechanisms at the local level that created a self-reinforcing process of economic development over time, i.e. local path dependency (Martin et al 2006).

In what follows we provide an analytic narrative in which we trace the institutional foundations of the emergence of local capitalism in Zhejiang province, one of the frontrunners in private enterprise-led capitalist economic development in China. The analysis supports an argument that combines endogenous and exogenous institutional change and acknowledges the complex roles of both the state and private entrepreneurs in filling the local institutional voids. Interestingly, not only the exogenous shocks of communism and subsequent reform have led to the emergence of today’s capitalist economic system in Zhejiang, the institutional foundations have been laid in earlier periods of history, laying out self-reinforcing mechanisms and ultimately creating a dominant pattern of economic organization. These findings suggest that institutional voids are path dependent and that the emergence of local capitalism in Zhejiang is neither a surprise nor the result of formal institutional arrangements. Rather, a duality of organizational agency and institutional structure gives rise to the private enterprise economy in Zhejiang.

Emerging institutional arrangements in India’s land market

Loraine Kennedy (l'École des Hautes Études en Sciences Sociales, France) and Vijayabaskar Manimegalai (Madras Institute of Development Studies, India)

Land acquisition has emerged as a critical aspect of state capacity in India with the neoliberal turn in the growth strategy. The drive to attract private capital for investment and growth has fostered a regime of competition among the various state governments in the country. Competition implies provisioning of a range of incentives to private investors like cheap land, power, water and tax concessions. State and parastatal agencies of industrial development are involved in building up 'land banks' to offer to private investors at below market prices. This involvement take various forms including outright purchase/acquisition, bringing government-owned land into the market, support for private acquisition through provision of market information, help with negotiation of bureaucratic procedures for acquisition, legal support, etc. Such practices, which are feeding a speculative real estate boom in India’s metropolitan regions, move India away from a path of sustainable development. Although the process of land acquisition for industrial and infrastructure development is governed by formal laws and procedures, market reforms have created new imperatives of time and costs that appear to have
rendered these formal institutions ‘obsolete’ and inadequate. Elaborate procedures, lack of clear property titles, contestation by property owners and delays are increasingly perceived by eager political elites as major disincentives to private capital. Possibilities for legal recourse for landowners unwilling to sell or dissatisfied with prices have diminished over the last fifteen years, as a result of both formal decisions (legislation) and informal practices.

Although there is increasing media attention to unlawful acquisition and dispossession of vulnerable groups, amidst calls to improve the institutional framework to address such issues, there are strong incentives for current practices to prevail and an insufficient set of countervailing powers to curtail them. Recent research conducted by the authors in several Indian states (Tamil Nadu, Andhra Pradesh and Haryana) has shown that processes of land acquisition tend to rely on a set of informal networks involving both state and private actors. Local land market intermediaries have emerged and are seen as crucial to overcoming what are perceived as rigidities of formal institutional regimes of land acquisition. They are involved in convincing landholders of the viability and profitability of the deal on offer, negotiating prices, and ensuring that sale prices do not spiral through multiple negotiations and speculative cycles. Based on empirical evidence, this paper undertakes to document the ways in which state actors intervene in favour of private investors and instrumentalize government machinery for private gain, on one hand, and to examine the role of private intermediaries, on the other hand. In delineating the role of non-formal actors in the land acquisition process, this paper will examine how formal policy shifts enable the emergence of and institutionalization of such actors like the land market intermediary.

The paper argues that India’s developmental ills arise from a combination of an overly laissez-faire market and hierarchical patterns of governance, characterized by grossly inadequate formal regulation of economic activity, notably an absence of social protection, opaque decision-making and an increasingly predatory state. Many of India’s institutions, i.e., patterns of beliefs and practices, perpetuate social inequalities and reinforce patron-client relationships, and are not conducive to making state actors accountable to the public. As the non-state actors draw upon both formal and non-formal sources of power to coerce landowners into selling, we observe a re-inscription of traditional modes of social regulation based on social and economic hierarchies under the new market driven growth regimes. Drawing on theoretical work on economic reforms in developing economies, the paper proposes to examine this regressive turn and frame hypotheses about the conditions that have given rise to such arrangements. Following recent theoretical work on varieties of capitalism, the paper questions the supposition that developing countries can or should simply replicate ‘appropriate’ institutional arrangements, based on advanced market economies. Instead of leading to convergence of a small number of institutional arrangements, evidence presented in international literature indicates that similar neoliberal policy reforms have in fact given rise to highly divergent arrangements, many of which rely on “low road” patterns (informal work, rent-seeking, opaque decision-making). Moreover, this paper considers institutional change as the result of a political compromise on the ground, an outcome of collective action and of prevailing power relations. In this perspective, formal rules decreed from above can at best provide broad guidelines for desired outcomes, but are insufficient in and of themselves for fostering change.

“Illegitimate” transfer of rural land in China: Institutional void and local response
Ray Yep (City University of Hong Kong, Hong Kong)

This proposed paper intends to evaluate the implication and trajectory of development of a spontaneous institutional innovation of land administration---shareholding land company in rural China.
Such initiative from below is motivated by the general frustration among Chinese peasants as a result of their exclusion from the marketization process of land transaction. Influx of capital inherent of the globalization process and three decades of suppressed urbanization under Mao’s approach of rigid urban-rural segregation have contributed to the tremendous demand for rural land since 1990s. On the other hand, the changing contour of household economy in the countryside—declining importance of farming income, availability of alternative employment in the cities and increase in economic freedom, have all reinforced the rising inclination in abandoning land among the Chinese peasants. The convergence of supply and demand however, must be mediated by the state. Rural lands are “collectively” owned, i.e. individual rural household is given a land lease that permits the lease holder user right and (partial) income rights, but no transfer right. Particularly, the conversion of farmland for non-agricultural use is subject to approval of the state authority. The consequence of this arrangement implies peasants, who are willing to surrender their land lease would not be allowed to engage the buyers directly. Instead, most of return inherent in this transaction will be captured by the state authority. While fiscal concern is a key factor in the state’s deliberate suppression of emergence of institutional arrangement that may facilitate direct market negotiation between peasants and the ultimate land users, reluctance on this matter is further reinforced by its ideological concern over the consequence of debate of private ownership of rural land—the last bastion of socialist economy and the strategic consideration of food security. The eruption of rural tension has prompted the emergence of various measures facilitating exchanges of land leases among the Chinese peasants, yet the artificial barrier against peasant direct involvement in the most lucrative transaction—selling of rural land lease for industrial and commercial uses lingers.

The experiment of shareholding land company in southern China is a spontaneous response to this predicament. Under this scheme, rural households in a community would become shareholders of a company that would manage their land leases. The company would then serve as their agent in direct negotiation with all parties that are interested in these lands. A lease agreement would be concluded for all successful negotiations and as shareholders, all rural households concerned would be rewarded with dividends and bonus. This institutional innovation represents a deliberate attempt to bypass state intermediation as the lands are officially “leased” out instead of being sold; as ownership of the concerned plot does not change hands, and thus would require no formal approval of state authority. But with the company firmly under the control of local peasants, this land company serves as an vehicles for their direct participation in land transaction and provides a secured access to the premium.

In this paper, I will examine:

a) evaluate the origin and trajectory of development of this institutional innovation;
b) identify the source of entrepreneurship behind such a spontaneous move;
c) examine the response of the state authority towards this local initiatives; and
d) evaluate the impact of such development on state-society relationship and local governance in China.
undermining elite authority, co-opting elites may help reinforce their domination and worsen poverty. We explain that the failure to break the client-patron dependence lies in three design faults: power inequalities between external agents, NGOs and local communities, mismatch between old and new institutions, and limited community participation. We propose some principles to develop a pro-poor framework for institutional change that would be effective in tackling elite capture.

**How do business-government ties affect firm value in an emerging market?**

Pei Sun and Hoaping Xu (Fudan University, China)

This paper examines how a portfolio of network ties that a business firm maintains to political actors and/or institutions impact upon firm value in an emerging economy. Drawing on relevant theories and literatures in relation to corporate political strategy, we develop hypotheses regarding the valuation effects of political networks composed of a variety of personal and institutional ties to the state in emerging economies. Empirically, we document stock market responses to an unanticipated arrest of Shanghai’s top leader by the Chinese central government in September 2006. The event study shows a negative effect on firm value of both board ties and moderate/non-controlling ownership ties to the municipal government upon the event, while the association between strong/controlling ownership ties and firm value was statistically insignificant. Further, a positive interaction effect on firm value upon the political event was found between board ties and non-controlling ownership ties, implying that firms combining both personal-level connections and moderate ownership stakes experienced less reduction in market value after the release of the news. These empirical findings shed light on the strategic values for different configurations of business-government ties during liberalization and institutional transition.

**Industrial competitiveness and technology accumulation process of Taiwan**

Yuri Sadoi (Meijo University, Japan)

Industrial competitiveness is an important issue for developing countries as well as for mature industrial countries. In the fast liberalization and globalization, industrial competitiveness requires faster pace of catching up technological capacity for developing countries, and developing higher technological capacity for developed ones. Human resource development is playing one of the crucial roles for building skill and technological capacity and for realizing industrial competitiveness for the nations.

The technological capacity has been the subject of a recent literature involved most typically with a discussion of human capital which is largely a function of the development of schooling and industrial training such as off the job training (Off JT) and on the job training (OJT). Development of schooling and industrial training has been a function of the institutional characteristics of a society. The critical point is that investments in human and physical capital tend to be complementary and given imperfections in the human capital market, there are no guarantees that the growth of human capital will keep pace with the growth of the physical capital structure (North 1990).

This study aims to examine inter-industrial comparison of development of human capital and industrial competitiveness. This study shows empirical cases where public actors perform initial functions and private actors or public-private joint actors undertake responsibilities in the absence of effective institutions. In Taiwan, Industrial Technology Research Institute (ITRI), a national research organization, served to strengthen the technological competitiveness of Taiwan.
In 2008, Li & Sadoi surveyed the industrial capability of Taiwanese automobile parts industry by looking at the technical division of labour among Taiwan, China and Japan. The findings show that Taiwanese automobile parts suppliers have been accumulating advanced technologies from Japan through technology collaborations and capital involvement. Such technology accumulation was upgraded through competition and cooperation over years in the case of automobile parts industry.

However, in recent years, the sudden rise of Taiwanese electronic manufacturing system (EMS) firms has shown the new model of developing international technological capacity. One of the leading Taiwanese EMS firms, Foxconn shows the new development process of technology in the case of electric manufacturing firms. In automobile and electronics industry, human capital, especially skilled technicians and research and development (R&D) engineers play highly important role for upgrading technological capacity.

The research questions are; how did the public actors, such as ITRI in Taiwan, perform in the initial functions? Then, how did the private actors (or public-private joint actors) undertake the responsibilities in the absence of effective institutions?

For the analysis, this paper also looks at die & mould process, the upstream production process of automobile and electronics parts manufacturing. The status quo of the die & mould industry which plays the important role both in automobile and electronic industries will shows detailed analysis for obtaining technological capacity. Empirical survey in Taiwan and Taiwanese firms in China was done by author in March 2010.

The structure of the paper is as follows. The first part provides theoretical analysis. The second part examines the role of ITRI as a public sector for human resource development. Then, the third part analyses the development process of technological capability of Taiwan, by looking at the auto parts, electronic parts, and dies & mould production capacity. The final part evaluates the technological accumulation process from the institutional aspect.
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